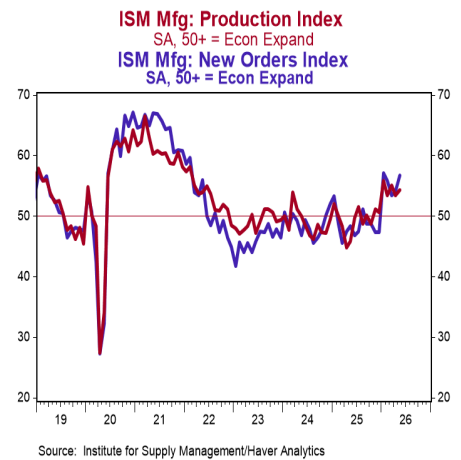
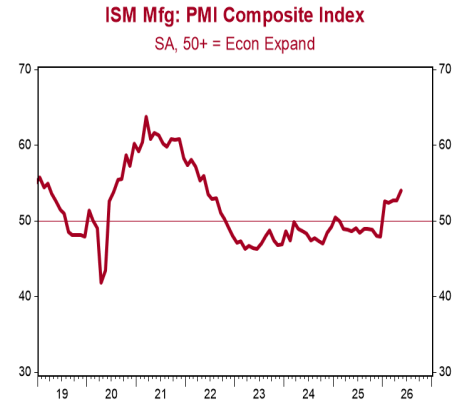


May ISM Manufacturing Index

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

- The ISM Manufacturing Index increased to 54.0 in May, beating the consensus expected 53.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in May. The new orders index rose to 56.8 from 54.1, and the production index increased to 54.3 from 53.4. The employment index rose to 48.6 from 46.4, while the supplier deliveries index remained unchanged at 60.6.
- The prices paid index declined to 82.1 in May from 84.6 in April.

Implications: Activity in the manufacturing sector accelerated in May, with the ISM Manufacturing index beating expectations and rising to the fastest pace since 2022. This is now the fifth consecutive month of expansion for the index, an encouraging development for an industry that has faced significant challenges over the past three years. While we have remained cautious given last year’s head-fake, it appears that the reshoring of production, AI buildout, and favorable business tax incentives such as bonus depreciation for domestic capex under the “Big Beautiful Bill” are providing meaningful support to the industry, even as many recent economic indicators have pointed toward a weakening economy. Looking at the details, growth remained broad in May, with sixteen out of the eighteen major manufacturing categories reporting expansion, while one reported contraction and one reported no change. The major measures of activity were mostly higher, including the two most important indexes, new orders and production, which rose further into expansion territory at 56.8 and 54.3, respectively. Until recently, order books had been very weak going back to 2023, leaving manufacturers leaning on their order backlogs to keep production going. The great news is that backlogs started growing again in 2026 and that has continued through May, with the index sitting at 52.2 – now the fifth consecutive month in expansion territory – when before it had contracted for more than three straight years. Despite the notable improvement in demand, manufacturers remain reluctant to add workers with the employment index remaining in contraction territory for a 32nd consecutive month, at 48.6. Meanwhile, pricing pressures remain elevated, with the prices index registering 82.1 in May. While that is an improvement from last month’s 84.6 reading, it remains significantly above January’s 59.0 and near what was seen during the post-COVID inflation surge, where the index reached the low 90s. In other news this morning, construction spending climbed 0.4% in April, as large increases for homebuilding, office, and power projects more than offset a decline for manufacturing construction.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-26	Apr-26	Mar-26	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	54.0	52.7	52.7	53.1	52.1	48.6
New Orders	56.8	54.1	53.5	54.8	54.1	48.3
Production	54.3	53.4	55.1	54.3	53.8	45.8
Inventories	49.9	49.0	47.1	48.7	48.0	46.6
Employment	48.6	46.4	48.7	47.9	47.6	46.1
Supplier Deliveries	60.6	60.6	58.9	60.0	56.7	56.1
Order Backlog (NSA)	52.2	51.4	54.4	52.7	52.0	47.1
Prices Paid (NSA)	82.1	84.6	78.3	81.7	72.2	69.4
New Export Orders	50.6	47.9	49.9	49.5	49.3	40.1

Source: National Association of Purchasing Management