

ISM Service Index Signals Weakening Demand

A widely-expected economic slowdown paired with tighter credit conditions have chipped away at the outlook for U.S. service managers. The ISM composite service index unexpectedly fell from 51.9 to 50.3 in May, the second lowest level in three years and just a fraction above 50, the dividing line between expansion and contraction.

The subindexes were consistent with a dampening outlook, with the current production index slipping from 52.0 to 51.5 and the new orders index dropping all the way from 56.1 to 52.9. The employment index tumbled from 50.8 to 49.2, signaling that service managers have slightly less demand for workers.

The inventory index jumped from 47.2 to 58.3 as an increased number of service managers reported rising inventories. The prices paid index dropped from 59.6 to a three-year low of 56.2 as service costs move lower.

The supply chain knot continues to untangle with the supplier delivery index declining from 48.6 to 47.7 and the index of backlog orders plunging from 49.7 to 40.9.

The service sector has kept the U.S. economy propped up for months, while contributing the majority of inflationary pressure. This report was surprisingly weak, which signals slower future growth and should add to the case for the Fed to hold rates steady next week. That being said, next Tuesday's release of the May CPI report is still capable of rerouting the direction.

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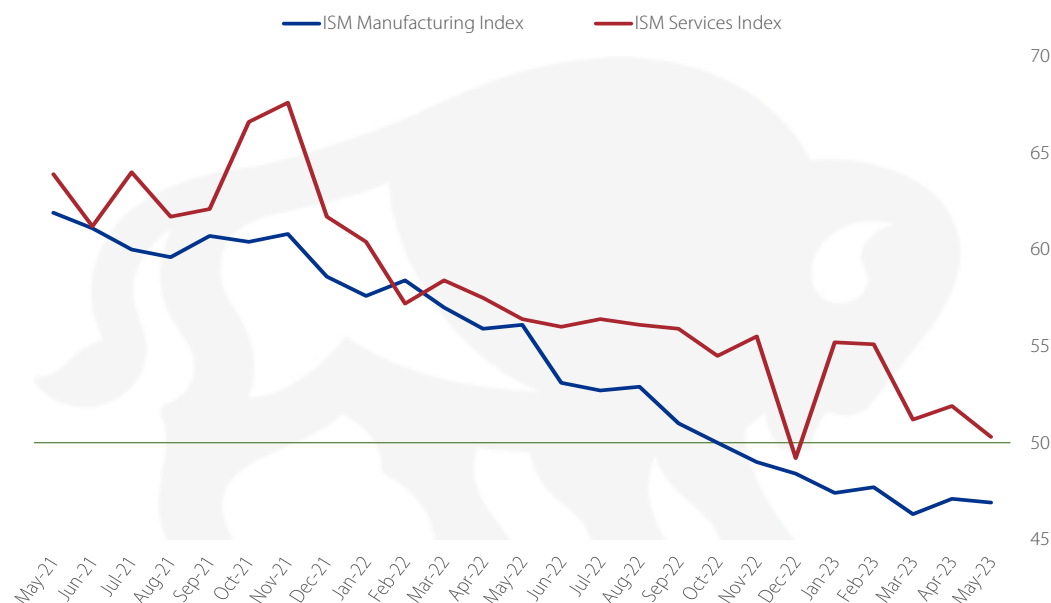
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ISM Purchasing Managers Index



Source: Institute for Supply Management

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On the manufacturing side, factory managers have already been struggling. In fact, the ISM composite manufacturing index has been below 50, indicating *contraction*, for the last seven months. This morning, April factory orders were reported up just +0.4%, half of the +0.8% forecast, while the previous month gain was paired back.

Market Indications as of 11:30 A.M. Central Time

DOW	Down -54 to 33,709 (HIGH: 36,800)
NASDAQ	Up 78 to 13,319 (HIGH: 16,057)
S&P 500	Up 14 to 4,296 (HIGH: 4,797)
1-Yr T-bill	current yield 5.20%; opening yield 5.19%
2-Yr T-note	current yield 4.50%; opening yield 4.52%
3-Yr T-note	current yield 4.14%; opening yield 4.16%
5-Yr T-note	current yield 3.84%; opening yield 3.86%
10-Yr T-note	current yield 3.70%; opening yield 3.70%
30-Yr T-bond	current yield 3.89%; opening yield 3.89%

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