First Trust DATAWATCH

April 1, 2021 • 630.517.7756 • www.ftportfolios.com

March ISM Manufacturing Index

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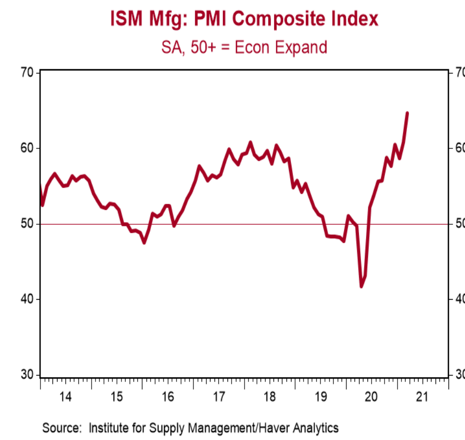
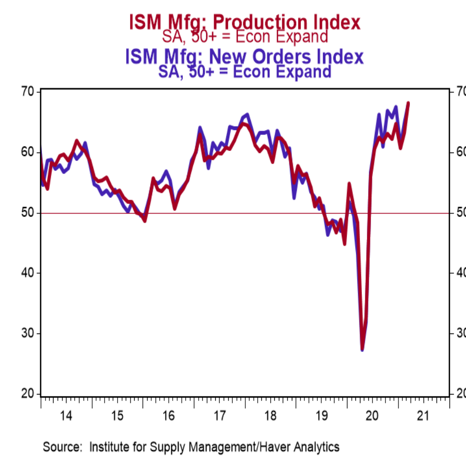
- The ISM Manufacturing Index rose to 64.7 in March, easily beating the consensus expected 61.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were all higher in March, and all stand above 50, signaling growth. The production index rose to 68.1 from 63.2 in February, while the new orders index increased to 68.0 from 64.8. The employment index moved higher to 59.6 from 54.4, and the supplier deliveries index increased to 76.6 from 72.0 in February.

- The prices paid index declined to 85.6 in March from 86.0 in February.





Implications: The manufacturing sector was firing on all cylinders in March, rising to a reading of 64.7, the highest mark for the ISM index since 1983. All the major measures of activity moved higher in March, and growth was broad-based across industries, with seventeen of eighteen reporting growth (one showed no change). Respondent comments remain overwhelmingly upbeat, with eight positive comments for every cautious comment. That said, responses reflect an increasingly tight supply chain, made worse by the winter storms that brought a deep freeze to Texas and is still impacting the availability of raw materials. These headwinds are causing delays in supplier deliveries (note the supplier deliveries index rising to 76.6 in March, the highest reading for that series since the mid 1970s.) While companies report that demand is healthy, the inability of supply to meet that demand is causing price pressures to build. Case in point, the prices paid index reading of 85.6 in March, where all eighteen industries once again reported increased prices for raw materials. In total, fifty-three commodities (particularly metals like steel) were reported up in price, while not one was reported lower. Inflation looks likely to be a key topic in 2021, with the M2 money supply up an incredible 27.1% over the last twelve months, at the same time supply chains struggle to catch up to demand. Speaking of demand, the two most forward-looking indices – new orders and production – moved even further into the 60s in March, signaling very healthy expansion. And given that the customers' inventories index stands at the lowest reading on record, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit the highest reading on record, the data suggest activity should remain robust for the foreseeable future. The employment index also moved higher in March, rising to 59.6 in March, but held back from even faster growth by difficulties finding qualified workers. All-in-all, the first quarter of 2021 ranked among the strongest in decades, and looks set for a strong Q2 as we continue to get back toward "normal." In other news this morning, construction spending decline 0.8% in February (-0.3% including revisions to prior months), narrowly beating the consensus expected -1.0%. Nearly all categories of construction declined, led by slower spending on educational and health care facilities. In recent housing news, the Case-Shiller national home index increased 1.2% in January and is up 11.2% in the past year, the largest gain since 2006. The FHFA index, which measures prices for homes financed by conforming mortgages, increased 1.0% in January and is up 12.0% in the past year, the largest twelve-month increase on record (going back to 1991). Pending home sales, which are contracts on existing homes, were heavily impacted by February weather, declining 10.6%. As a result, expect a decline in existing home sales for March. Switching to employment, the ADP employment report showed 517,000 private-sector jobs gained in March, falling short of the consensus expected 550,000. Meanwhile initial jobless claims rose 61,000 last week to 719,000. Continuing claims for regular benefits fell 46,000 to 3.794 million. Tomorrow morning, the Labor Department will issue its usual monthly report on the Employment Situation. However, First Trust will be closed for Good Friday and so will not be sending our usual analysis of the report. Instead, we will cover the data in our next Monday Morning Outlook. Our expectation is that the report will show an increase in nonfarm payrolls of around 660,000 for March with the unemployment rate falling to 6.0%. Given the end of many COVID-related shutdowns, the recovery should accelerate, and we expect some blowout strong numbers later this year, including months with job gains north of one million.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Mar-21	Feb-21	Jan-21	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**64.7**	60.8	58.7	61.4	60.2	49.7
New Orders	**68.0**	64.8	61.1	64.6	65.7	43.2
Production	**68.1**	63.2	60.7	64.0	63.7	48.4
Inventories	**50.8**	49.7	50.8	50.4	50.8	47.2
Employment	**59.6**	54.4	52.6	55.5	53.1	44.6
Supplier Deliveries	**76.6**	72.0	68.2	72.3	67.8	65.0
Order Backlog (NSA)	**67.5**	64.0	59.7	63.7	60.5	45.9
Prices Paid (NSA)	**85.6**	86.0	82.1	84.6	77.0	37.4
New Export Orders	**54.5**	57.2	54.9	55.5	56.3	46.6

Source: National Association of Purchasing Management