ECONOMIC UPDATE

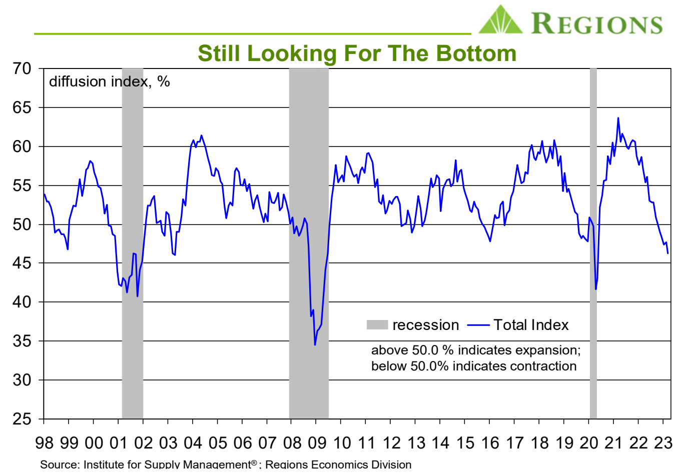
REGIONS

April 3, 2023

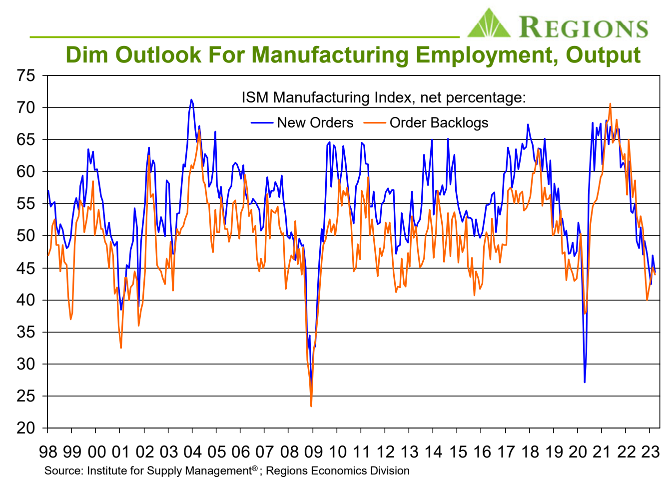
March ISM Manufacturing Index: Still Looking For The Bottom

- The ISM Manufacturing Index fell to 46.3 percent in March from 47.7 percent in February
- The new orders index fell to 44.3 percent, the employment index fell to 46.9 percent, and the production index rose to 47.8 percent

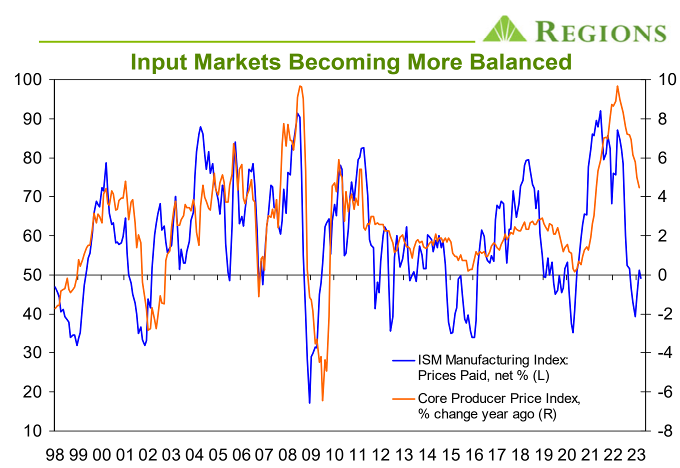
The ISM Manufacturing Index fell to 46.3 percent in March, falling more sharply than our below-consensus forecast of 47.1 percent anticipated. March's decline marks the fifth consecutive month in which the headline index was below the 50.0 percent break between contraction and expansion. New orders, production, and employment all fell further in March while order backlogs also contracted further. At the same time, there seems to be growing doubt as to when the pick-up in growth that had generally expected over the second half of 2023 will actually materialize, which means firms will fell less compelled to retain labor in anticipation of that turnaround. Though not attempting to downplay the results of the March survey, the seasonal factors used to adjust the March data are amongst the toughest of any month, as we noted in our weekly *Economic Preview.* One consequence is that any weakness in the unadjusted March data would be amplified in the seasonally adjusted data, and we suspect that helps account for the extent of the declines in the new orders and employment indexes. That said, from the time the headline index first slipped into contractionary territory, we noted that we saw nothing that would suggest a quick turn in the cycle in the factory sector, particularly with the pace of growth in the broader economy having slowed and much of the global economy bumping along at a listless pace. We continue to expect that the next several months will be challenging for the manufacturing sector.



Six of the eighteen industry groups included in the ISM's survey reported growth in March, though it is worth noting that this is up from two in both December and January and four in February, while the remaining twelve industry groups reported contraction. The comments from survey respondents relayed by ISM are more of a mixed bag than might be implied by headline print and those on some of the sub-categories. While some respondents noted weakening demand, there are at the same time some industry groups in which demand is holding up, and it is not surprising that supplier delivery times are noted to be improving in those industry groups with weakening demand and still lengthy in those industry groups where demand has held up. There was only one reference to the "global banking situation," with this respondent noting that thus far there have been no impacts. This will be something to watch for in the months ahead.



New orders contracted for the ninth time in the past ten months but, as noted above, we suspect seasonal adjustment exaggerated the reported decline in March, with the new orders index falling to 44.3 percent from 47.0 percent in February. The larger than expected decline in the new orders index accounts for most of our forecast miss on the headline index. Only five of the eighteen industry groups reported growth in new orders in March. A few survey respondents noted that slowing new orders had given them time to further work down backlogs of unfilled orders, and that carried through to the index of order backlogs falling to 43.9 percent. While two industry groups reported growth in order backlogs in March, twelve reported smaller backlogs. As we've noted, contracting new orders and dwindling backlogs of unfilled orders bode poorly for employment and output in the factory sector in the months ahead. To that point, the production index rose slightly in March but, at 47.8 percent, continues to indicate falling output, though there were eight industry groups that reported production increased in March. The employment index fell to 46.9 percent in March, with six of the eighteen industry groups reporting higher head counts and six reporting reductions. To our earlier point, "hoarding" labor in anticipation of a second-half rebound in growth is still occurring but, as ISM notes, to a lesser degree than has been the case in prior months.



After having ticked above the 50.0 percent mark in February, the prices paid index fell back to 49.5 percent in March, though in each month forty-four percent of industry groups reported paying higher input prices. While China's economy coming more fully online would be expected to support prices in global markets, ISM notes that supplier-buyer relationships have become more balanced. The prices paid index suggests that core inflation on the producer level will continue to slow in the months ahead.

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