U.S. Data Review

- ISM manufacturing: return to contraction amid tariff-related uncertainty; prices jump
- JOLTS: job openings rate declined February, layoffs and quits rates unchanged below pre-pandemic levels

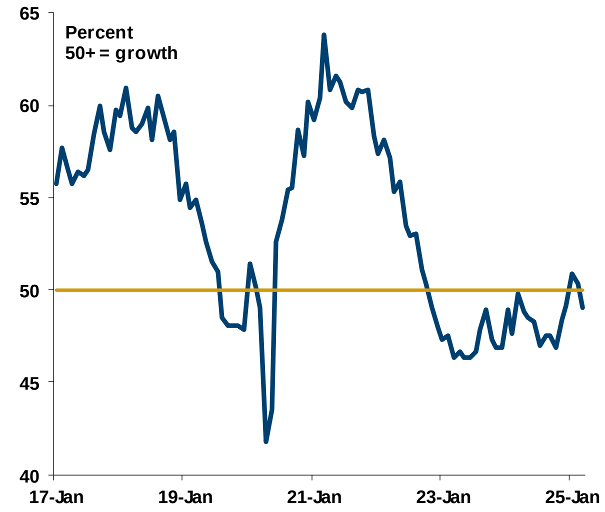
Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

ISM Manufacturing Index

- The ISM manufacturing index declined 1.3 percentage points to 49.0 percent, weaker than the Bloomberg median expectation of a 0.8 percentage point easing to 49.5 percent. The measure returned to contraction territory after back-to-back above-50.0 readings to open 2025 (chart, below left). The previous two readings had offered a glimmer of hope that the factory sector was beginning to turn a corner after 26 consecutive sub-50.0 readings from November 2022 through December 2024, but intensifying tariff-related uncertainty has dashed those hopes, with downside risks to the manufacturing sector – and broader U.S. economy – intensifying more recently.

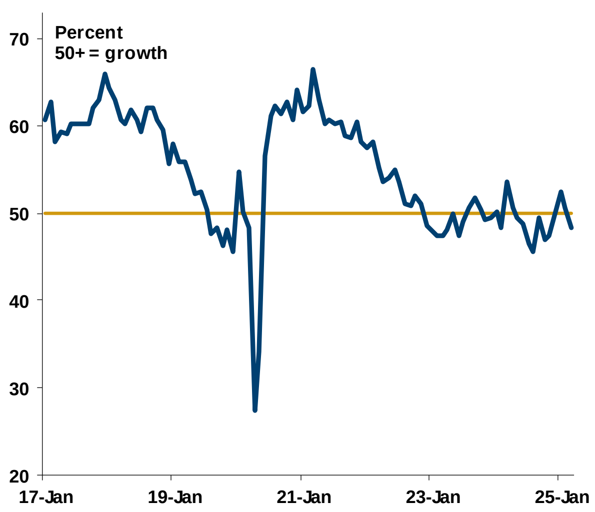
- Key components of the headline measure either fell below 50.0 percent in March (production) or slipped further into contraction territory (new orders and employment). Regarding production, the measure dropped 2.4 percentage points to 48.3 percent, with only five of 18 industries covered reporting growth in production (chart, below right). As noted by Timothy R. Fiore, Chair of the Institute for Supply Management, "Production levels in March showed a marked decrease for the first time in 2025, as order books remain weak and new orders continue to decline, causing head-count reductions and lack of capital investment." That sentiment carried over to the aforementioned components, with new orders dropping 3.4 percentage points to 45.2 percent and employment falling 2.9 percentage points to 44.7 percent (charts, next page). Only six industries reported order growth in March, while only one industry reported employment growth.

ISM Manufacturing: Headline Index



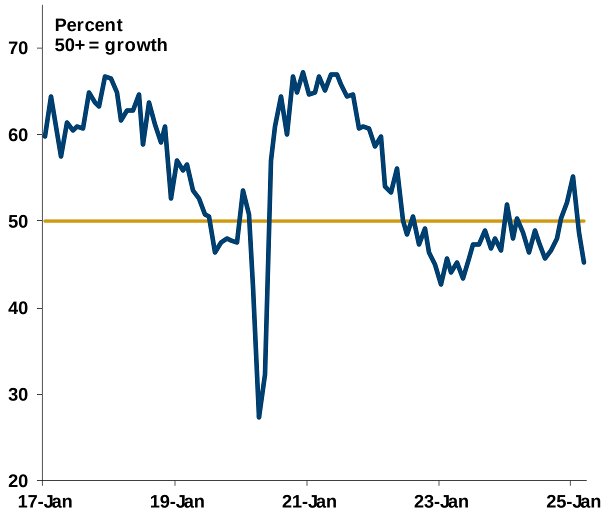
Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Production Index



