April ISM Surveys Highlight Spending Divide Between Goods and Services

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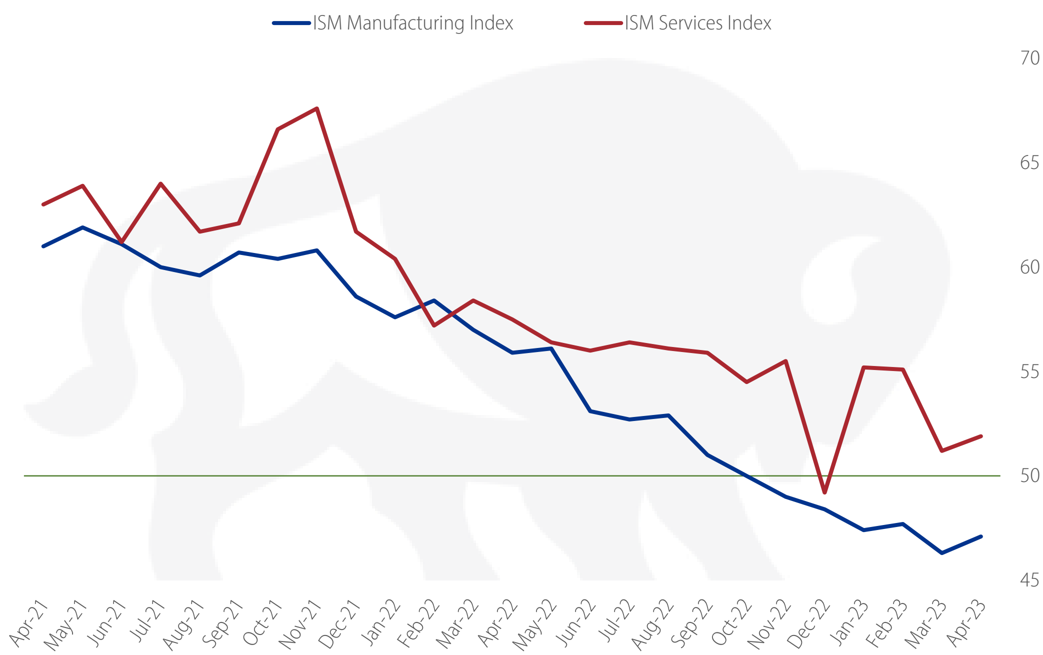
The April surveys of U.S. purchasing managers continue to reflect an economy divided between fading goods purchases and still resilient services spending. This morning, the ISM services survey showed a slight uptick in the composite index from 51.2 to 51.9, as 14 of 17 service industries reported growth. The current business activity index was still expanding (above 50) but slipped from 55.4 to 52, *the slowest pace in nearly three years.*

ISM Purchasing Managers Index



Source: Institute for Supply Management

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The forward-looking new orders index actually climbed from 52.2 to 56.1, suggesting that demand for services is still intact. Service managers mentioned that prices were slowly retreating, but inflation remains a concern. The prices paid index inched higher from 59.5 to 59.6 as a majority of service managers were still reporting higher prices last month, but the trend is decidedly lower. A year ago, the prices paid index matched a record high of 83.2.

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On Monday, the April ISM manufacturing index indicated that the outlook for U.S. factory managers had risen modestly, but remains in contraction territory for the sixth straight month following 30 months of continuous expansion. In sharp contrast to the service sector survey, only five of 18 industries indicated factory growth in April. Rapid untangling of supply chain knots have resulted in a sharp rise in inventory levels. The customer inventory index, at 51.3, is now *at its highest point since 2016*. When inventories are full and demand is fading, it typically doesn't bode well for future production.

The composite manufacturing index rose from a three-year low of 46.3 to 47.1 last month, while the factory production index rose from 47.8 to 48.9. Both remained below the 50 mark, indicating contraction.

The index of prices paid rose from 49.2 to 53.2, the highest level in nine months. The increase reflects rising energy prices in April, and should repeat itself in the CPI, PPI and PCE reports later this month. With Fed officials hyper-focused on price pressure, this hardly signals near-term rate cuts.

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Comments from factory managers centered on gradual slowing of demand, rising inventory levels and talk about discounting sale prices.

There is little in the April ISM surveys to influence the Fed's decision this afternoon. The factory sector is weak and the outlook is likely to deteriorate further as the overall economy slows down later this year. The service sector continues to expand into 2023, which supports higher wages and will keep overall inflation above the Fed's target.

Market Indications as of 11:04 A.M. Central Time

DOW	Up 0 to 33,685 (HIGH: 36,800)
NASDAQ	Up 41 to 12,121 (HIGH: 16,057)
S&P 500	Up 1 to 4,121(HIGH: 4,797)
1-Yr T-bill	current yield 4.73%; opening yield 4.70%
2-Yr T-note	current yield 3.94%; opening yield 3.98%
3-Yr T-note	current yield 3.64%; opening yield 3.69%
5-Yr T-note	current yield 3.41%; opening yield 3.46%
10-Yr T-note	current yield 3.38%; opening yield 3.43%
30-Yr T-bond	current yield 3.68%; opening yield 3.72%