ECONOMIC UPDATE
REGIONS
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February ISM Manufacturing Index: Some Hopeful Signs In February ISM Data

- The ISM Manufacturing Index rose to 49.5 percent in February.
- The new orders component was unchanged at 51.5percent, the employment component rose to 48.5 percent, and new export orders fell.

The ISM Manufacturing Index rose to 49.5 percent in February, marking the fifth consecutive month the index has been below the 50 percent break between expansion and contraction. Nonetheless, there are some encouraging signs in the February ISM data that suggest the worst of manufacturing's slump may be behind us. In particular, a second straight month of rising new orders, a jump in production, and evidence of progress in clearing what has been a substantial inventory overhang are all hopeful signs for the health of the manufacturing sector. To be sure, there are still headwinds confronting the factory sector, but at least those headwinds seem to be abating.

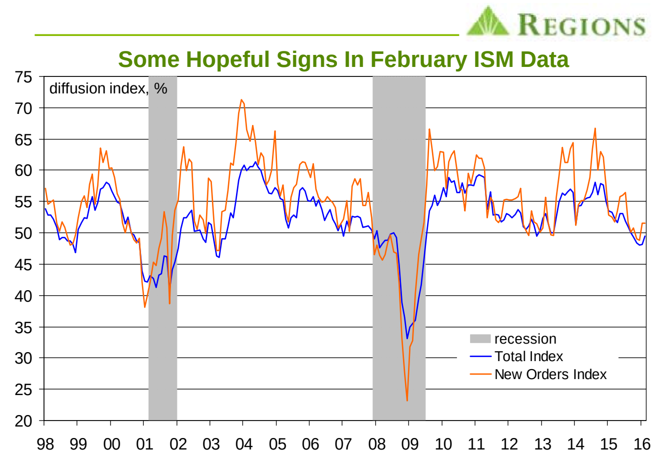
Of the 18 industry groups included in the ISM survey, nine reported growth in February while seven industry groups reported contraction. This is the first time since August that at least half of the industry groups included in the ISM survey reported growth. Comments from survey respondents reflect firmer domestic demand but still soft global demand. Machinery, furniture, metals, and transportation are industries in which respondents noted strong orders. One obvious exception is petroleum & coal products, where low oil prices and diminished levels of activity continue to take a toll. Persistently low commodity prices continue to help prop up bottom lines feeling pressure from slower sales.

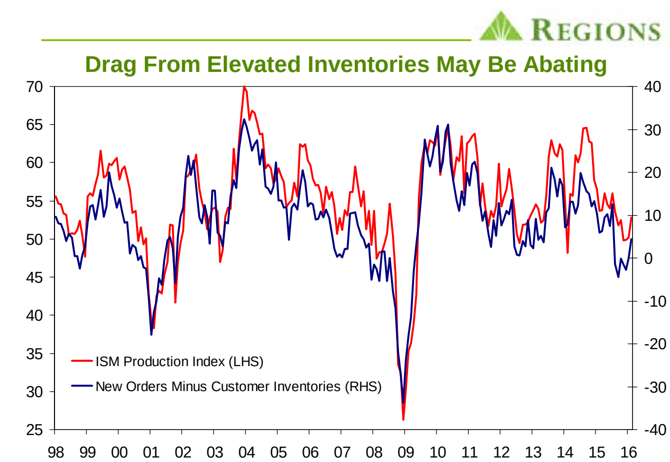
The new orders index held steady at 51.5 percent in February after having contracted in the final two months of 2015. Perhaps more encouraging is the breadth of the advance in new orders, as 12 of the 18 industry groups reported higher orders during the month with four reporting a decline in orders. That breadth is also seen in the current production index, which rose from 50.2 percent in January to 52.8 percent in February. Ten of the 18 industry groups reported growth in production during the month while five reported a decrease in production – seven industries reported decreased production in January. After having slumped to 45.9 percent in January – the lowest level since June 2009 – the employment index rose to 48.5 percent. This indicates further cutbacks in manufacturing payrolls but at a slower pace than in January. Six of the 18 industry groups reported increased payrolls in February while eight industry groups reported lower head counts. Pricing pressures remained quiescent in February as the prices paid index came in at 38.5 percent, the 16th straight month in which the index has been below 50 percent. Fabricated metal products is the only industry that reported paying higher prices for inputs in February while 15 reported paying lower prices. This suggests the long-running trend of deflation in core goods prices will continue over coming months which will continue to weigh on retail level inflation.

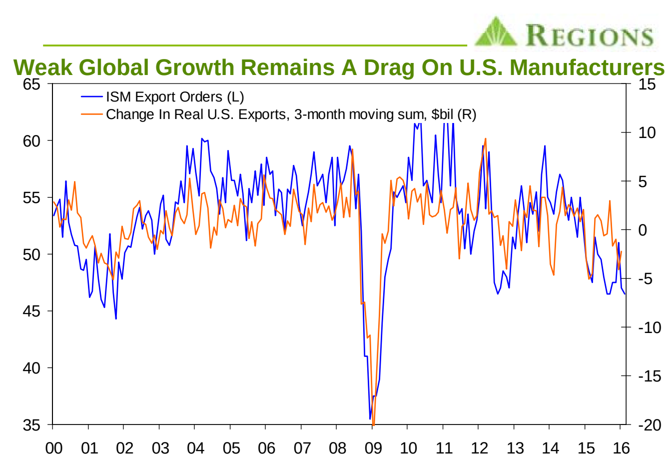
There was some progress on the inventory front, as for the first time since July customer inventory levels were deemed too low. At the same time, though, manufacturers continue to pare down their stocks of raw materials. It is the shift in customer inventory levels, however, that is more meaningful, as this suggests the recent growth in new orders to manufacturers will be sustained over coming months which, in turn, would mean sustained increases in production. While we continue to expect inventories to be a material drag on Q1 real GDP growth, there is at least reason to hope the inventory overhang will largely be cleared in the current quarter.

Soft global growth remains a drag on U.S. manufacturers and the new export orders index fell further in February, the eighth month of the last nine in which export orders have contracted. As we frequently note, the ISM index on new export orders is a reliable indicator of trends in exports of U.S. goods in the GDP data.

Clearly it is too soon to declare all is well with manufacturing, but the February ISM data at least offer a glimmer of light at the end of the tunnel.







Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com