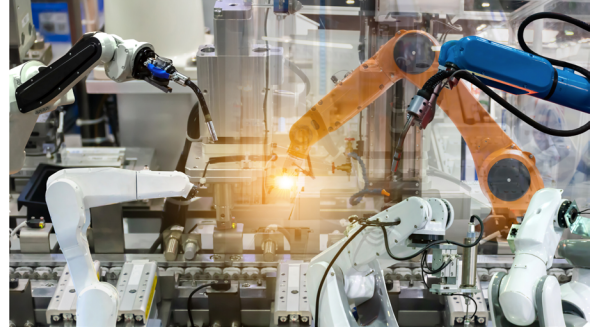


# U.S. Manufacturing Outlook Improves for First Time Since 2022



The U.S. manufacturing sector could begin expanding this spring according to ISM's latest Purchasing Managers' Index.

If the Institute for Supply Management's new *Report On Business® Roundup* is any indicator, the national manufacturing sector may kick into expansion mode as early as spring of this year. The group's composite Purchasing Managers' Index (PMI) rose to 50.3% in March, marking the first real indication of expansion since September 2022.

While commodities inflation remains a concern, the overall health of the manufacturing sector indicates "a growth cycle," said Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee.

"And it starts with the fundamentals. Many of the industries performed well — not exceptionally well, but the biggest industries in particular gained performance compared to February," Fiore continued. "And activity levels were up (in the indexes) where they needed to be, with new orders and production expanding, a nice step up in inventory levels and employment reductions slowing."

## A "Decent" Expansion Cycle is in the Cards

According to ISM, the Production Index gave the PMI its biggest boost in March, up 6.2 percentage points to 54.6%. That index showed resiliency during the 16-month contraction period, staying higher than what might be expected thanks to the backlogs worked off due to coronavirus pandemic-inspired overordering. "With backlogs contracting, production levels are more about business activity," the organization states.

The New Orders Index expanded for just the third time in 22 months, registering 51.4%. "Where the New Orders and Production indexes go, the Employment Index (47.4%, up 1.5 percentage points) should follow," ISM says, "but the March reading suggests companies are still right-sizing staffs."

ISM says the Inventories Index (48.2%) also ticked up, and Fiore suggested that all five subindexes (New Orders, Production, Employment, Supplier Deliveries and Inventories) that directly factor into the PMI could possibly be in expansion territory soon. "The signs point to a decent expansion cycle — not incredibly strong, but decent," Fiore said.

## 12 Industries Report New Order Growth

The majority of manufacturing sectors reported new order growth in March. According to ISM, the 12 manufacturing industries that reported growth in new orders were nonmetallic mineral products; paper products; primary metals; printing and related support activities; wood products; petroleum and coal products; plastics and rubber products; computer and electronic products; fabricated metal products; food, beverage and tobacco products; chemical products; and miscellaneous manufacturing.

The two industries reporting a decline in new orders were furniture and related products; and transportation equipment.

### **A Bullish Outlook for Manufacturing**

A Manufacturing PMI above 42.5%, over a period of time, generally indicates an expansion of the overall economy. Therefore, the March Manufacturing PMI indicates the overall economy grew for the 47th straight month after one month of contraction (April 2020).

“The past relationship between the Manufacturing PMI and the overall economy indicates that the March reading (50.3 %) corresponds to a change of plus-2.2 % in real gross domestic product (GDP) on an annualized basis,” says Fiore, in a [press release](#).

In recent months, the Manufacturing ISM Report On Business tracked the share of sector gross domestic product (GDP) with a PMI calculation under 45%. With that figure at 1% for a second straight month in March, Fiore said the April report will begin tracking the GDP share with a PMI above 55%.