ECONOMIC UPDATE

REGIONS

April 1, 2013

March ISM Manufacturing Index: Manuafacturing Expands At Slower Pace In March

- The ISM Manufacturing Index fell to 51.3 percent in March from 54.2 percent in February.
- The new orders component fell to 51.4 percent, while the component for export orders rose to 56.0 percent.

The ISM Manufacturing Index slipped to 51.3 percent in March from February's 54.2 percent print, which indicates the manufacturing sector continued to expand but at a slower pace. Recall that in February, both the current production and new orders components rose sharply and, while we anticipated some payback in March, the decline in the headline index was further than expected. The key point, however, is that the main index components remain above the 50.0 percent threshold, pointing to further expansion in the factor sector despite some stronger headwinds – both domestic and foreign.

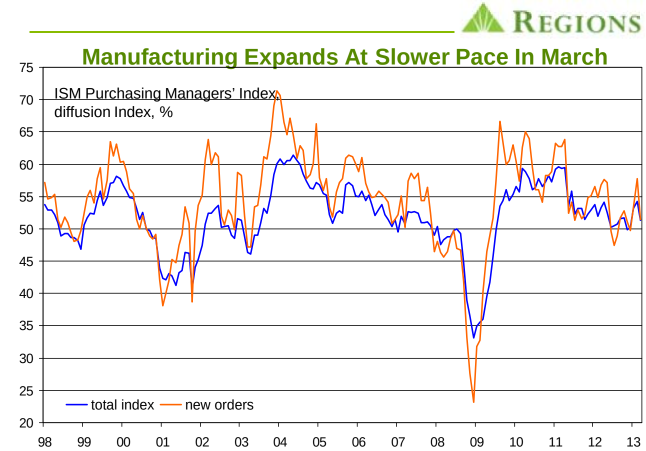
To that point, we find the further increase in the index of new export orders in March particularly encouraging (export orders do not factor into the top-line index). After slumping sharply during the summer months, export orders rebounded at year-end and have now grown for four consecutive months. As seen in the bottom chart, the ISM's export orders index has been a good indicator of the path of real U.S. goods exports. With seemingly no end in sight to the troubles in the Euro Zone and Canada's economy having slowed, we had been concerned that the recent momentum in export orders would fade. It may still, but March's growth in export orders was broad-based, with only primary metals and furniture reporting lower export orders.

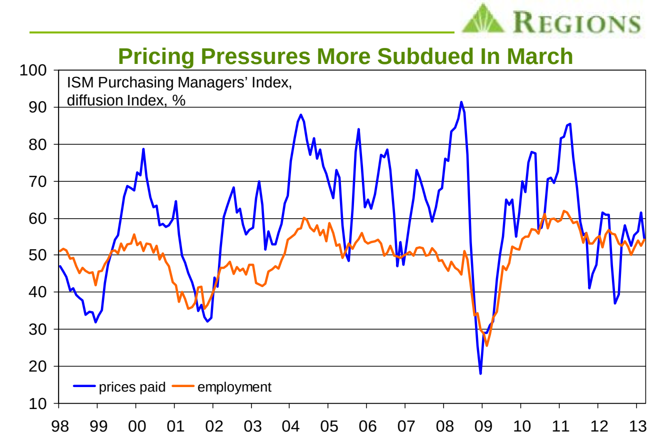
As to domestic headwinds, specifically the impact of the sequestration spending cuts, the jury is still out, though some of the comments shared by the ISM point to some concern. The transportation equipment and computer &electronic products industry groups are two that have over the past couple of months expressed specific concern. Defense-related orders, however, have already slumped over recent months, so it will remain to be seen whether there will be any more broad-based effects from the sequestration spending cuts.

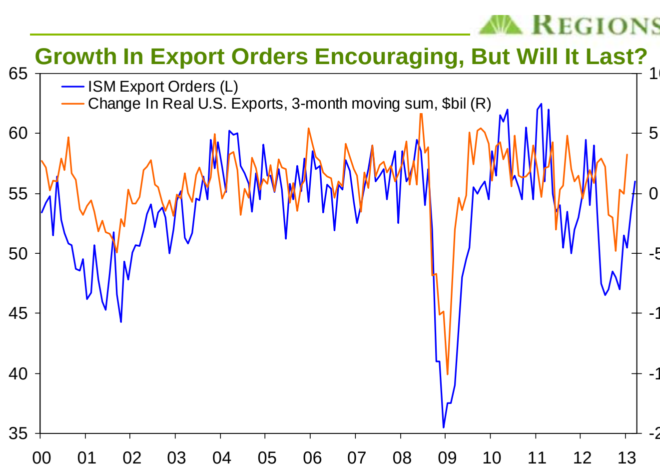
Though new orders expanded at a slower pace in March, the growth in orders was widespread across industry groups, with only primary metals and petroleum & coal noting lower orders. The rebound in the housing market is no doubt helping drive rising orders in a range of industry groups reported on by the ISM, and this should remain a steady support.

Inventories contracted in March according to the ISM's measure, while the gauge of customer inventories suggests inventory levels remain too low. These data points suggest inventories will perhaps not add as much to real GDP growth during Q1 as has been expected, but with new orders still outstripping growth in inventories, we should see further increases in the ISM's measure of current production over coming months, This in turn figures to support further gains in hiring in the factory sector. It is, however, useful to recall the ISM's various indices measure the breadth of, not the intensity, of changes, so while we should see further job gains in the factory sector, we will not necessarily see the pace of those gains pick up.

Though March's decline in the headline index was larger than anticipated, the underlying details of the ISM report suggest the factory sector will continue to expand over coming months.







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