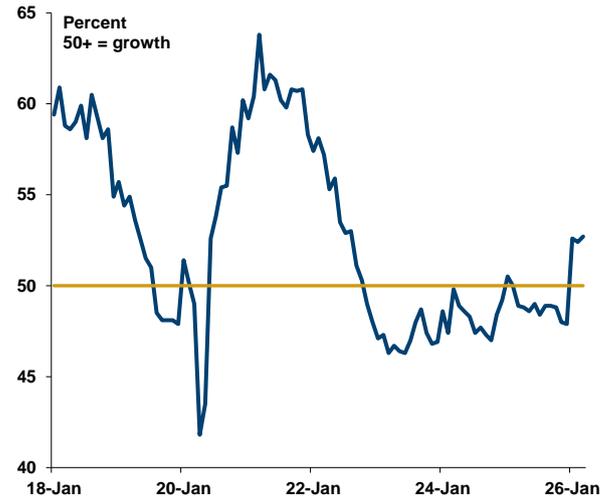


- In the aggregate, the results for the first two months of Q1 suggest that real consumer spending in the GDP report is probably on track for growth in the vicinity of 1-1/2 percent (annual rate). With that said, we anticipate that the surge in consumer energy prices in March (primarily gasoline and home heating oil) tied to the unfolding Iran conflict will have a constraining effect on outlays in discretionary areas – with effects intensifying in Q2 contingent on the duration of the conflict. Thus, the path of consumer spending in the months ahead is highly uncertain.

ISM Manufacturing Index

- The Institute for Supply Management’s manufacturing PMI surprised to the upside in March, rising 0.3 percentage point to 52.7 percent (its highest read since August 2022). The latest move was a better result than the median projection of a downtick to 52.3 percent from the Bloomberg economist survey and leaves the metric in expansion territory for the third consecutive month following a 10-month string of contractionary observations. That being said, there were some pockets of weakness evident in the anecdotal elements of the latest report, with Susan Spence, Chair of the Institute for Supply Management Manufacturing Business Survey Committee, noting: “In March, 64 percent of comments overall were negative. Among the negative comments, about 20 percent cited tariffs and about 40 percent the war in the Middle East. (Some panelists referenced both topics within a single comment or in mixed sentiment.)”

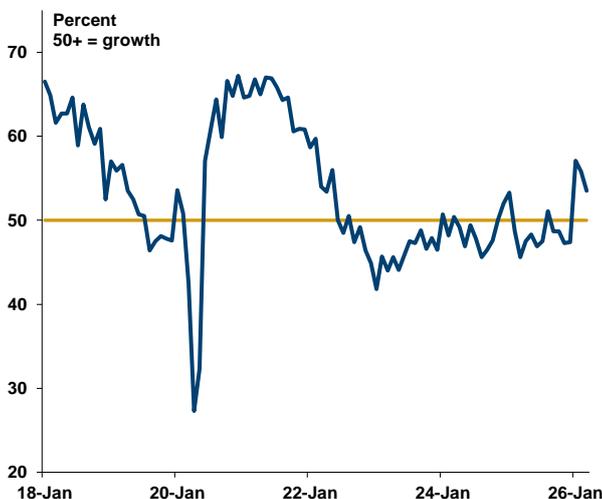
ISM Manufacturing: Headline Index



Source: Institute for Supply Management via Haver Analytics

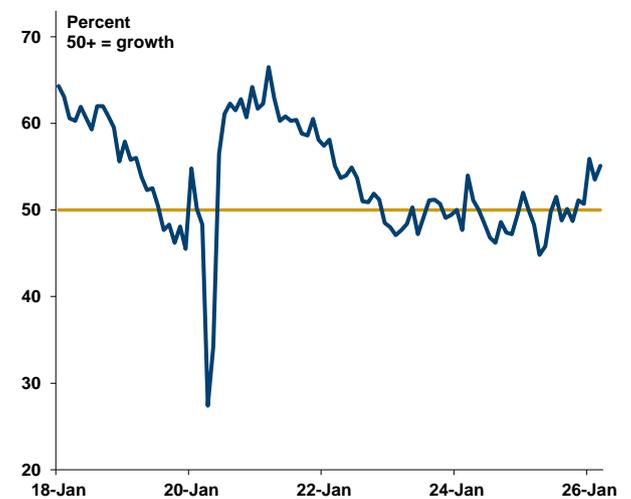
- Turning to the internals of the report, performance across components was mixed. Of the five subindexes that factor into the calculation of the composite, three indicated expansion in March (unchanged from February). Among the more pronounced shifts, new orders eased 2.3 percentage points to 53.5 percent, its third straight expansionary read. “Demand sentiment was mixed, with a 1-to-1 ratio of positive to negative comments in March, a marked decrease from last month where there were two positive comments for every negative one,” stated Spence. Production, meanwhile, rose 1.6 percentage points to 55.1 percent, its fifth consecutive 50+ observation. Concurrently, the employment index indicated contraction for the 30th straight month (-0.1 percentage point to 48.7 percent). Manufacturing firms continue to exhibit caution in managing payrolls, with every comment on hiring being matched with 1.2 comments on reducing head counts.

