ECONOMIC UPDATE

REGIONS

April 1, 2016

March ISM Manufacturing Index: Manufacturing Sector Returns To Growth In March

- The ISM Manufacturing Index rose to 51.8 percent in March.
- The new orders component rose at 58.3 percent, the employment component fell to 48.1 percent, and new export orders rose.

After five consecutive months of contraction activity in the manufacturing sector expanded in March. The ISM Manufacturing Index rose to 51.8 percent, coming in ahead of expectations, with solid gains in the indexes for current production and new orders. Upon the release of the February data, we noted that while the headline index remained below 50 percent there were nonetheless encouraging signs in the data. The question was whether there would be follow through in the March data, and today's release answers that in the affirmative. So, while by no means are we or anyone else ready to sound the "all's clear" for the factory sector, the stiff headwinds that have been confronting manufacturing for the past several months are abating.

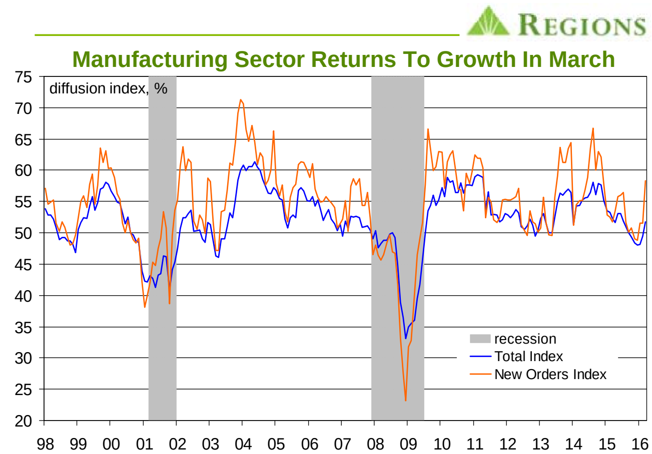
Of the 18 industry groups included in the ISM survey, 12 reported growth in March, up from 9 in February, with five reporting contraction. Comments from survey respondents reflect further firming in demand, particularly for capital equipment. One respondent in the transportation equipment industry noted rising orders from the government sector. One respondent from the plastics & rubber products industry noted their firm was having difficulty finding workers to hire.

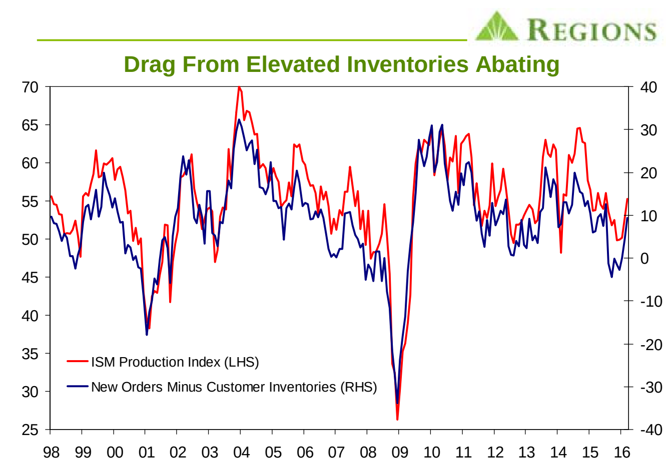
The new orders index jumped to 58.3 percent, the highest reading since November 2014. After having fallen over the last two months of 2015 new orders began to rise again in January before jumping in March. Even more encouraging than the increase in the new orders index is the breadth of the advance in new orders, as 13 of the 18 industry groups reported higher orders during the month and only three reported a decline in orders. These patterns are also seen in the current production index, which posted a much larger advance in March than in either January or February after having contracted late in 2015. In March, 12 of the 18 industry groups reported higher levels of current production while only two reported lower levels. One factor behind rising orders and production is a diminishing inventory backlog – March marked the second consecutive month in which customer inventory levels were considered to be too low. As seen in the middle chart, the gap between new orders and customer inventories is a good indicator of current production levels, and that gap now stands at its highest point since last July.

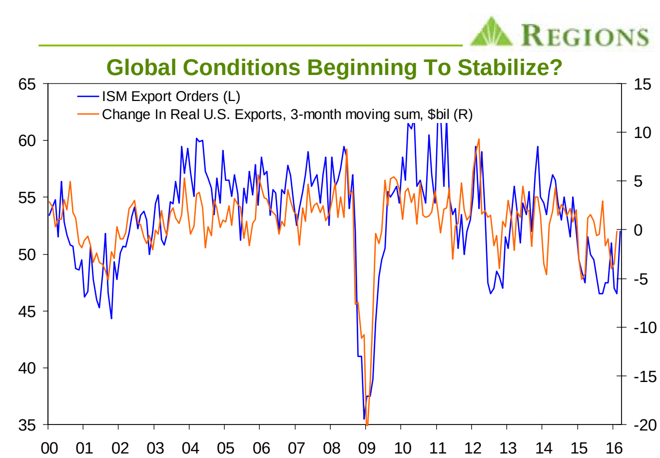
Another encouraging sign in the March data is the increase in export orders, with the index for new export orders rising to its highest level since December 2014. To be sure, new export orders have contracted in most months since January 2015 with an increase sprinkled in here and there, so it is obviously too soon to draw any conclusions from the March increase. But, given the ISM's index on new export orders is a good indicator of trends in exports of U.S. goods, this is something that will clearly bear watching in coming months. One thing we have seen is the U.S. dollar has softened a bit over the past few months, thus making U.S. manufacturers a bit more competitive in global markets.

Despite the many encouraging signs in the March data, the employment index fell to 48.1 percent in March, the fourth consecutive month and fifth out of the last six months in which the index has indicated lower factory payrolls – the March decline was verified by today's employment report. In March, 9 of the 18 industry groups saw head counts decline, with 6 reporting higher head counts. And, in the "where did that come from?" category, the prices paid component spiked to 51.5 percent in March, ending a run of 16 straight months below 50 percent. It is unclear whether this more reflects the softer U.S. dollar or considerably firmer demand but, either way, it also merits watching over coming months.

Clearly it is too soon to declare all is well with manufacturing, but the March ISM data at least suggest the factory sector's worst days may be behind it.







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