

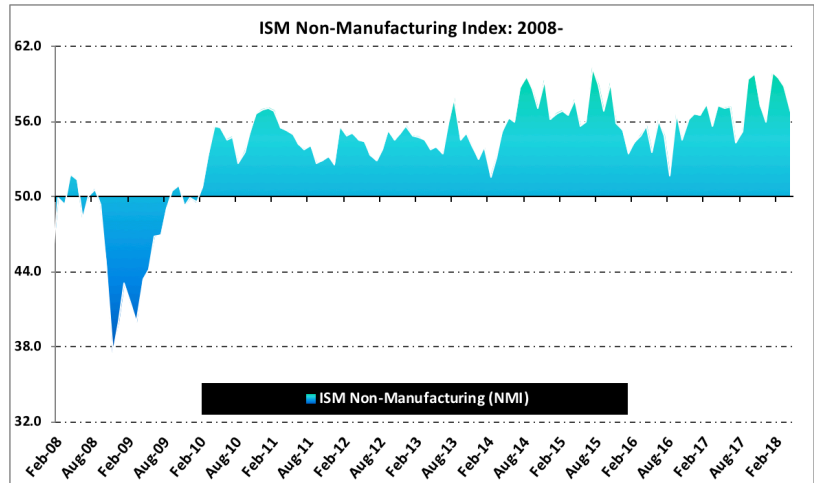
May 6, 2018

ALERT - HEALTH OF US NON-MANUFACTURING: ISM Non-Manufacturing April 2018

The ISM Non-Manufacturing Index (A survey of more than 400 non-manufacturing firms' purchasing and supply executives) dipped again in April to 56.8% from 58.8% in March, while remaining in expansion. The forecast for the month was 58.1% and was the lowest level since January 2018 when it reported at 55.9%[1].

But what was growing? All the 18 industries were growing, with the fastest growth coming from mining, then utilities and retail trade leading the way. The slowest growing industries were Information and Health Care & Social Assistance. **Is the tech boom over, if Information the second slowest grower?**

Mining and Retail Trade were #1 and #3 in terms of employment growth, which is our view of a continued turn around into commodities for non-commodities. We were surprised with the growth in employment in the retail trade side particularly as the investors and the media have called for the death of retail trade. It appears for all the store closures and the increased attention on automation in retail. Which we believe the automation will continue to play an increasing roll. The numbers are the numbers, and retail trade reported growth. Don't fight the numbers!



Source:ISM, ITPM, First Macro Capital

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While we are not in recession yet, we are getting closer to it. Both the manufacturing and non-manufacturing surveys are growing but the growth is slowing because the tariffs impacting purchasing decisions by consumers and businesses, plus the added impact of higher gasoline prices with Brent crude up to \$74.96/bbl. Brent is at the highest level back to November 2014.

And just like in the manufacturing side, tariffs are front and center with four of the nine comments relating to tariffs. At the same time, we don't want to be anchored to the tariffs, there were positive comments.

WHAT RESPONDENTS SAID IN THE SURVEY:

- "Outlook is very promising as we approach a seasonal uptrend in business." (Wholesale Trade)
- "Tax reform windfall continues to help business conditions." (Management of Companies & Support Services)

Tariffs Talk:

- "Steel tariffs/232 have impacted our steel costs (pipes, fittings, valves, vessels [and the like])." (Mining) [2]
- "The trade tensions are impacting purchasing of steel and are causing suppliers to send letters of concern regarding contracted purchases for this year and the future based on these proposed tariffs." (Construction) [2]
- "Economy is humming along. [Activity in] both residential and commercial construction [is] apparent. Agriculture sector seems to be moderating at these commodity price levels. The international trade situation appears to be shifting on a minute-by-minute basis, which has folks nervous." (Finance & Insurance) [2]
- "Some indicators of rising transportation costs, which will eventually affect product prices. Trade tariffs will cause unintended consequences on all industries, affecting production and non-production commodities." (Professional, Scientific & Technical Services) [2]