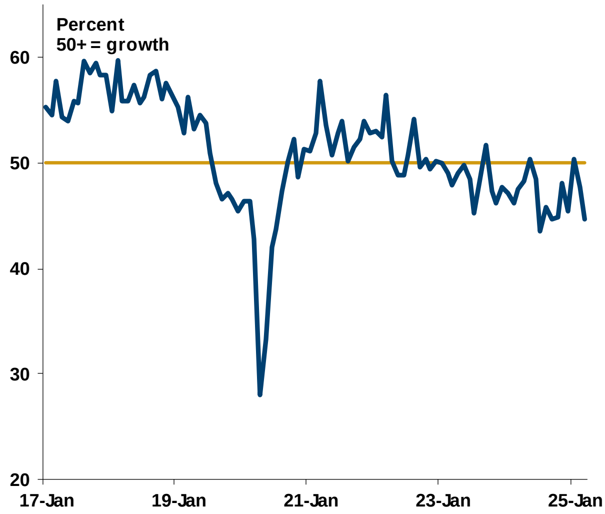
Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Employment Index

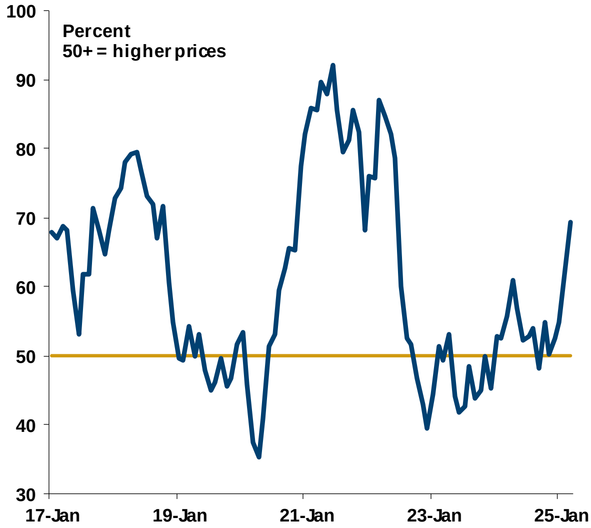


Source: Institute for Supply Management via Haver Analytics

- The supplier deliveries index dipped in March (-1.0 percentage point to 53.5 percent), with the above-50 reading indicating "slower" deliveries for the eighth month in the past nine. As indicated by Fiore, "Deliveries continued to be marginally strained as suppliers struggled to meet accelerated delivery requests from customers and as suppliers and panelists' companies negotiate who pays for current tariffs." Additionally, the inventory component jumped 3.5 percentage points to 53.4 percent, as firms apparently sought to front-run additional import duties.

- The prices index was above 50.0 percent for the sixth consecutive month, surging 7.0 percentage points to 69.4 percent, the highest reading since an observation of 78.5 percent in June 2022 (chart, right). 46 percent of companies reported paying higher prices in March, up from 31 percent in February. The latest shift suggests a significant impact on the pricing environment from both implemented and proposed levies and giving credence to recent discussion about stagflation potentially emerging in the U.S. if the economy were to slow further.

