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Markit Economic Research

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US manufacturing

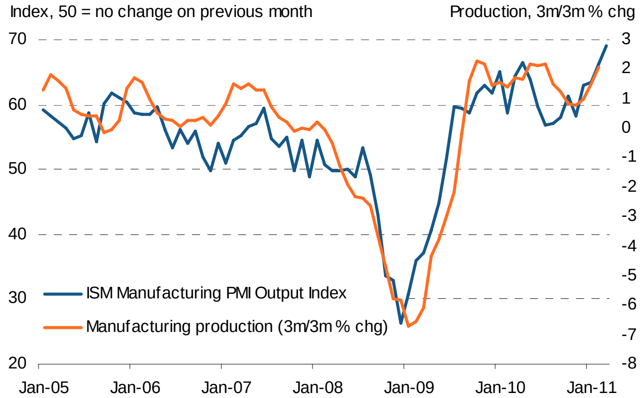
Manufacturing PMI slips from near-record peak due to slower growth of new orders. But output and employment continue to surge higher.

- **PMI drops from 61.4 in February to 61.2 in March.**
- **Output growth accelerated but new orders slowdown suggests growth may have peaked.**
- **Job creation eases only slightly from February's 28-year peak.**
- **Supply chain delays on the rise.**

Production booms

US manufacturing continued to boom in March. The headline PMI eased only slightly from the post-recession high seen in February and the survey's Output Index, which correlates well with industrial production, rose to show the strongest growth for over seven years. The index is consistent with manufacturing production rising by 3% on a 3m/3m basis in March, and suggests that the sector will have provided a strong contribution to GDP growth in Q1.

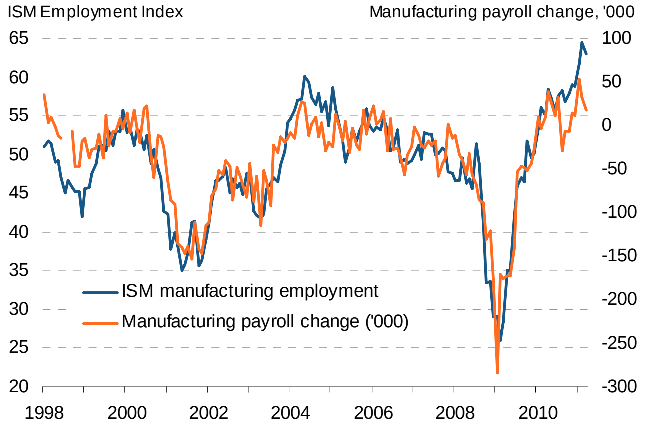
ISM survey and manufacturing production



Surge in job creation

Encouragingly, the survey's Employment Index held close to February's 28-year high, consistent with manufacturing payrolls rising at a monthly rate of around 80,000. This is well above the recent reading from the non-farm payrolls data, which averaged 34,000 in the first three months of this year, and the close historical relationship of the PMI Employment Index with payrolls leads us to believe that payroll numbers are once again providing a misleading signal of the strength of the labour market. We expect to see some upward revisions to these official data in coming months.

Manufacturing payrolls



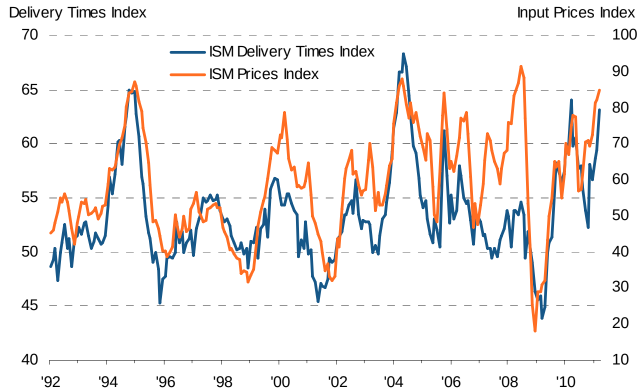
Supply chain delays on the rise

It may be tempting to blame the March dip in the PMI on production being constrained by supply shortages arising from the crisis in Japan, but this is not likely to be the case. Although manufacturers reported a worsening of supplier performance (a greater incidence of delays has been reported on only one other occasion since mid-2004), the dip in the PMI was largely attributable to a 4.7 index points fall in the survey's forward-looking New Orders Index, which should not be affected by deliveries, rather than a hit to production (which, as already noted, grew at the fastest pace since January 2004). That's not to say that production may not be affected in coming months by supply chain problems emanating from Japan, but just that production does not seem to have been affected in March.

Inflation worries

The lengthening of delivery times may be more worrying, however, from a price perspective. Longer deliveries tend to be associated with suppliers being able to negotiate higher prices, and the March survey showed manufacturers input prices rising at the fastest rate since July 2008. If delays continue to build, prices may well rise further, adding to pressure on consumer price inflation, which rose to a ten-month high of 2.1% in February.

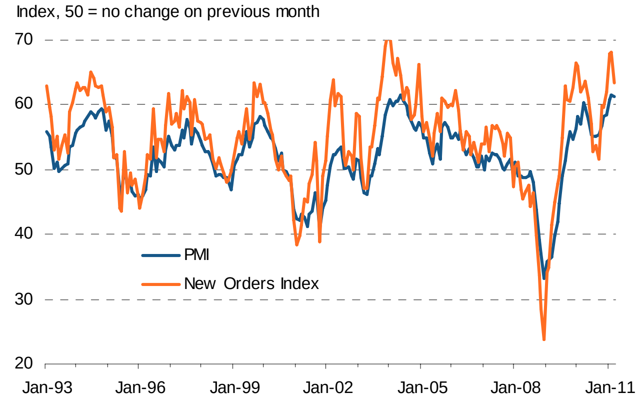
Supply chain delays and prices



Growth may have peaked

The dip in the new orders index (the largest decline since December 2008) suggests that February may have represented the peak in the rate of growth of production and jobs over this phase of the recovery. The possibility of production being constrained by supply shortages may exacerbate this trend. However, given the elevated level of the PMI in recent months (one has to go back to December 1983 to find a stronger PMI reading than the 61.4 recorded in February), the moderation in the rate of expansion seen so far is neither surprising nor alarming.

PMI and New Orders



Sources for all charts: ISM, Markit, Ecowin.

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