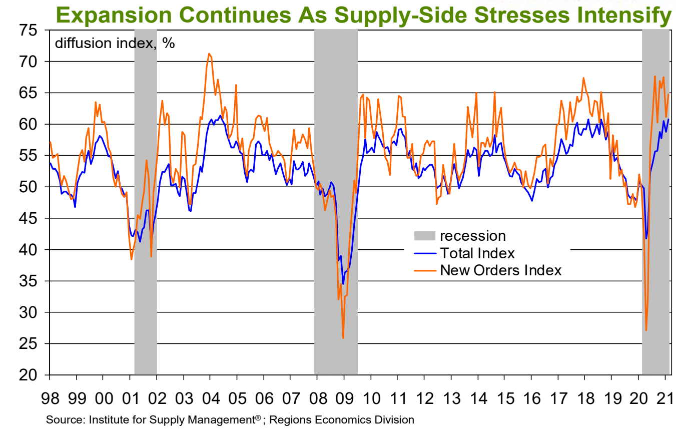
ECONOMIC UPDATE
REGIONS
March 1, 2021

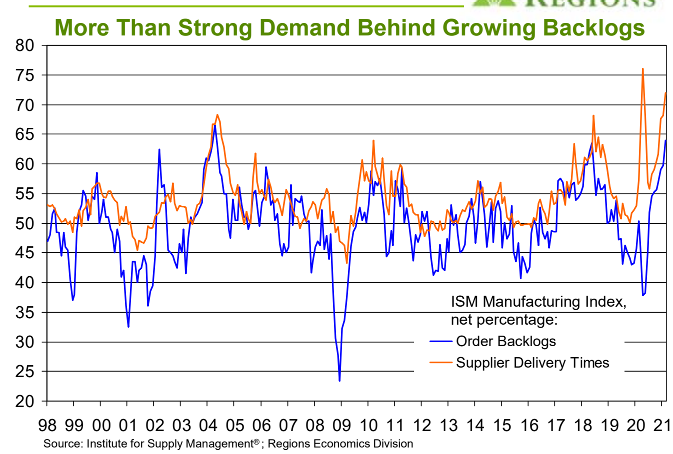
February ISM Manufacturing Index: Expansion Continues As Supply-Side Stresses Intensify

- The ISM Manufacturing Index rose to 60.8 percent in February from 58.7 percent in January
- The new orders index rose to 64.8 percent, the employment index rose to 54.4 percent, and the production index rose to 63.2 percent

The ISM Manufacturing Index rose to 60.8 percent in February, topping our forecast of 59.3 percent and the consensus forecast of 58.6 percent, keeping the headline index above the 50.0 percent break between contraction and expansion for a ninth straight month. The details of the February survey show less of an impact from the unusually harsh winter weather that gripped much of the U.S. last month than we and many others had anticipated, though weather conditions put even more stress on already stretched supply chains. Continued growth in new orders suggests the expansion in the factory sector will be sustained, though labor supply and logistics challenges will continue to weigh on the pace of growth in the near term. Price pressures continue to build, reflecting continued strong growth in demand along with growing stresses on supply chains, and it will bear watching whether, or to what extent, these price pressures begin to register in the broader inflation gauges over coming months. Still, with order books growing faster than firms can fill them, output and employment in the manufacturing sector are poised for further growth in the months ahead.

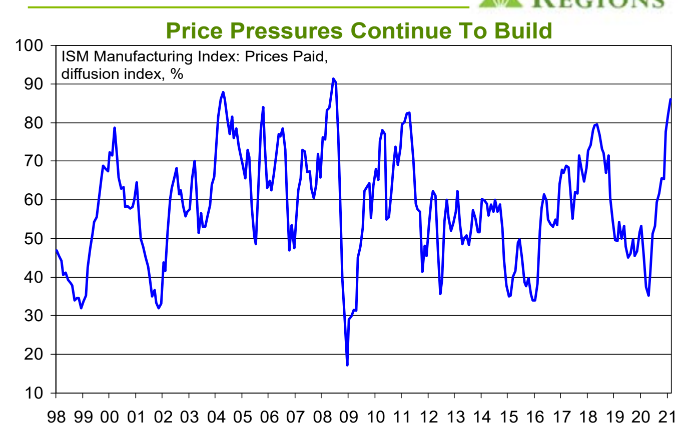


For a fourth straight month, 16 of the 18 industry groups included in the ISM's survey reported growth, with two industry groups (petroleum and coal products and printing/support activities) reporting contraction. This goes to our point about a broad based expansion in the manufacturing sector. The main themes in the comments from survey respondents relayed by ISM – strong demand, labor supply constraints, and logistics bottlenecks – did not change from the January survey, but it does seem that supply chain issues are becoming a source of increasing frustration. Producers and suppliers are contending with labor supply issues, while at the same time, increased supply chain disruptions, including ports being backed up to the point it is taking weeks to unload ships, are also curbing production.



The new orders index rose to 64.8 percent in February from 61.1 percent in January, with 13 of the 18 industry groups reporting growth in new orders and only one reporting a decline in orders. A separate gauge of new export orders, which does not enter into the calculation of the headline index, rose to 57.2 percent in February from 54.9 percent in January, marking the eighth consecutive month of growth as global trade flows continue to normalize. Contrary to our expectations, the ISM's production index rose in February, hitting 63.2 percent, with 14 of the 18 industry groups reporting higher output and two reporting lower output. The ISM's employment index rose to 54.4 percent in February from 52.6 percent in January, with 11 of the 18 industry groups reporting higher employment.

The index of supplier delivery times rose to 72.0 percent from 68.2 percent in January, with 16 of the 18 industry groups reporting slower delivery times. This reflects not only strong growth in demand from manufacturers, but also suppliers contending with labor supply issues and logistics bottlenecks. Continued growth in new orders, slower supplier delivery times, and labor supply issues hindering production have all contributed to further growth in backlogs of unfilled orders. The ISM's gauge of order backlogs rose to 64.0 percent from 59.7 percent in January, with 14 of the 18 industry groups reporting growing backlogs. An additional detail in the ISM data we look to as a leading indicator is the gap between the indexes of new orders and customer inventories. The vast majority of industry groups report customer inventory levels are too low, suggesting further gains in new orders and production in the months ahead and thus reinforcing the signal being sent by growing backlogs of unfilled orders. The prices paid index jumped to 86.0 percent in February from 82.1 percent in January, the highest reading since May 2008 and the third straight month in which all 18 industry groups reported paying higher prices for inputs. With producers having more pricing power than has been the case over the past several years, these higher input prices are likely to be passed along in the form of higher prices for intermediate and final goods.



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