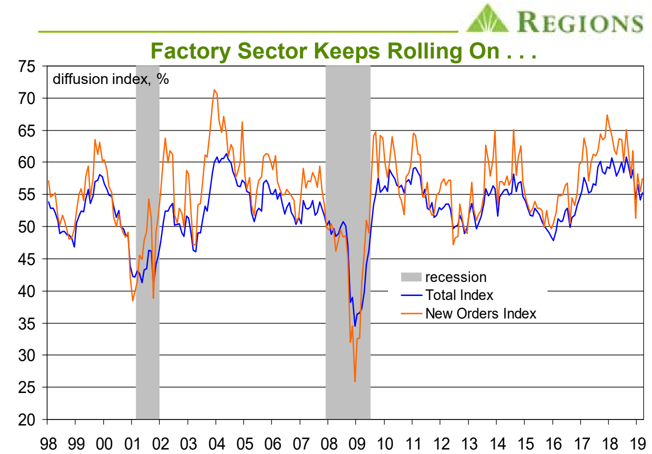
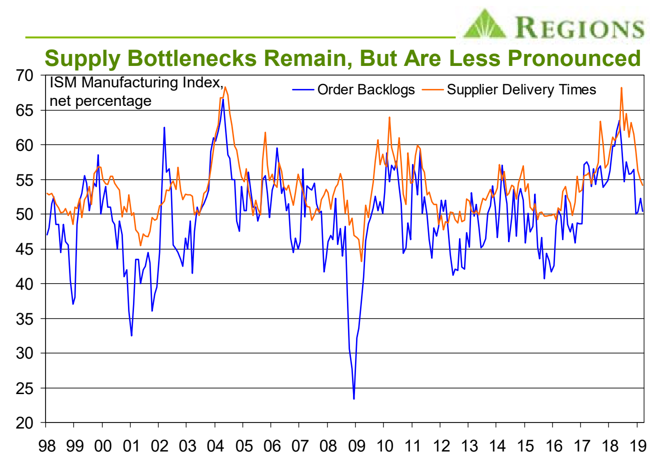
March ISM Manufacturing Index: Factory Sector Keeps Rolling On

- The ISM Manufacturing Index rose to 55.3 percent in March from 54.2 percent in February
- The new orders index rose to 57.4 percent, the employment index rose to 57.5 percent, the production index rose to 55.8 percent

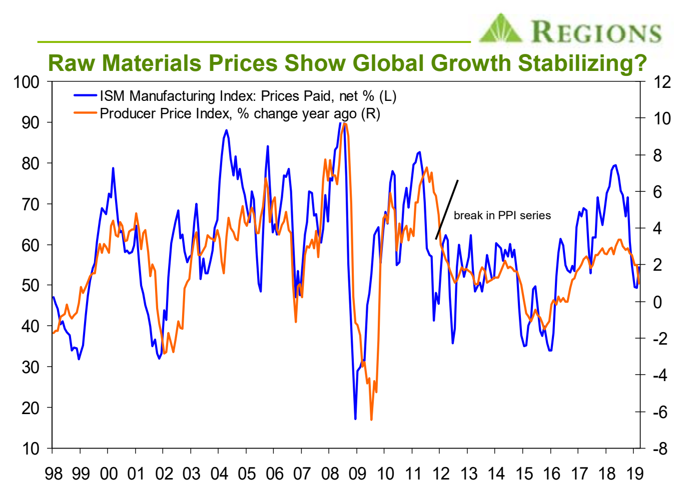
The ISM Manufacturing Index rose to 55.3 percent in March, beating our above-consensus forecast of 54.7 percent and marking the 31st consecutive month in which the headline index was above the 50.0 percent break between contraction and expansion. The details beneath the headline index are solid, even allowing for the jump in the ISM's gauge of employment adding a whole point to the headline index. March's increase comes after what in February was a two-year low for the headline index, but we see these swings as affirming a point we frequently make, which is that the kind of deceleration in growth we are now seeing, and which we have been anticipating for quite some time, does not happen in straight lines, and in the midst of such a deceleration in growth the data tend to be jumpy from one month to the next. Or, as we routinely put it, there is a distinction between slowing growth and the end of growth, and we are seeing the former not the latter. That is true of the manufacturing sector and for the broader economy.



Of the 18 industry groups included in the ISM survey, 16 reported growth in March, matching the number reporting growth in February and consistent with other signs that show the expansion in the manufacturing sector has been and remains broad based. Comments from survey respondents remain broadly positive, and one change we note is that concern over trade policy is no longer dominating the comments as had been the case over prior months. Our sense is that this reflects the expectation, which we share, of a fairly benign resolution of the U.S.-China trade dispute, leaving firms free to go back to worrying about shortages of skilled labor, shipping backlogs, and raw materials prices. You know, the usual stuff firms worry about. More significantly, nothing in the comments from survey respondents points to the expansion in the factory sector coming to an end any time soon.



The new orders index, which has long been one of our most reliable forward looking indicators, rose to 57.7 percent in March, topping our forecast and marking the 39th consecutive month of growth in new factory orders. Of the 18 industry groups included in the ISM survey, 14 reported growth in orders in March with two reporting lower orders. The current production index rose to 55.8 percent, falling a bit short of our forecast while marking the 31st consecutive month of rising production. The employment index jumped from 52.3 percent in February to 57.5 percent in March, with 13 of the 18 industry groups reporting higher employment and four reporting lower employment. The ISM's read on employment suggests a gain in manufacturing payrolls in the March employment report set for release on Friday.



In light of our earlier point about trade, it is worth noting that the ISM's gauge of new export orders slipped to 51.7 percent in March but nonetheless signals a 37th straight month of growth in new export orders. It is also of note that after two straight months of signaling declining raw materials prices, the ISM's prices paid index bounced back in March. To be sure, the prices paid index remains far below the levels that prevailed over much of 2018, but some firming in raw materials prices would be in line with our view that global growth is regaining its bearings after having softened notably over recent months, so this is clearly an indicator worth watching over coming months. The ISM's measures of supply bottlenecks, supplier delivery times and backlogs of unfilled orders, moderated in March, which tells us that bottlenecks have not been totally worked through but are not as severe as had been the case. This is consistent with a premise of growth in the factory sector settling into a slower, more sustainable pace. We also point to a still-wide spread between growth in new orders and firms' perceptions of customer inventory levels as a sign that orders and output have further room for growth over coming months. In other words, all signs are pointing to the broad based and long running expansion in the factory sector continuing over coming months, particularly should there be a benign resolution of current trade disputes.

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