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Commentary

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U.S. ISM MANUFACTURING INDEX ROSE UNEXPECTEDLY IN MARCH

- **The U.S. ISM manufacturing index rose modestly to 48.6 in March and was better than expected**
- **However, the most important of the sub-components were soft in March**

The ISM manufacturing index rose modestly in March to 48.6 from 48.3 in February. This was a better than expected result. The most important categories of the index, however, point to some weakness in manufacturing. There was a generally weaker tone to production and new orders, but there was a little bit of better tone in export orders and the employment sub-index rose, but still remains below 50.

In March, the ISM manufacturing index still points to softness as it is the second consecutive month where the index was below 50. The fact that new orders slipped so sharply to 46.5 in March from 49.1 in February suggests that pipeline demand for manufactured goods has slowed measurably. This is the fourth consecutive month where new orders were below 50. The production index, which is now below 50 at 48.7, is also concerning. The employment sub index, though it rose to 49.2 in March from 46.0 in February still suggests contraction in manufacturing employment since it is under 50. This is the fifth consecutive month where the index is under 50.

While demand related indicators continue to moderate, manufacturers continue to contend with higher input prices. The prices paid component shot higher in March to 83.5 from 75.5 in February. Energy prices, as well as a number of other commodities continue to trend higher and pinch the profit margins of manufacturers.

Modest improvements in other sub categories only offer a partial offset. New export orders rose to 56.5 in March from 56.0 in February, suggesting that demand from overseas remains strong, thanks in part to the weak U.S. dollar and the general resilience of economies outside the U.S.

On balance, this is a weak report. The headline index suggests contraction in manufacturing, while sub components remain generally soft as well. The outlook for manufacturing depends heavily on external demand, and if that gives way, the sector will see even further losses.

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