ISM Manufacturing: Prices Index

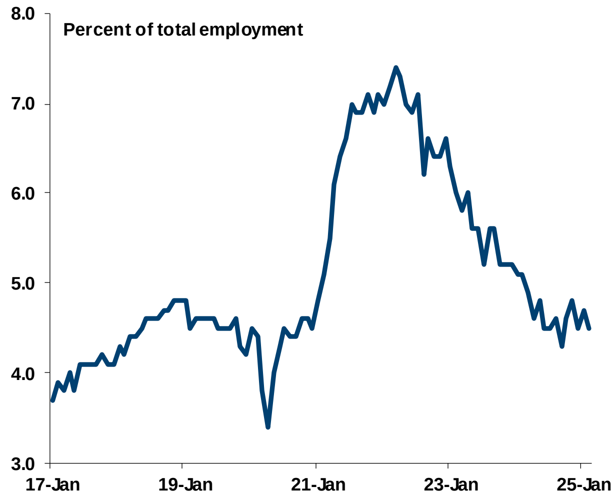


Source: Institute for Supply Management via Haver Analytics

Job Openings & Labor Turnover

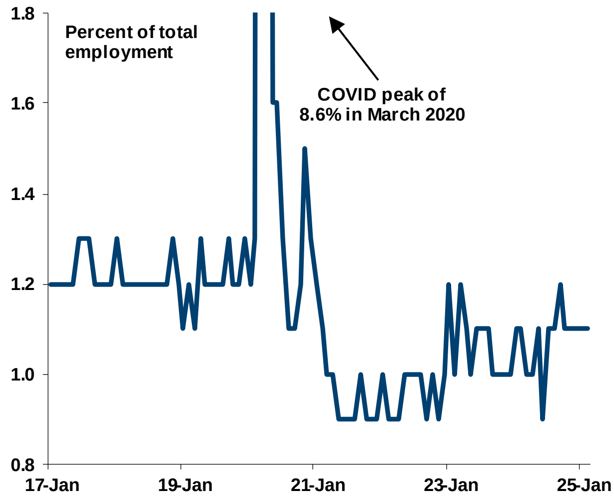
- Job openings, a proxy measure for labor demand, fell by 194,000 to 7.568 million in February from an upwardly revised reading in the prior month (7.762 million in January versus a preliminary estimate of 7.740 million). Openings are now well below the record high of 12.134 million recorded in March 2022, a period when unusually strong demand was generating significant wage pressure. Currently, Fed officials view openings as suggestive of a labor market in better balance – akin to that in 2018-19 (prior to the onset of the COVID pandemic). Correspondingly, the job openings rate (job openings as a share of total employment plus job openings) eased 0.2 percentage point to 4.5 percent (versus a record of 7.4 percent in March 2022; chart, next page, left).

Job Openings Rate



Source: Bureau of Labor Statistics via Haver Analytics

Layoffs & Discharges Rate

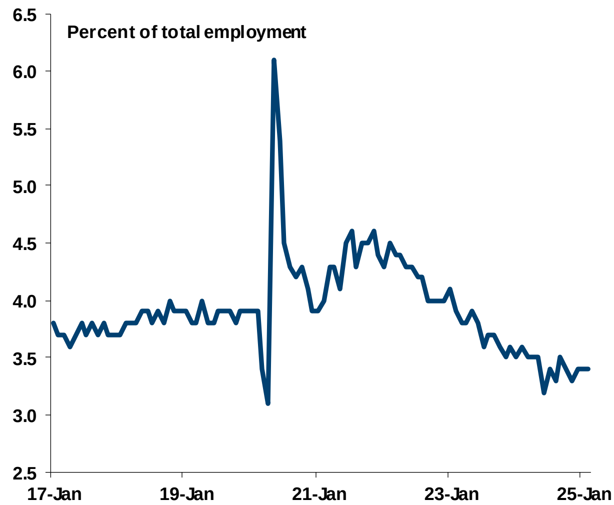


Source: Bureau of Labor Statistics via Haver Analytics

- While openings have fallen, firms have (for the most part) maintained current headcounts Although layoffs and discharges ticked up in February (+116,000 to 1.790 million), they still remained low from a longer-term perspective. Scaled to total employment, the layoffs and discharges rate held at 1.1 percent for the fifth consecutive month (2018-2019 range of 1.1 to 1.3 percent; chart, above right).

- Maintenance of headcounts and declining openings largely align with sluggish hiring. Hires rose modestly in February, increasing only 25,000 to 5.396 million. Resultantly, the hires rate stood pat at 3.4 percent for the third consecutive month, a pace below what was seen just prior to the onset of COVID (2018-2019 range of 3.7 to 4.0 percent; chart, right).

Hires Rate



Source: Bureau of Labor Statistics via Haver Analytics

- Quits, which provide insight to employee views on labor market strength by indicating willingness to leave current positions to seek better, more lucrative opportunities elsewhere, fell by 61,000 to 3.195 million. Workers appear keenly aware of the easing in underlying labor market conditions, with the latest observation off the record high of 4.499 million in March 2022 and in the lower end of observations directly preceding the pandemic. The quits rate, meanwhile, was unchanged at 2.0 percent in the latest month -- off the record high of 3.0 percent and in the low end of the 2018-2019 range (2.0 to 2.4 percent). In other words, workers seem less confident in their ability to find new jobs and are sticking to their current positions.

- While the latest JOLTS report had pockets of weakness (e.g., hiring), it still suggested a labor market on solid footing wherein underlying supply and demand dynamics are in balance. With that said, the data are lagged by several months (a report for February) and therefore don't capture potential disruptions top the labor market associated with tariff-related uncertainty. Thus, in a rapidly evolving environment with firms potentially preparing for economic slowdown, we hesitate to assign significant weight to this report in informing our current view on the labor market.