

## Front-Running Buoys April ISM Surveys

Both purchasing manager surveys from the Institute for Supply Management (ISM) suggest U.S. businesses held up a bit better than expected in April, although comments indicate future concern. At the same time, prices paid continue to climb as managers respond to tariff uncertainty by front-running purchases.

Last week, the ISM composite factory index signaled contraction (below 50) for the second straight month, although the 48.7 reading wasn't quite as weak as the 47.9 median forecast. Eleven of 17 industry categories reported growth.

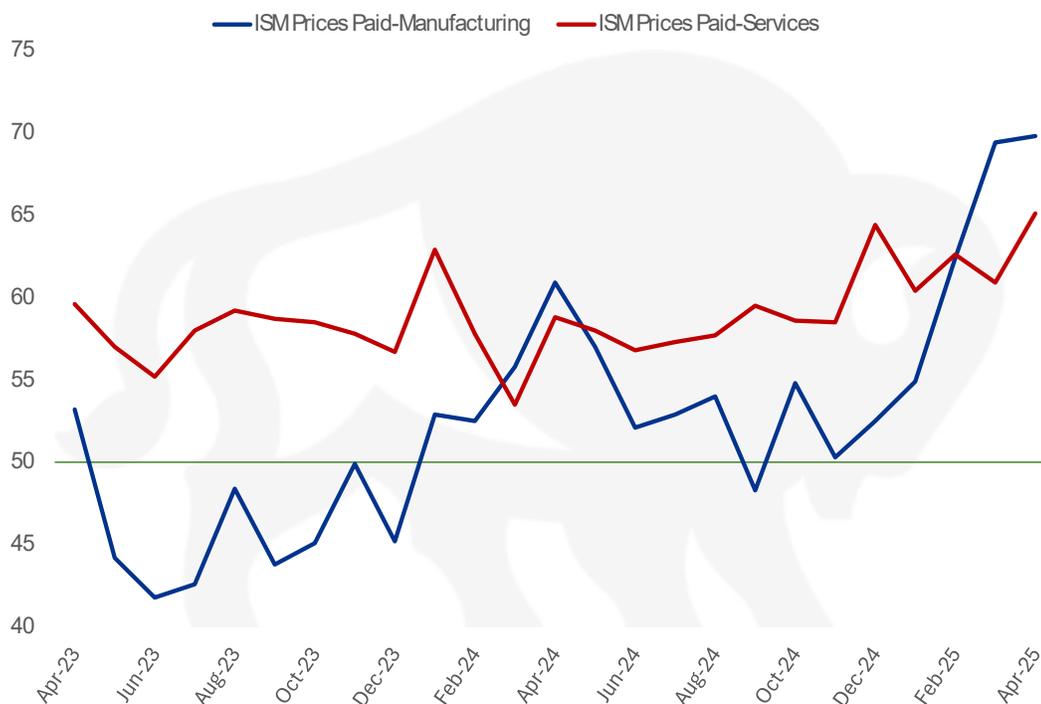
The current production index for April fell from 48.3 to 44.0, the second straight month of negative growth, while the forward-looking new orders index increased by two points to 47.2, indicating contraction for the third straight month after consistent expansion during the previous three-month period.

The employment index climbed 1.8 percent to 46.5 as the number of factory managers signaling intent to hire climbed, while the prices paid index continued to rise, up 0.4 percent to 69.8 as more managers reported higher input prices in April.

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### ISM Purchasing Managers Prices Paid Index



Source: Institute for Supply Management

*"Business climate is apprehensive, and with tariff costs implemented, all inbound Chinese shipments are on hold. It is not feasible for our business or customers to sustain the pricing required to provide an acceptable margin."*

The comments from survey responders in various sectors were (once again) focused on the uncertainty associated with the ongoing trade war:

- “Business climate is apprehensive, and with tariff costs implemented, all inbound Chinese shipments are on hold. It is not feasible for our business or customers to sustain the pricing required to provide an acceptable margin.” - Computer & Electronic Products
- “Tariff whiplash is causing us major issues with customers. The two issues we are seeing: (1) customers are holding back orders to understand what is happening with tariffs on their products or (2) they are forcing us to accept the tariffs, which causes us to ‘no quote’ the job as we cannot take on that type of risk for an order.” - Machinery
- “There is a lot of concern about the inflationary impacts from tariffs in our industry. Domestic producers are charging more for everything because they can.” - Fabricated Metal Products

*“Uncertainty remains the dominating theme as the U.S. government has been maddeningly inconsistent with tariff implementation.”*

Yesterday, the ISM services index rose 1.4 percent to 51.6. According to the Institute, the composite services index has now expanded in 55 of the last 58 months. Eleven of 17 industry sectors reported growth in April, down from 14 in March. Among the service industries signaling contraction were agriculture, professional, scientific & technical services, finance & insurance, public administration and construction.

The current activity index slipped 2.2 percent to 53.7, while continuing to signal expansion for the 59th consecutive month. The new orders index climbed 1.9 percent to 52.3, and the employment index increased 2.8 percent to 49, improved but still indicating mild contraction.

The prices index for services rose 4.2 percent to 65.1, the fifth consecutive reading above 60, signaling higher prices ahead.

Similar to the factory survey, tariff uncertainty dominated comments from services managers:

- “Uncertainty remains the dominating theme as the U.S. government has been maddeningly inconsistent with tariff implementation.” - Real Estate, Rental & Leasing
- “Tariffs are negatively impacting small business customers. Many small business customers source their products from China. They cannot afford to compete in the marketplace sourcing from other countries. We could not move products fast enough to beat the tariff starting dates.” - Agriculture, Forestry, Fishing & Hunting

*The extreme uncertainty among purchasing managers reinforces the idea that businesses are unable to make informed decisions which will ultimately stifle growth going forward.*

A case can be made that survey data is less important than actual hard data, but the ISM reports are timely and comprehensive with a relatively high correlation to the inflation numbers and GDP growth. The extreme uncertainty among purchasing managers reinforces the idea that businesses are unable to make informed decisions which will ultimately stifle growth going forward. Both of these reports were better than expected, but front-running purchases suggests future transactions will be limited.

The FOMC will conclude its May meeting tomorrow afternoon. No monetary policy change is expected. All ears will be on Chairman Powell as he answers questions at the post-meeting press conference.

## Market Indications as of 2:50 P.M. Central Time

DOW	Down -301 to 40,918 (HIGH: 45,014)
NASDAQ	Down -88 to 17,757 (HIGH: 20,174)
S&P 500	Down -22 to 5,629 (HIGH: 6,144)
1-Yr T-bill	current yield 4.00%; opening yield 4.02%
2-Yr T-note	current yield 3.79%; opening yield 3.84%
3-Yr T-note	current yield 3.76%; opening yield 3.82%
5-Yr T-note	current yield 3.90%; opening yield 3.95%
10-Yr T-note	current yield 4.30%; opening yield 4.36%
30-Yr T-bond	current yield 4.81%; opening yield 4.86%

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