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

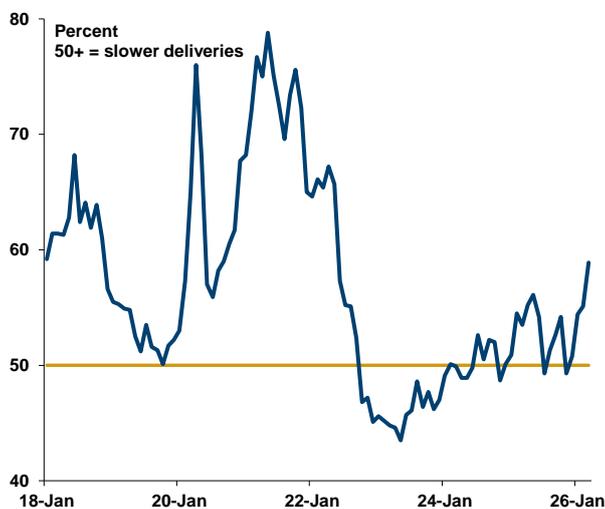
ISM Manufacturing: Production Index



Source: Institute for Supply Management via Haver Analytics

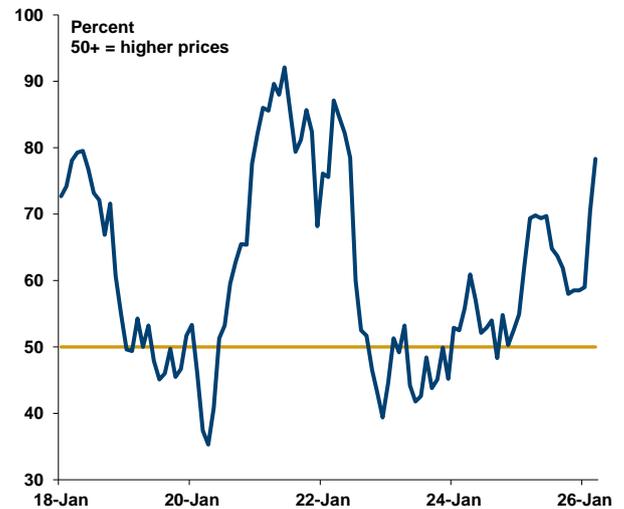
- Moving on to other key components, the inventories index declined 1.7 percentage points to 47.1 percent in the final month of Q1, its 11th consecutive read below the breakeven threshold (and 17th in the past 19). The supplier deliveries index, however, jumped 3.8 percentage points to 58.9 percent, indicating “slower” deliveries for the 14th time in the past 16 months (and the highest registered level since May 2022). While the nascent conflict with Iran has contributed to the recent energy shock, the effective closure of the Strait of Hormuz has also prevented the shipment of various other commodities, thus placing further strain on global supply chains.
- In what was likely the most notable (but unsurprising) development, the prices index surged 7.8 points to 78.3 percent in March – the 18th consecutive expansionary read and the highest observation since June 2022. A confluence of factors contributed to the recent jump: increases in steel and aluminum prices, the prevailing tariff agenda in place, and the recent oil shock stemming from the ongoing conflict with Iran. With an immediate resolution to both tariff policy and militaristic tensions not in sight, we suspect that higher input costs will pose a challenge for the factory sector for some time.

ISM Manufacturing: Supplier Deliveries Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Prices Index



Source: Institute for Supply Management via Haver Analytics