

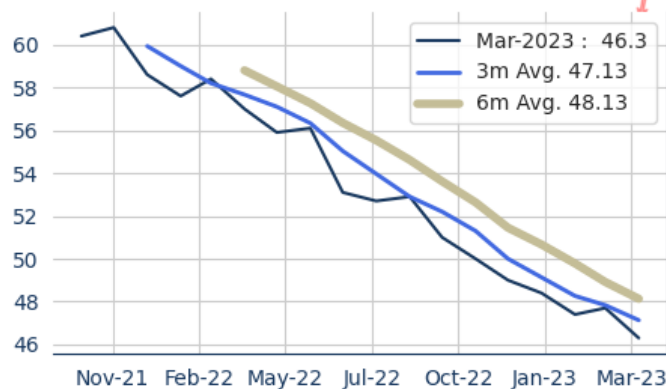
03.Apr.2023

ISM Manufacturing: Sharp Contraction, Price Pressures Ease

Bottom Line: ISM's survey-based index of manufacturing managers fell more than expected in March as new orders contracted sharply, and employment dropped significantly. Nearly every key category remained at levels suggesting continued contraction as the headline index hits its lowest level since May 2020, just after the pandemic hit. The production index edged up but remained below 50, the demarcation between growth and contraction. The employment index fell sharply, hitting its lowest level of this cycle after staying unusually high relative to production and new order levels. On the plus side, prices paid eased again after a brief increase earlier in the year. **Overall, the manufacturing sector remained a modest drag on growth in the 1st Quarter, with signs of continued weakness from forward-looking indicators for the 2nd Quarter.** The risk remains that manufacturers have held onto employees too long into this downturn and will have to lay off workers rather suddenly, exacerbating the downturn. The employment index hitting a new cycle low is a concerning signal that might be starting.

ISM PMI

March: +46.3, consensus: +47.5



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

The ISM Manufacturing Index FELL 1.4 points to 46.3, BELOW the 3-Month average of 47.13, BELOW the 6-Month average of 48.13 and 10.7 BELOW the year-ago level.

- New orders FELL 2.7 points to 44.3, BELOW the 3-Month average of 44.6, BELOW the 6-Month average of 45.65 and 10 BELOW the year-ago level.
- Production ROSE 0.5 points to 47.8, ABOVE the 3-Month average of 47.7, BELOW the 6-Month average of 49.08 but 7.3 BELOW the year-ago level.
- Employment FELL 2.2 points to 46.9, BELOW the 3-Month average of 48.87, BELOW the 6-Month average of 49.37 and 8.4 BELOW the year-ago level.
- Inventories FELL 2.6 points to 47.5, BELOW the 3-Month average of 49.27, BELOW the 6-Month average of 50.7 and 7.3 BELOW the year-ago level.
- Prices paid FELL 2.1 points to 49.2, ABOVE the 3-Month average of 48.33, ABOVE the 6-Month average of 45.67 but 37.9 BELOW the year-ago level.

- Backlog orders FELL 1.2 points to 43.9, BELOW the 3-Month average of 44.13, ABOVE the 6-Month average of 43.18 and 16.1 BELOW the year-ago level.

WHAT RESPONDENTS ARE SAYING

- “Orders and production are fairly flat month over month. Lead times have stabilized in most areas, so looking at reducing commitments on new orders, except for a few strategic electronic buys with lead times that are still too long.” [Computer & Electronic Products]
- “Sales a bit down, and budgets being cut with a greater emphasis on savings.” [Chemical Products]
- “Business is doing generally well, with input costs falling in some areas and rising in others.” [Food, Beverage & Tobacco Products]
- “Sales are slowing at an increasing rate, which is allowing us to burn through back orders at a faster-than-expected pace.” [Transportation Equipment]
- “Lead times are still improving, but prices continue to face inflationary pressures. Prices of steel and steel products are going up some. Hydraulic components are still facing extended lead times. We are increasing inventory levels of imports due to global uncertainty from the ongoing war in Ukraine and threats from China.” [Machinery]
- “Overall, (our) first quarter is going better than planned, with sales increases of about 7 percent versus a budget of 4.5 percent. However, sales volume is pulling down our automotive original equipment manufacturer (OEM) side, which is the majority of our business. We believe the second quarter will be hard but are holding to our outlook.” [Fabricated Metal Products]
- “Business is still slow overall. Customers have not yet picked up orders at pre-pandemic levels.” [Apparel, Leather & Allied Products]
- “Overall, things feel more stable in the first quarter 2023 than they did throughout 2021-22. Customer demand is — as expected — growing well, and the overall supply environment is far better than the previous two years. This is not to say there are not challenges; there absolutely are. However, there are fewer issues cropping up each week, and supply challenges are generally more like the ‘typical’ issues we experienced before the pandemic. We are closely monitoring the global banking situation, but no impacts have been experienced or are expected at this time. Ongoing tensions between the U.S. and China are another issue to watch.” [Miscellaneous Manufacturing]
- “New orders are starting to soften and supplier deliveries are improving slightly. This is allowing us to reduce (our) backlog and build a buffer in some categories. The supply chain disruption — particularly in electronics — is still significant compared to pre-pandemic conditions.” [Electrical Equipment, Appliances & Components]

