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TD Economics

Data Release: U.S. manufacturing activity expands for the seventh consecutive month in March

- The Institute for Supply Management (ISM) manufacturing index declined by half a point to 57.2 in March. Nevertheless, despite the slightly slower rate, the U.S. manufacturing sector expanded for the seventh consecutive month. Moreover, the reading was just above consensus forecast that expected a headline number of 57 – a slightly slower rate of expansion than what materialized.

- Moves in the subcomponents of the index were mixed, with about half recording an expansion at a faster pace in March. Some of the biggest moves higher included employment (+4.7 to 58.9), new export orders (+4.0 to 59), and prices (+2.5 to 70.5). Of those subcomponents that recorded a decline in March, production fell the most (-5.3 to 57.6), followed by inventories (-2.5 to 49) and new orders (-0.6 to 64.5).

- Given the greater decline in inventories that offset the much smaller decline in new orders, the spread between the two – useful as a leading indicator of activity – widened slightly in March to 15.5 from 13.6 in February. This suggests that manufacturing activity is likely to continue to expand in the months ahead.

- No industry reported contractions, with seventeen of the eighteen reporting expansion in March. Electrical equipment appliances and components, printing and related support activities, and furniture and related products all registered the strongest expansion in the month.

Key Implications

- Despite the pace of expansion in the headline index slowing slightly in March, the underlying details of this morning's ISM manufacturing report are broadly positive. The U.S. manufacturing sector expanded at a robust pace in the first quarter, although momentum appears to have slowed. All categories except inventories and customers' inventories are healthy, while both new orders and production remain resilient despite taking a breather in March. Comments by survey respondents were broadly positive, with an acknowledgement by some that rising input prices are being passed on to buyers via higher sales prices.

- Despite its recent strong showing, the U.S. manufacturing sector is likely to continue to face a number of challenges this year. For one, although the trade weighted dollar has given up its gains from early in the year, it still remains about 3% above the level from a year ago and is expected to continue to dampen the export competitiveness of U.S. firms. Perhaps another more important concern is the elevated level of policy uncertainty both globally and domestically, particularly surrounding any changes to the U.S. trading relationship with the rest of the world. Given U.S. manufacturers strong integration in global value chains, any material changes to U.S. trade policies could destabilize and do more harm than good as far as domestic industries are concerned in the short to medium term.

- March ISM data for the U.S. manufacturing sector mirrors the good news from other purchasing manager's surveys for Europe, Japan, India, and other large emerging markets released this morning. The momentum from the strong pickup in global growth from last year has likely carried through March, suggesting a strong handoff into the second quarter. Still, although there has only been a slow trickle of non-survey based economic data for 2017 thus far, we anticipate that the global economy is on pace to expand at an above 3.0% rate in the first half of 2017.

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