

# March ISM Manufacturing Index

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- The ISM manufacturing index increased to 53.7 in March from 53.2 in February, but came in below the consensus expected level of 54.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in March but all were above 50. The production index returned to expansionary levels, coming in at 55.9 from 48.2, and the new orders index increased to 55.1 from 54.5. The supplier deliveries index declined to 54.0 from 58.5, and the employment index slowed to 51.1 from 52.3. The inventories index was unchanged at 52.5.
- The prices paid index slipped to 59.0 in March from 60.0 in February.

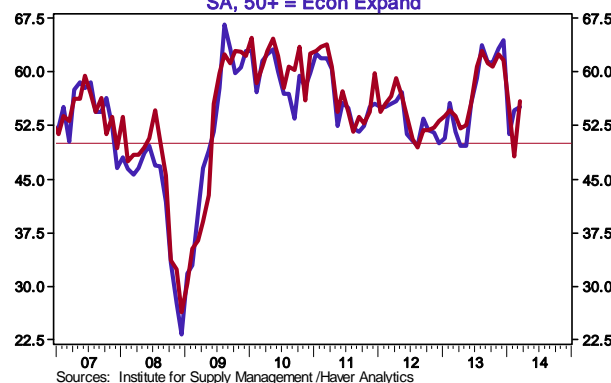
**Implications:** Just like the temperature, the ISM index, a measure of manufacturing sentiment around the country, continued to move higher in March. While not as strong as the levels we saw in mid-to-late 2013, the index has stood in expansion territory for ten consecutive months, and we expect the index to continue to show strength as the final ice thaws and companies ramp up production to make up for time lost to bad weather. The production index, which dropped 6.6 points in February due to the harsh weather conditions, showed a full recovery in March, jumping 7.7 points to 55.9. At the same time, the new orders index rose to 55.1, a three-month high. According to the Institute for Supply Management, an overall index level of 53.7 is consistent with real GDP growth of 3.5% annually. Given other data, we think real GDP growth will be noticeably slower in Q1, but will rebound in Q2. On the inflation front, the prices paid index fell slightly to 59.0 in March from 60.0 in February. Still, little sign of inflation, but we don't expect this to last given loose monetary policy. The employment index declined to 51.1 in March from 52.3 in February, but plugging today's data into our model, we're still forecasting respectable gains of 205,000 for both nonfarm and private payrolls. (Wednesday's ADP employment index and Thursday's data on unemployment claims may alter this forecast slightly.) In other news this morning, construction eked out a 0.1% gain in February despite the brutal weather (+0.3% including revisions to prior months). The gain in February was led by commercial construction, particularly power plants, communication facilities, and hotels. Residential construction declined 0.8%, but we expect a sharp rebound next month due to a return to normal weather patterns and strong underlying fundamentals for this sector of the economy.

**ISM Mfg: PMI Composite Index**  
 SA, 50+ = Econ Expand



**ISM Mfg: Production Index**  
 SA, 50+ = Econ Expand

**ISM Mfg: New Orders Index**  
 SA, 50+ = Econ Expand



Institute for Supply Management Index	Mar-14	Feb-14	Jan-14	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>53.7</b>	53.2	51.3	52.7	54.7	51.5
<b>New Orders</b>	<b>55.1</b>	54.5	51.2	53.6	58.3	51.7
<b>Production</b>	<b>55.9</b>	48.2	54.8	53.0	57.3	53.9
<b>Inventories</b>	<b>52.5</b>	52.5	44.0	49.7	49.8	49.5
<b>Employment</b>	<b>51.1</b>	52.3	52.3	51.9	53.5	52.1
<b>Supplier Deliveries</b>	<b>54.0</b>	58.5	54.3	55.6	54.7	50.4
<b>Order Backlog (NSA)</b>	<b>57.5</b>	52.0	48.0	52.5	52.4	51.0
<b>Prices Paid (NSA)</b>	<b>59.0</b>	60.0	60.5	59.8	56.8	54.5
<b>New Export Orders</b>	<b>55.5</b>	53.5	54.5	54.5	55.8	56.0

Source: National Association of Purchasing Management