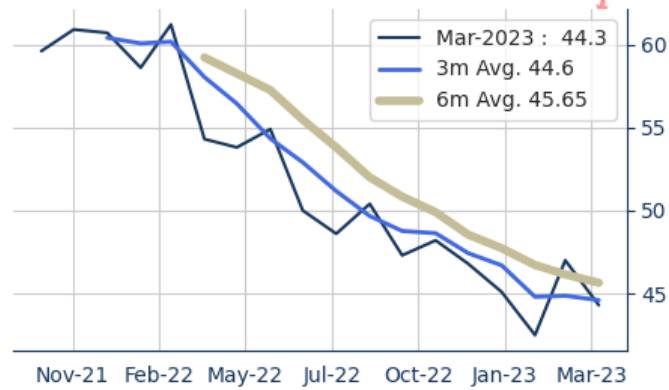
- “Overall, business continues to remain strong. We are still experiencing supply chain issues on several indirect supplies.” [Primary Metals]

SOURCE: ISMWorld.org

New orders

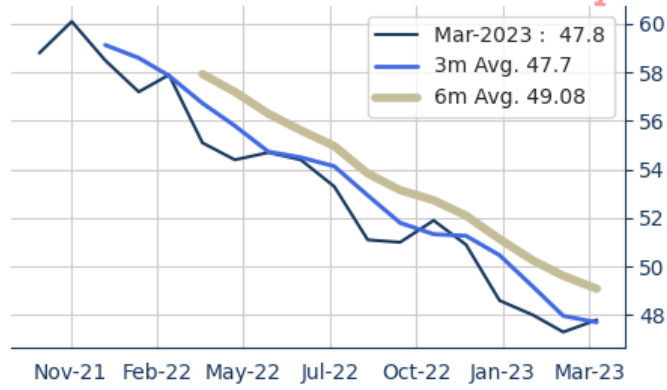
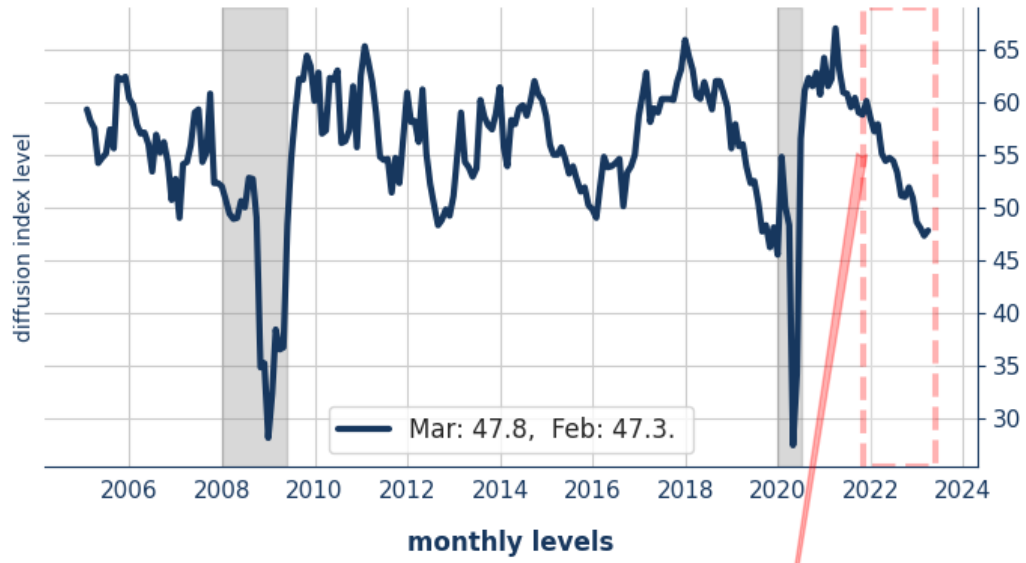


