



## Economics Group

**Tim Quinlan, Senior Economist**  
[tim.quinlan@wellsfargo.com](mailto:tim.quinlan@wellsfargo.com) • (704) 410-3283  
**Sarah House, Senior Economist**  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282

# The End of the Beginning for ISM Manufacturing

*Things are less bad for manufacturing. The ISM index for May rose slightly to 43.1, with the subcomponents moving in the right direction. After some of the worst months on record, this is a step in a better direction.*

### This is Not the End

Following a series of defeats for the Allied forces in WWII, the Allies at last had a win when they turned back Rommel in Africa in 1942. Churchill said of the much needed victory, "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

So what might we say of this improvement in the ISM manufacturing index? The fact that the headline print is below 50 indicates that activity is still contracting, but a reading of 43.1 in May versus 41.5 in April tells us that the pace of decline is slowing; things are less bad.

### Still Dealing With Long Lead Times for Needed Parts

The performance of the various sub-components are slightly more encouraging. This is most evident in the case of supplier deliveries. Had it not come down, the headline improvement in May would have been even larger. This component seldom gets much attention, but has become the tail that wags the dog in recent months.

The idea with measuring supplier deliveries is that the longer a business has to wait to get the parts and components it needs (in normal times), the better the economy is likely doing. Occasionally, supply-chain disruptions can result in this component rising even in the absence of brisk demand. That has been the case in recent months: a counterweight that has saved the headline ISM number from even steeper declines. This measure is still quite high at 68.0, but critically, it is down from 76.0 in April. This is the first decline in this component since October 2019.

### The Tide is Slowly Coming Back In

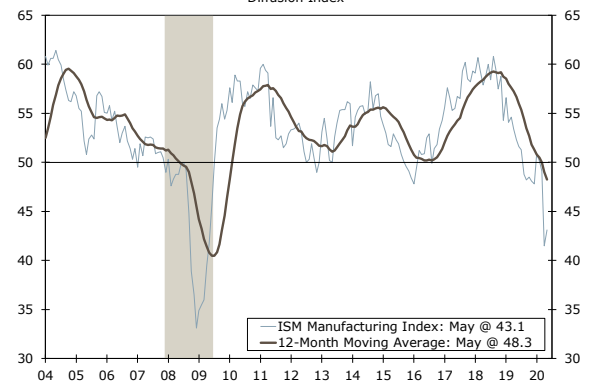
The improvements in May relative to April are incremental but came in right across the board. Production climbed to 33.2 from 27.5; new orders to 31.8 from 27.1; employment to 32.1 from 27.5; prices to 40.8 from 35.3. In short: all were still way too low, but not as low as they had been. It might be only a second-derivative improvement, but it beats the alternative.

### The Rest of the Speech

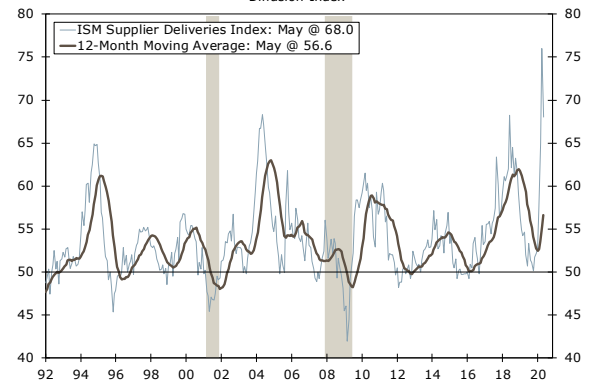
In 1942 Churchill went on to discuss how the Allies would have to struggle against Nazis, but with dedicated cooperation, the Allies would prevail. V-E Day was still two and a half painful years away.

Hopefully it will not take that long for manufacturing to regain its footing, but there are certainly challenges ahead. Supply chain disruptions and implementation of new social-distancing protocols in factories and workshops not just in the United States, but around the world, likely mean that the recovery here will take longer than the quicker turnaround we expect to see in consumer spending. Today's report is not the end, but after some of the worst months on record, it is a welcome step in a better direction.

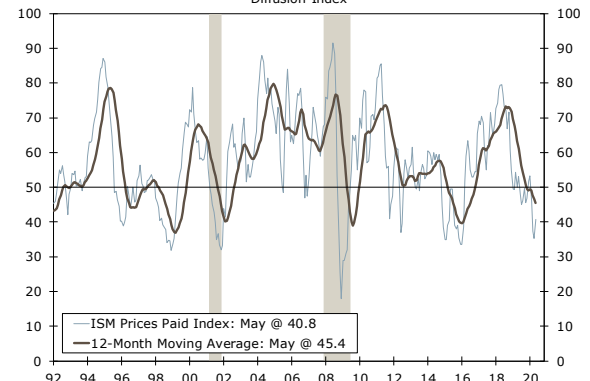
ISM Manufacturing Composite Index  
Diffusion Index



ISM Supplier Deliveries Index  
Diffusion Index



ISM Prices Paid Index  
Diffusion Index



## Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	International Economist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	International Economist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Lisis	Economic Analyst	(704) 410-1309	jennifer.lisis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2020 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE