

May ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index declined to 49.9 in May, lagging the consensus expected 52.0. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mixed in May. The new orders index dropped to 46.4 from 52.3, and the business activity index declined to 50.0 from 53.7. The employment index rose to 50.7 from 49.0, while the supplier deliveries index increased to 52.5 from 51.3.
- The prices paid index rose to 68.7 in May from 65.1 in April.

Implications: The ISM Services index missed consensus expectations in May, slipping below 50 for the first time in almost a year. Before sounding the alarm, it's important to remember that these Purchasing Manager's surveys often capture sentiment mixed in with actual data. Uncertainty about policy could be impacting them. Nonetheless, the overall decline in May was driven by an abrupt fall in the new orders index, which moved to the lowest level since late 2022 at 46.4. Uncertainty surrounding tariffs appears to be the major catalyst, as respondent comments continue to report difficulty in forecasting and planning and look to delay or minimize ordering until the effects become clearer. This "wait and see" mentality was apparent in the business activity index, which registered an unchanged reading of 50.0 in May, down from 53.7 in April. Service companies are in turn taking a cautious approach with their hiring efforts, as the index inched into expansion territory at 50.7 after two months of contraction, with an equal number of industries (seven) reporting an increase versus a decrease in employment. The highest reading of any category was once again the prices index, which rose to 68.7 in May. That's the highest level since late 2022, but still far from the worst we saw during the COVID supply chain disruptions, where the index reached the low 80s. Though official inflation data show a quiet past three months (PCE prices are now up only 2.1% from a year ago) that does not mean the inflation dragon has been tamed. If the Fed were to dramatically loosen monetary policy, inflation could come back quickly. In other news this morning, ADP's measure of private payrolls increased 37,000 in May versus a consensus expected 114,000. We're estimating Friday's official report will show a nonfarm payroll gain of 109,000 with the unemployment rate remaining steady at 4.2%. In other recent news, cars and light trucks were sold at a 15.6 million annual rate in May, down 9.3% from April, likely affected by buyers front-running tariffs. Auto sales in spite of recent volatility have been weak and are down 1.1% from a year ago.

ISM Services: Services PMI Composite Index
SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

ISM Services: Prices Index
SA, 50+ = Economy Expanding



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-25	Apr-25	Mar-25	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	49.9	51.6	50.8	50.8	52.1	53.5
Business Activity	50.0	53.7	55.9	53.2	54.4	59.9
New Orders	46.4	52.3	50.4	49.7	51.2	53.9
Employment	50.7	49.0	46.2	48.6	50.6	47.5
Supplier Deliveries (NSA)	52.5	51.3	50.6	51.5	52.2	52.7
Prices	68.7	65.1	60.9	64.9	63.7	58.0

Source: Institute for Supply Management