Economic Data Reflects Trade Impact

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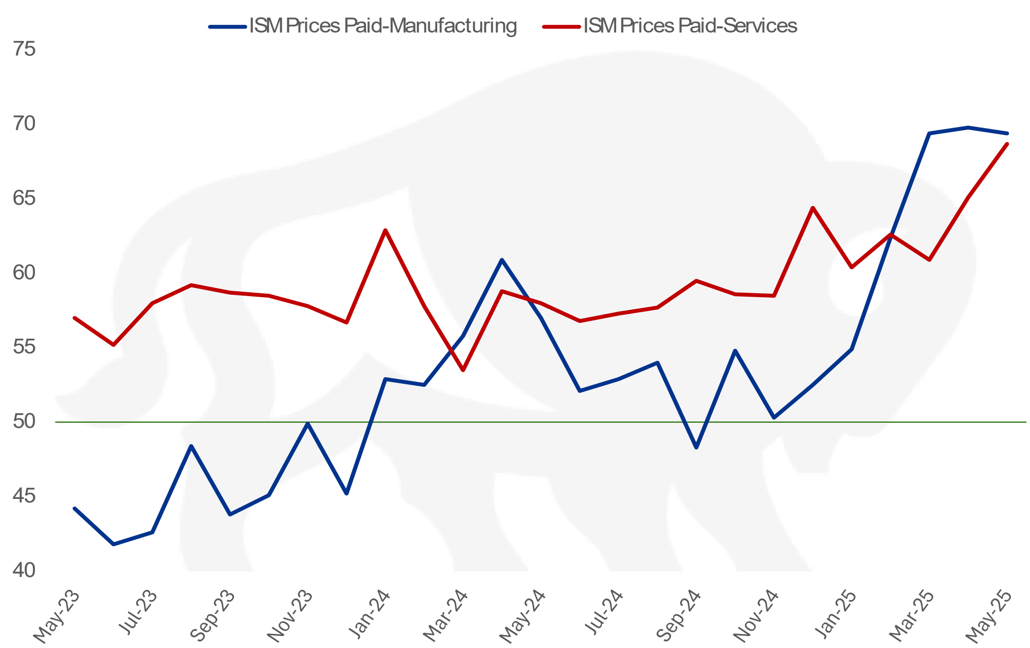
A wave of economic data and commentary this week suggests the evolving trade war is beginning to weigh on domestic growth while intensifying inflationary pressures.

This morning's ADP employment report showed private sector payrolls rose by just +37,000 in May—well below expectations and the weakest reading in over two years. While the ADP report typically carries less weight than the Bureau of Labor Statistics (BLS) monthly jobs report, the magnitude of this shortfall raises concerns and hints at potential softness in Friday's official BLS release.

In response to the ADP miss, President Trump renewed his public pressure on Federal Reserve Chairman Jerome Powell to lower interest rates. While there's little indication that Powell will yield to Trump's demands, the ongoing tension between the White House and the Fed remains a key narrative for markets.

In other news this morning, the Institute for Supply Management (ISM) services index fell to 49.9 in May, signaling contraction (sub-50) for only the fourth time in five years. The reading reflects broad-based uncertainty among service providers. Ten industries reported growth, down from eleven last month, while eight contracted.

ISM Purchasing Managers Prices Paid Index



Source: Institute for Supply Management

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Key components of the report included:
- New Orders Index: Dropped from 52.3 to 46.4, entering contraction for only the third time since May 2020.
- Inventories Index: Fell from 53.4 to 49.7, indicating mild contraction for the second time this year.
- Prices Paid Index: Rose from an already elevated 65.1 to 69.4, *the highest level since November 2022.*

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This combination of weakening demand, lean inventories, and rising input costs suggests the impact of tariffs is broadening.

Comments from service industry managers were notably cautious, with many citing tariff-related disruptions:
- "Tariff variability has thrown residential construction supply chains into chaos." [Construction]
- "Tariffs have increased the cost of doing business." [Transportation and Warehousing]
- "Tariffs remain a challenge as it is not clear what duties apply. The best plan is still to delay decisions to purchase where possible." [Information]

Earlier this week, the ISM manufacturing index declined 0.2 points to 48.5, marking the third consecutive month of factory sector contraction following a brief expansion earlier this year. The production index remained firmly in contraction territory at 45.4, while new orders, at 47.6, were below the 50 mark for the fourth straight month. Perhaps the most striking data from the factory survey was in the trade-related components as the Imports Index plunged 7.2 points to 39.9 and the Exports Index dropped 3 points to 40.1.

Manufacturers, more exposed to global trade dynamics, expressed growing concern over policy volatility in their survey comments:

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- "The impact of ever-changing trade policies has wreaked havoc on suppliers' ability to remain profitable." [Transportation Equipment]
- "Tariffs, avian influenza, and commodity volatility are making business planning extremely difficult." [Food, Beverage & Tobacco Products]
- "Government spending delays and tariffs are disrupting operations. No one wants to take on inventory risk." [Computer & Electronic Products]
- "Suppliers are passing tariffs through at full value. They view it as a tax—and taxes get passed on." [Chemical Products]
- "Tariff uncertainty is impacting new international orders." [Fabricated Metal Products]
- "Rare earth restrictions are a growing concern." [Machinery]
- "Tariffs alone have caused supply chain disruptions rivaling COVID-19." [Electrical Equipment, Appliances & Components]
- "Business activity is slower and smaller. Chaos does not bode well for pricing." [Primary Metals]
- "Tariff whiplash continues. The easing of U.S.-China tariffs in May was welcome, but uncertainty remains." [Miscellaneous Manufacturing]
- "Unresolved trade issues with China could lead to empty shelves for DIY and professional goods." [Paper Products]

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All eyes now turn to Friday's BLS labor market report. While analysts anticipate a slowdown in payroll growth, the ADP miss has introduced downside risk to the forecast.

Market Indications as of 2:21 P.M. Central Time

DOW	Down -16 to 42,504 (HIGH: 45,014)
NASDAQ	Up 80 to 19,479 (HIGH: 20,174)
S&P 500	Up 11 to 5,982 (HIGH: 6,144)
1-Yr T-bill	current yield 4.07%; opening yield 4.11%
2-Yr T-note	current yield 3.88%; opening yield 3.94%
3-Yr T-note	current yield 3.84%; opening yield 3.91%
5-Yr T-note	current yield 3.93%; opening yield 4.01%
10-Yr T-note	current yield 4.37%; opening yield 4.44%
30-Yr T-bond	current yield 4.89%; opening yield 4.97%