

## May 2019 ISM Manufacturing Index, April Construction Spending

### *U.S. Manufacturing Index Eases, Still Showing Modest Expansion*

- The ISM Manufacturing Index for May decreased to a still-positive 52.1 percent.
- Construction Spending for April was unchanged from May.

The ISM Manufacturing Index decreased from 52.8 in April to a still-positive 52.1 in May. This is the lowest reading for the index since October 2016. Momentum in the manufacturing sector has clearly dissipated since the recent high headline reading of 60.8 from last August. The loss of momentum in U.S. manufacturing parallels what we are seeing in many European and Asian economies as well. Seven out of ten sub-indexes were positive in May, including new orders, production and employment. Customers' inventories remained in contraction mode, as did imports. Backlog of new orders fell into contraction mode for the first time since January 2017. Eleven of the eighteen industries reported growth in May. The six industries reporting contraction were apparel, primary metals, petroleum, wood, paper and fabricated metals. Anecdotal comments were mixed. Some industries are concerned about the impact of new trade tariffs imposed by the U.S. and China.

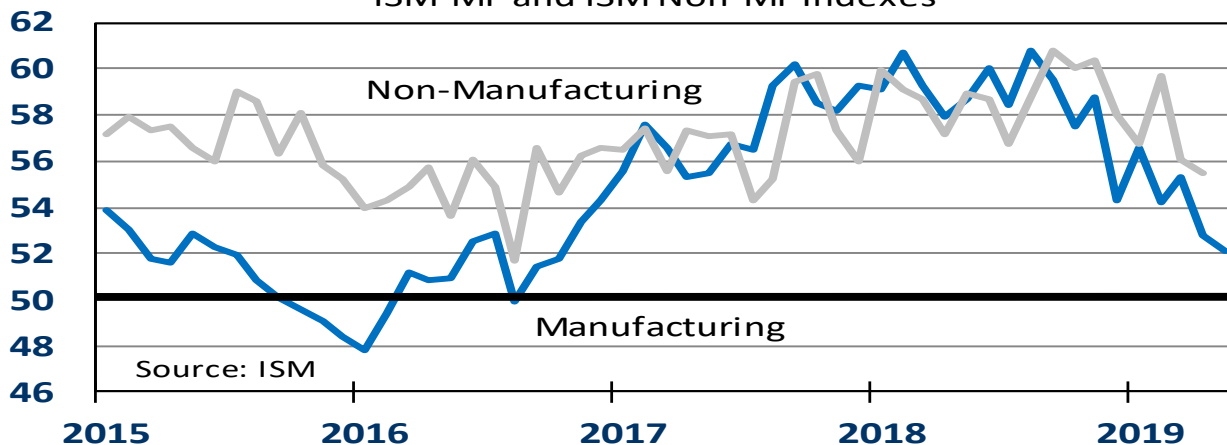
The total value of construction put in place in May was unchanged from April. Private residential construction declined by 0.6 percent for the month despite some help from new multifamily construction. Private nonresidential construction declined by 2.9 percent in April as most categories gave up ground. The value of public construction put in place increased by 4.8 percent in May.

While neither of today's major U.S. economic releases are terrible, together they add to the concern that the U.S. economy lost momentum the second quarter. The Federal Reserve will look at the cooler U.S. data at the upcoming FOMC meeting over June 18/19. We expect the Fed to keep the fed funds rate range unchanged at 2.25-2.50 percent at its June meeting. Looking beyond June, the fed funds futures market is leaning noticeably toward an expectation of two fed funds rate cuts by the end of this year. Currently the implied odds of at least one 25 basis point rate cut this year stand at about 94 percent. The implied odds of at least two rate cuts are about 78 percent. We will be listening carefully to the fedspeak from the June FOMC meeting to hear if Fed officials think that they need to prepare financial markets for an upcoming rate cut.

**Market Reaction:** U.S. equity markets were mixed after the open. The yield on 10-Year Treasury bonds is down to 2.12 percent. NYMEX crude oil is up to \$53.80/barrel. Natural gas futures are down to \$2.41/mmbtu.

## ISM Indexes Losing Altitude

### ISM-MF and ISM Non-MF Indexes



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