

ISM Manufacturing Rebounded into Expansionary Territory in March 2024

- **The ISM Manufacturing PMI came in at 50.3 in March 2024, strongest reading since September 2022**
- **New Orders and Production lead gains for March 2024 at 51.4 and 54.6, respectively**
- **Manufacturing cost pressures are back on the offensive with a 55.8 reading for March 2024**

The ISM Manufacturing PMI report for March 2024 jumped to 50.3, up from 47.8 in February. The ISM Manufacturing PMI diffusion index indicates the net percentage of manufacturers who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across the manufacturing sector. The March 2024 result is the first reading above the breakeven threshold of 50 since September 2022 (51.0) and achieved this result on the back of both strong current conditions and positive outlook indicators.

The New Orders component index of the ISM Manufacturing PMI re-entered expansionary territory with a reading of 51.4 for March 2024. Two of the first three months' surveys for 2024 have posted results above 50, suggesting that demand for goods among consumers may be heating up. Consumer spending had been driven by services demand for much of the past two years, but Durable Goods growth ended up outpacing Services spending at year-end 2023 according to the Bureau of Economic Analysis' GDP report.

Manufacturers appear to be keeping up with rebounding goods demand, as indicated by a sharp spike in the ISM Manufacturing PMI's Production component index. This sub-index posted a result of 54.6 for March 2024, representing the strongest monthly reading since June 2022 (54.9) and the largest monthly gain since January 2019 (ignoring the chaotic survey results produced during the pandemic's disruptions in early 2020). The strong showing from the survey's Production component comes in contrast to the still-contractionary Employment component index reading of 47.4 for March 2024. The implication here is that productivity among existing workers is on the rise for manufacturers and that automation technologies may be making headway in response to workforce availability constraints.

Commodity Prices for manufacturers continued their resurgence in March 2024, posting a reading of 55.8 for the month. This is the third consecutive month above the breakeven threshold of 50 for the Commodity Prices component index of the report, which spent most of 2023 in the low- to mid-40s range as the worst of the economy's inflationary pressures abated. But the renewed upward trend for manufacturers' costs to open this year should serve as a reminder that risks to progress on inflation remain. Federal Reserve officials continue to cite the need for further evidence that inflation is on a sustainable path toward their 2% consumer price inflation goal. Rising producer costs – which are inevitably passed on to consumers – makes that evidence less likely to surface in the next few months. Ultimately, the risks of inflation stalling in its downward trend support the “higher for longer” narrative regarding interest rates. PNC forecasts three (3) 25 basis point rate cuts by the Fed in 2024.

PNC Economics

economics@pnc.com

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