monthly levels



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

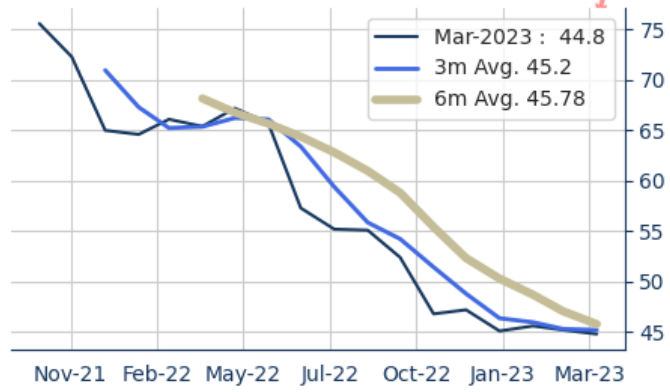
Production



Employment

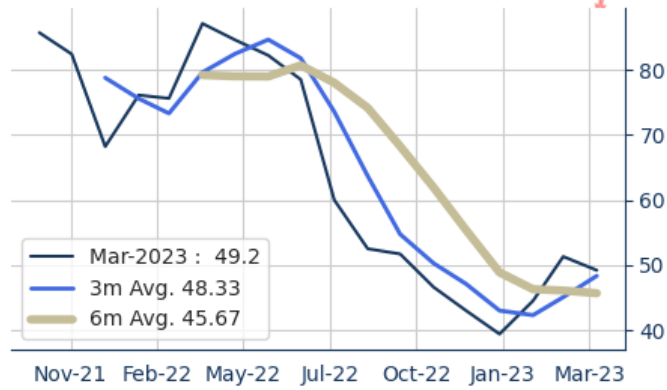


Supplier



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

Prices paid



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

ISM Manufacturing Survey	Mar-23	Feb-23	Jan-23	3m. avg.	6m. avg.	12m. avg.	2022	5y
ISM PMI	46.30	47.70	47.40	47.10	48.10	50.90	53.51	54.70
New orders	44.30	47.00	42.50	44.60	45.60	48.20	51.60	55.50
Production	47.80	47.30	48.00	47.70	49.10	51.10	53.38	55.30
Employment	46.90	49.10	50.60	48.90	49.40	49.90	51.18	50.80
Supplier	44.80	45.20	45.60	45.20	45.80	52.30	57.34	60.60
Inventories	47.50	50.10	50.20	49.30	50.70	52.80	53.98	51.30
Inventories of Customers	48.90	46.90	47.40	47.70	46.90	42.20	38.53	39.30
Prices paid	49.20	51.30	44.50	48.30	45.70	57.00	64.77	63.30
Backlog orders	43.90	45.10	43.40	44.10	43.20	48.50	52.60	53.70
Export orders	47.60	49.90	49.40	49.00	48.00	49.50	50.93	51.70

Imports	47.90	49.90	47.80	48.50	48.00	49.90	51.26	51.70
# Industries Reporting Growth	nan	4.00	2.00	3.00	4.40	9.00	11.50	12.20
# Reporting New Orders	nan	3.00	0.00	1.50	2.00	5.00	7.42	10.20
Manuf New Orders % Better	nan	21.30	15.40	18.40	16.70	18.70	21.19	29.10
Manuf New Orders % Same	nan	54.60	50.30	52.40	55.30	59.30	60.85	53.00
Manuf New Orders % Worse	nan	24.10	34.30	29.20	28.00	22.00	17.96	17.90
New Orders Less Inventories	-3.20	-3.10	-7.70	-4.70	-5.00	-4.50	-2.38	4.20

Source: Institute for Supply Management