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## April ISM Manufacturing Index: Manufacturing Sector Takes A Step Back In April

- > The ISM Manufacturing Index fell to 49.2 percent in April from 50.3 percent in March
- > The new orders index fell to 49.1 percent, the employment index rose to 48.6 percent, and the production index fell to 51.3 percent

The ISM Manufacturing Index fell to 49.2 percent in April, falling short of the consensus forecast of 50.0 percent and our forecast of 50.2 percent. With the headline index having risen above the 50.0 percent break between contraction and expansion in March after a run of sixteen straight months of contraction, the question ahead of the April data was whether that line would hold. That most forecasts, ours included, were so close to that breakeven line showed little conviction one way or the other, and with the index having slipped back into contractionary territory in April, the question now becomes whether this simply marks the sort of normal wavering common at cyclical turns or whether the March reading was a one-off illusion of improvement. That several of the details of the data we'd use to answer this question softened in the April data isn't an encouraging sign but, again, this could simply reflect some normal cyclical give and take after what had been meaningful improvement over the prior two months. While we still think the factory sector to be on the road to recovery, we'll repeat what we said last month in this space, which is that we expect further growth in the months ahead, but also expect that growth to be somewhat halting and uneven. The April survey does nothing to change that view.

Of the eighteen industry groups included in the ISM's survey, nine reported growth in April, unchanged from March and the most in any month since September 2022, while seven industry groups reported contraction. ISM again characterizes demand as being in "the early stages of recovery, with clear signs of improving conditions." While most of the comments from survey respondents relayed by ISM point to either stable or rising demand, there are a few pointing to slowing and volatile demand. It was interesting that one respondent, a producer of automated packaging equipment for the food and beverage industry, noted that labor shortages faced by their customers were helping drive demand.

The new orders index fell to 49.1 percent in April, indicating a drop in order volumes. That the new orders index alternated between growth and contraction over the first four months of this year is consistent with the cyclical give and take seen around turning points. While 63.2 percent of firms reported no change in order volumes, only 19.9 percent reported increased order volumes, the smallest share so far this year, with little change in the share of firms reporting lower orders. On an industry level, eight of the eighteen industry groups reported growth in orders in April, a decided step back from the prior two months, as our middle chart shows. ISM does note that references by survey respondents to "softening" new orders were at their lowest level since reporting on such sentiment began in May 2022. The production index slipped a bit in April but, at 51.3 percent, nonetheless indicates higher output, with output now having risen in three of the past four months. In April, 22.1 percent of firms reported higher output, down from the 25.3 percent doing so in March but still easily ahead of the shares seen over the prior several months. Though edging up to 48.6 percent in April, the employment index nonetheless remained below the 50.0 percent breakeven line for a seventh straight month. Four industry groups reported higher employment in April while seven reported a decrease in employment. While ISM notes that firms continue to use layoffs to manage head counts, they also note a "slowing of staff-cutting efforts," which you'd expect if there are signs of stabilization/recovery on the horizon.

The prices paid index, a gauge of changes in prices of non-labor inputs, rose to 60.9 percent, the highest reading since June 2022 and marking a fourth straight month of rising input costs. Thirteen of the eighteen broad industry groups reported paying higher input prices, while 30.8 percent of all firms reported paying input prices. We've taken the upward turn in the prices paid index as a sign of firming conditions in the factory sector, but higher input prices will ultimately feed into upward pressure on finished goods prices.

The budding improvement in foreign demand also faltered in April, with the index of new export orders slipping below 50.0 percent after two months above that line. That said, ISM reports comments from survey respondents continue to point to improving demand from abroad, consistent with signs of firming global economic growth.

