TD Economics

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Data Release: PMI Manufacturing index dips into contraction territory in May

- The U.S. ISM manufacturing index came short of the 50.9 consensus call in May, with a reading of 49.0, which is also 1.7 points lower than April's reckoning.
- Except for producer inventories and customer inventories, all other sub-components showed declines on the month. Production and new orders were the weakest performers, shedding 4.9 and 3.5 points, respectively.
- Employment (50.1), new exports orders (51.0) and new import orders (54.5) were the only components that remained above the 50-point threshold that separates contraction from expansion.

Key Implications

- May's PMI manufacturing index was not only weaker than expected, but it also showed a poor performance across the board. Even the gains in inventories should be read with a cautious undertone, as they would weigh on future production.
- The surprise caused by today's soft U.S. PMI reckoning also stems from the fact that manufacturing activity improved – albeit modestly – outside of the U.S. Although still in contraction territory, the euro zone PMI manufacturing index showed in May its slowest pace of contraction in 15 months. Meanwhile, both the U.K. and Japan recorded sound expansions on the month, with readings of 51.3 and 51.5, respectively. The Chinese official PMI came out with a better-than-expected 50.8 mark.
- A month of data does not a trend make. Given that new orders are still in expansion territory and the global backdrop for manufacturing is improving, May's U.S. manufacturing weakness might well be a blip and not turn into a summer lull. We still foresee the U.S. economy expanding at a pace of 1.5% to 2.0% quarterly annualized during the second quarter, as the housing market keeps healing and employment gains progress at a sustained pace.

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