

U.S. Data Review

- ISM Nonmfg: slight improvement as components move away from record readings
- Factory orders: soft, but less severe than other areas

Michael Moran

Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

ISM Nonmanufacturing Index

The ISM nonmanufacturing index rose 3.6 percentage points in May to 45.4 percent, close to the expected reading of 44.4 percent. Interestingly, all components were at record levels in the prior month -- record lows for new orders, business activity, and employment, and a record high for supplier deliveries. All moved away from these records in May.

The business activity index made the largest contribution to the improvement in the headline figure, as it rose 15.0 percentage points. However, it was at a desperately low level in April, and the new reading of 41.0 percent still signaled weakness in the nonmanufacturing sectors of the economy. Indeed, only two observations during the financial crisis and one during the 2001 recession were lower than the May reading (and not by much, chart). The new orders index rose 9.0 percentage points to 41.9 percent. The new reading was in the low portion of its historical range, but several observations during the financial crisis and one in 2001 were lower. The employment index rose modestly, up 1.8 index points to 31.8 percent, which matched the low registered during the financial crisis and represented the second lowest level in the history of the series (exceeding only the April reading).

The supplier deliver index fell 11.3 percentage points to 67.0 percent, still quite high by historical standards. This measure rises as delivery times slow, with the slow deliveries usually driven by strong demand and order backlogs. In the current setting, however, slow delivery times reflect shutdowns and supply chain disruptions -- signs of weakness rather than strength. Thus, the drop in May, while making a negative contribution to the headline index, actually represented a positive development for the economy.

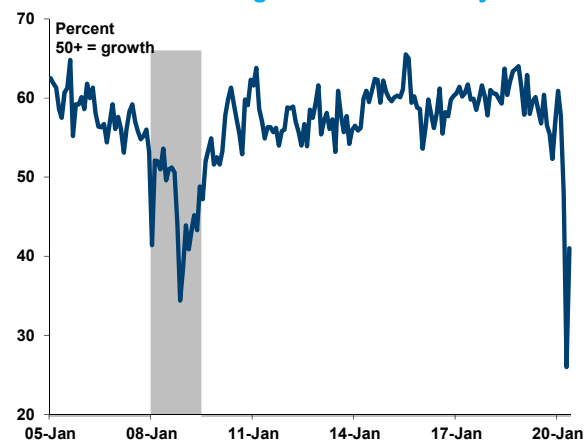
ISM Nonmanufacturing -- Monthly Indexes

	Jan-20	Feb-20	Mar-20	Apr-20	May-20
ISM Nonmfg. Composite	55.5	57.3	52.5	41.8	45.4
Business activity	60.9	57.8	48.0	26.0	41.0
New orders	56.2	63.1	52.9	32.9	41.9
Employment	53.1	55.6	47.0	30.0	31.8
Supplier deliveries*	51.7	52.4	62.1	78.3	67.0
Prices	55.5	50.8	50.0	55.1	55.6

* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics

ISM Nonmanufacturing: Business Activity Index*



* The shaded area shows a period of recession in the United States.

Source: Institute for Supply Management and National Bureau of Economic Research via Haver Analytics

Factory Orders

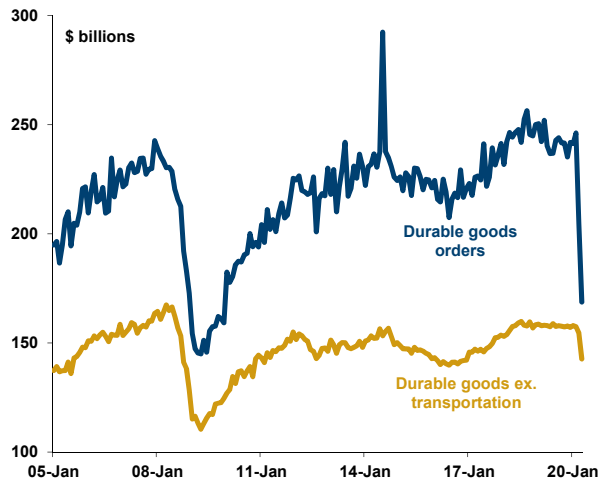
Factory orders fell 13.0 percent in April, close to the expected drop of 13.4 percent. The durable goods component accounted for much of the decline, as these bookings fell 17.7 percent (revised from -17.2 percent published last week). The nondurable component contributed as well with a drop of 9.0 percent.

The month-to-month changes were sizeable, but the detail of the report was less than alarming. Much of the softness in the durable area was the result of pronounced weakness in the commercial aircraft sector, which registered negative order flows (i.e. net cancellations) in both March and April. Issues at Boeing probably account for much of the weakness, but the industry also might be expecting an extended period of slack demand for air travel.

Excluding transportation, durable orders fell 1.8 percent in March and 7.7 percent in April, soft but not as dire as the declines in some sectors of the economy. The level of bookings ex-transportation remained within the range of the past few years and well above readings during the financial crisis and early years of the recovery (chart, left).

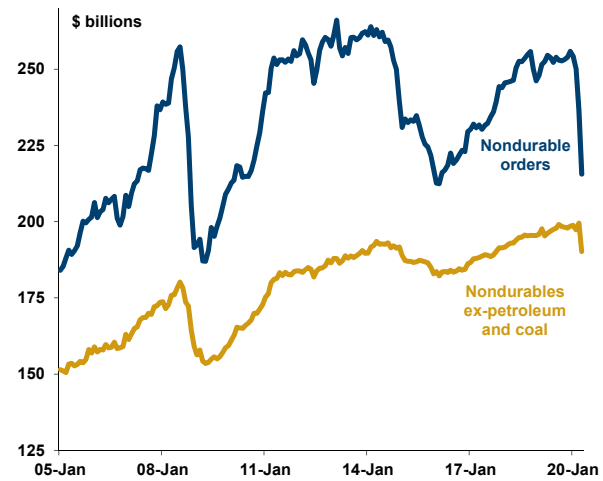
Orders for nondurable goods, like those for durables, are off from pre-virus levels, but they are still within the range of the past few years and well above lows in the previous recession. In addition, much of the softness has occurred in the petroleum and coal category, where lower prices have played a role. Excluding petroleum and coal, orders for nondurable goods have declined only moderately (chart, right).

Manufacturers' New Orders



Source: U.S. Census Bureau via Haver Analytics

Manufacturers' New Orders



Source: U.S. Census Bureau via Haver Analytics