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SECTOR AT GLANCE April 2018			
Sector	Sentiment	Level	Notes
Mining	Growth	18	"Steel tariffs/232 have impacted our steel costs (pipes, fittings, valves, vessels [and the like])." (Mining)
Utilities	Growth	17	No comments this month
Retail Trade	Growth	16	No comments this month
Educational Services	Growth	15	No comments this month
Wholesale Trade	Growth	14	"Outlook is very promising as we approach a seasonal uptrend in business." (Wholesale Trade)
Construction	Growth	13	"The trade tensions are impacting purchasing of steel and are causing suppliers to send letters of concern regarding contracted purchases for this year and the future based on these proposed tariffs." (Construction)
Transportation & Warehousing	Growth	12	No comments this month
Public Administration	Growth	11	"Construction activity continues to remain strong in the region, resulting in capacity issues and shortages of labor, materials and subcontractors." (Public Administration)
Agriculture, Forestry, Fishing & Hunting	Growth	10	No comments this month
Real Estate, Rental & Leasing	Growth	9	No comments this month
Finance & Insurance	Growth	8	"Economy is humming along. [Activity in] both residential and commercial construction [is] apparent. Agriculture sector seems to be moderating at these commodity price levels. The international trade situation appears to be shifting on a minute-by-minute basis, which has folks nervous." (Finance & Insurance)
Other Services	Growth	7	No comments this month
Arts, Entertainment & Recreation	Growth	6	No comments this month
Management of Companies & Support Services	Growth	5	"Tax reform windfall continues to help business conditions." (Management of Companies & Support Services)
Professional, Scientific & Technical Services	Growth	4	"Some indicators of rising transportation costs, which will eventually affect product prices. Trade tariffs will cause unintended consequences on all industries, affecting production and non-production commodities." (Professional, Scientific & Technical Services)
Accommodation & Food Services	Growth	3	"National shortage of Class-A drivers and the increased demand for logistics is resulting in an increase in the cost of goods." (Accommodation & Food Services)
Information	Growth	2	No comments this month
Health Care & Social Assistance	Growth	1	"Continued shortage of drugs and products manufactured in Puerto Rico." (Health Care & Social Assistance)

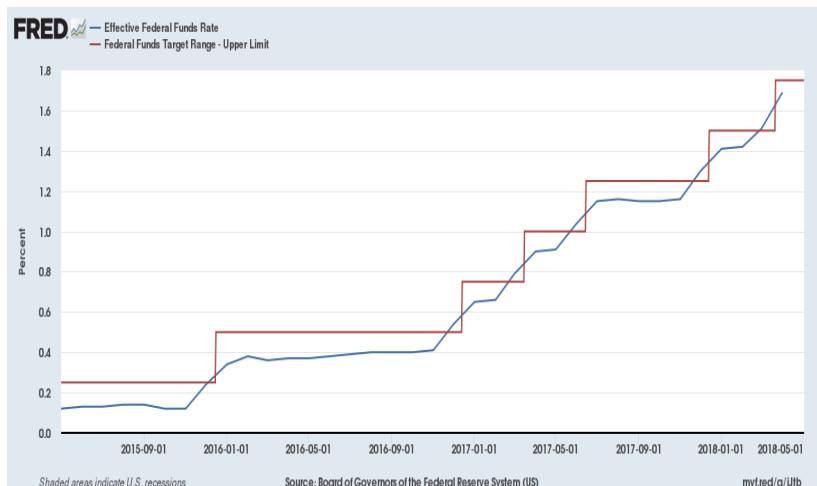
Source:ISM, ITPM, First Macro Capital

ISM Non-Manufacturing at a glance April 2018							
Index	Index April	Index March	Change %	Direction	Rate of change	Trend (Months)	
NMI®/PMI®	56.8	58.8	-2.0	Growing	Slower	99	
Business Activity/Production	59.1	60.6	-1.5	Growing	Slower	105	
New Orders	60.0	59.5	0.5	Growing	Faster	87	
Employment	53.6	56.6	-3.0	Growing	Slower	50	
Supplier Deliveries	54.5	58.5	-4.0	Slowing	Slower	28	
Inventories	57.0	53.5	3.5	Growing	Faster	3	
Prices	61.8	61.5	0.3	Increasing	Faster	26	
Backlog of Orders	52.0	56.5	-4.5	Growing	Slower	4	
New Export Orders	61.5	58.0	3.5	Growing	Faster	15	
Imports	54.5	55.0	-0.5	Growing	Slower	2	

Source:ISM, ITPM, First Macro Capital

FROM A COMMODITY PERSPECTIVE:

Inflation continues to creep through the economy as evidence through the survey with ten commodities on the list of rising prices, up from four in March. You could place on commodities in three primary groups, paper, fuel and steel as areas that are experiencing the inflation pressures. Two out of the three are where there are currently tariffs. **Is the US Federal Reserve starting to fall behind the curve by not raising rates this past month (See chart)?**



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Commodities Up in Price	Commodities Down in Price	Commodities in Short Supply
Aluminum Products Corrugated Boxes Diesel Freight Charges (3) Fuel; Gasoline Pharmaceuticals Roofing Products Steel Steel Products (7) Transportation Costs.	Beef Eggs Soybean Oil	Construction Subcontractors (4) IV Solutions (9) Labor — Construction (25) Printed Circuit Board Assemblies Trucking Services

Note: The number of consecutive months the commodity is listed is indicated after each item. Source: ISM

Sources: [1] ISM, [2] ISM

GUIDE

What is the Non-Manufacturing ISM?

On a monthly basis, a survey is sent out by the Institute of Supply Management to non-manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

What is the Manufacturing ISM?

On a monthly basis, a survey is sent out by the Institute of Supply Management to manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

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