March ISM Manufacturing Index

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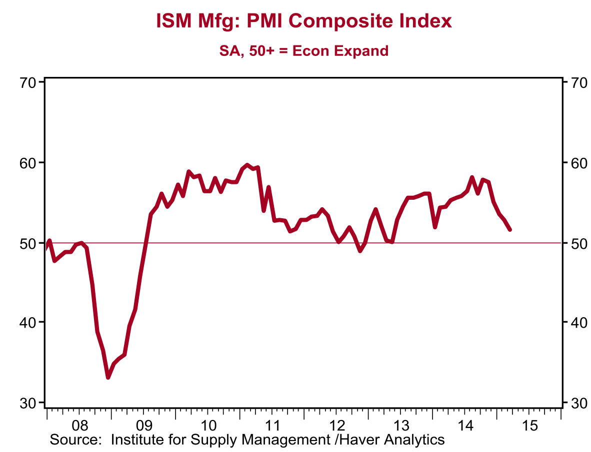
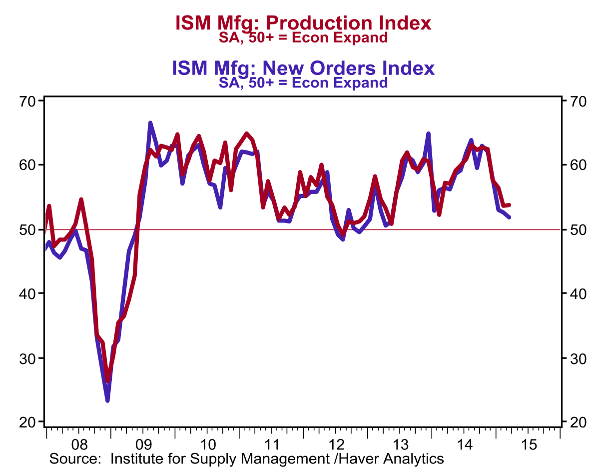
- The ISM manufacturing index declined to 51.5 in March from 52.9 in February, coming in below the consensus expected level of 52.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in March, but all remain at or above 50, signaling growth. The supplier deliveries index fell to 50.5 from 54.3, while the employment index dropped to 50.0 from 51.4. The new orders index eased to 51.8 from 52.5. The production index moved higher to 53.8 from 53.7 in February.
- The prices paid index rose to 39.0 in March from 35.0 in February.





Implications: The aftermath of the west coast port shutdowns, unusually cold winter weather and a drop in oil drilling continue to weigh on manufacturing activity across the country. The ISM manufacturing index, which measures factory sentiment around the country, declined in March, but remained above 50 for a 27th consecutive month. We don't believe the decline from 58.1 in August to the current reading of 51.5 is anything to worry about. Remember that the economy was unusually strong in the summer of last year as it recovered from bad weather in the first quarter of 2014. The fundamentals of the economy have not changed in any significant way. According to the Institute for Supply Management, the average overall index level of 52.6 seen through the first three months of 2015 is consistent with real GDP growth of 3% annually. This ISM-calculated relationship has over-estimated real GDP growth in the past several years, although mid-2014 real growth came close. As a result, we see today's data as consistent with our forecast of a roughly 1% real GDP growth rate in Q1. The ISM report shows 10 industries expanded in March, while 7 contracted, but the pace of decline in oil drilling dragged the index down. On the inflation front, the prices paid index remained depressed at 39.0 in February. No major surprise here given the continued pressure on energy prices over the past month. The employment index dipped in March to 50.0, signaling no change in manufacturing employment over the past month. Taken as a whole, this month's report shows the Plow Horse continues to plod forward. In other news this morning, construction declined 0.1% in February, exactly as the consensus expected. A drop in government projects (power plants and water supply) as well as a slower pace of single-family home building, offset stronger commercial construction, which was led by manufacturing facilities, offices, and hotels. Look for a rebound in the next couple of months as weather patterns return to normal. On the housing front, the Case-Schiller index, a measure of national home prices, increased 0.6% in January and is up 4.5% versus a year ago. All twenty major metro areas are up in the past year, led by Denver, Miami, and Dallas. In broader economic news this morning, the ADP index, a measure of manufacturing payrolls, increased 189,000 in March. Plugging this into our models suggests Friday's official report will show nonfarm payrolls up 225,000, another solid month.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Mar-15	Feb-15	Jan-15	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**51.5**	52.9	53.5	52.6	54.8	54.4
New Orders	**51.8**	52.5	52.9	52.4	56.7	56.4
Production	**53.8**	53.7	56.5	54.7	57.9	57.3
Inventories	**51.5**	52.5	51.0	51.7	50.8	52.5
Employment	**50.0**	51.4	54.1	51.8	53.6	51.9
Supplier Deliveries	**50.5**	54.3	52.9	52.6	54.9	53.8
Order Backlog *(NSA)*	**49.5**	51.5	46.0	49.0	51.3	57.5
Prices Paid *(NSA)*	**39.0**	35.0	35.0	36.3	40.9	59.0
New Export Orders	**47.5**	48.5	49.5	48.5	50.7	55.5

Source: National Association of Purchasing Management