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March ISM Manufacturing Index

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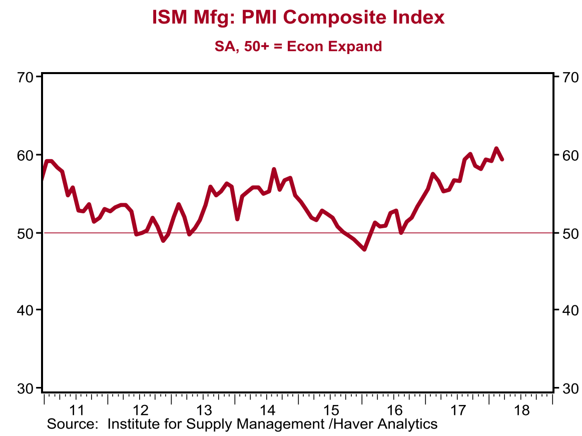
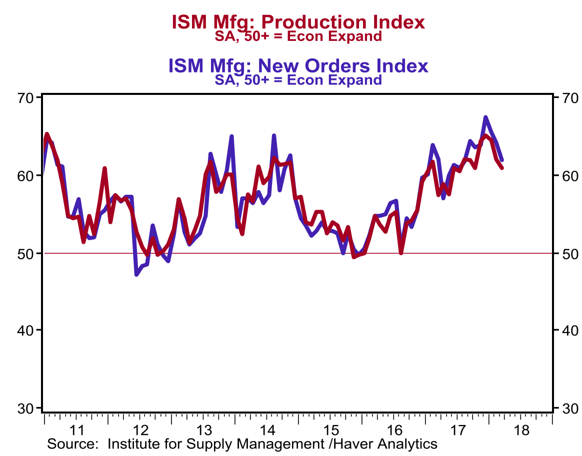
- The ISM Manufacturing Index declined to 59.3 in March, lagging the consensus expected 59.7. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in March, but all remain comfortably above 50, signaling growth. The employment index fell to 57.3 from 59.7 in February, while the new orders index declined to 61.9 from 64.2. The production index moved lower to 61.0 from 62.0, while the supplier deliveries index fell to 60.6 from 61.1 in February.
- The prices paid index rose to 78.1 in March.





Implications: Manufacturing sector activity boomed in the first quarter, growing at the fastest pace since 2004. Keep that in mind when you read headlines focused on the modest slowdown in the pace of growth in March. And note that the March reading of 59.3 stands well above the average reading of 52.8 over the past ten years. Meanwhile, growth remains broad-based, with seventeen of eighteen industries reporting growth in March (just apparel, leather & allied products reported contraction). The two most forward-looking indices - new orders and production – both ticked lower in March (remember, levels above 50 signal expansion, so these lower readings represent continued growth, but at a slower pace than in recent months), but they continue to shine with readings in the 60s, suggesting activity in the manufacturing sector should remain robust in the months ahead. The employment index had the largest decline in March, moving to 57.3 from 59.7 in February. While our forecasts may change with ADP and initial claims data out later this week, pairing today's data with other indicators on the strength of the labor market suggests employment growth of around 150,000 non-farm jobs in March. That's a pullback from February's blowout increase of 313,000 jobs, but healthy growth nonetheless, given East Coast snowstorms. Prices, meanwhile, rose in March to a reading of 78.1, the highest since early-2011. A total of thirteen commodities were reported up in price, while no commodities showed declining costs. Yet another sign that inflation is picking up pace as economic growth accelerates, and a signal to the Fed that four rate hikes in 2018 are not just appropriate, but warranted. In sum, the strength shown by the manufacturing sector throughout 2017 has accelerated into 2018. In other news this morning, construction spending rose 0.1% in February (+0.8% including revisions to prior months). A rise in spending on offices & educational facilities offset a decline in building health care facilities.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Mar-18	Feb-18	Jan-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**59.3**	60.8	59.1	59.7	59.2	56.6
New Orders	**61.9**	64.2	65.4	63.8	64.4	62.0
Production	**61.0**	62.0	64.5	62.5	63.0	57.3
Inventories	**55.5**	56.7	52.3	54.8	51.4	49.3
Employment	**57.3**	59.7	54.2	57.1	58.1	58.7
Supplier Deliveries	**60.6**	61.1	59.1	60.3	59.1	55.6
Order Backlog (NSA)	**59.8**	59.8	56.2	58.6	56.5	57.5
Prices Paid (NSA)	**78.1**	74.2	72.7	75.0	71.0	68.8
New Export Orders	**58.7**	62.8	59.8	60.4	58.4	59.4

Source: National Association of Purchasing Management