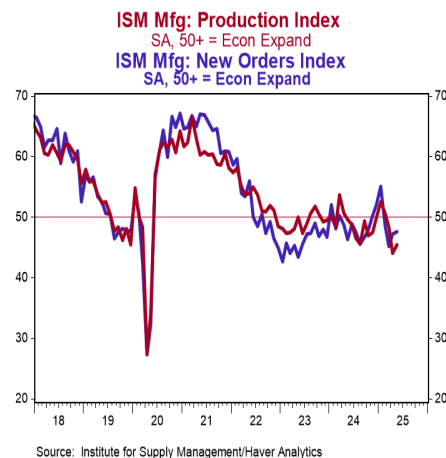
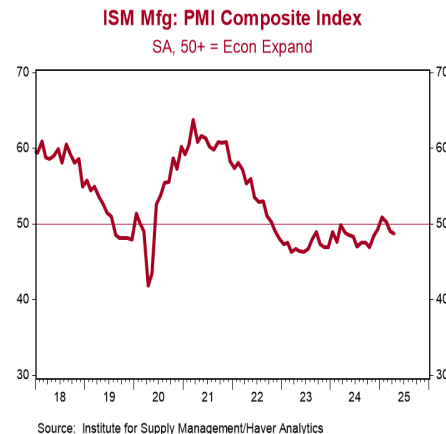


May ISM Manufacturing Index

Nate Gerze, CFA – Economic Analyst
 Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist

- The ISM Manufacturing Index declined to 48.5 in May, lagging the consensus expected 49.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in May. The new orders index rose to 47.6 from 47.2, while the production index increased to 45.4 from 44.0. The employment index rose to 46.8 from 46.5 in April, while the supplier deliveries index rose to 56.1 from 55.2.
- The prices paid index declined to 69.4 in May from 69.8 in April.

Implications: Activity in the manufacturing sector continued contracting in May, as the ISM Manufacturing index lagged expectations and fell to a six-month low. However, the details of the report make it surprising that the headline number declined to 48.5 from 48.7, as the major measures of activity moved higher in May. The overall decline was entirely due to a fall in the inventories index, which dropped to 46.7 after two months of sitting in expansion territory, likely a reversal of the unprecedented surge in imports as companies stockpiled materials before tariffs were enacted (for more info on how that has distorted economic data, see today’s [Monday Morning Outlook](#)). Looking at the other details, the production index increased to 45.4 from 44.0, but besides last month, that is the lowest level since the height of the pandemic. Order books were already weak before this year and the added business uncertainty from tariffs along with government spending cuts are forcing companies to continue revising their production plans downward. In turn this has impacted their hiring efforts, as the employment index remains firmly in contraction, with more than double the industries (nine) reporting lower employment in May versus higher (four). On the supply chain front, one comment from the Electrical Equipment, Appliances, & Components industry wrote that tariffs alone have created supply chains disruptions rivaling that of COVID. The supplier deliveries index increased to 56.1 in May – a 35-month high – but that is far from the worst we saw during the COVID supply chain disruptions, where the index reached the high 70s. In other words, supplier bottlenecks are significant, but not as nearly as bad as COVID levels. Finally, the worst part of the report is that inflation remains a problem, even while manufacturing stagnates. The prices index declined to 69.4, but besides last month that is the highest level since 2022. Not a good sign for the economy. In other news this morning, construction spending fell 0.5% in April, led by drops in homebuilding, manufacturing, and power projects.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-25	Apr-25	Mar-25	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	48.5	48.7	49.0	48.7	49.4	48.5
New Orders	47.6	47.2	45.2	46.7	49.3	46.3
Production	45.4	44.0	48.3	45.9	48.5	49.6
Inventories	46.7	50.8	53.4	50.3	49.2	47.4
Employment	46.8	46.5	44.7	46.0	46.9	50.4
Supplier Deliveries	56.1	55.2	53.5	54.9	53.4	48.9
Order Backlog (NSA)	47.1	43.7	44.5	45.1	45.5	42.4
Prices Paid (NSA)	69.4	69.8	69.4	69.5	63.1	57.0
New Export Orders	40.1	43.1	49.6	44.3	47.8	50.6

Source: National Association of Purchasing Management