

U.S. Flash

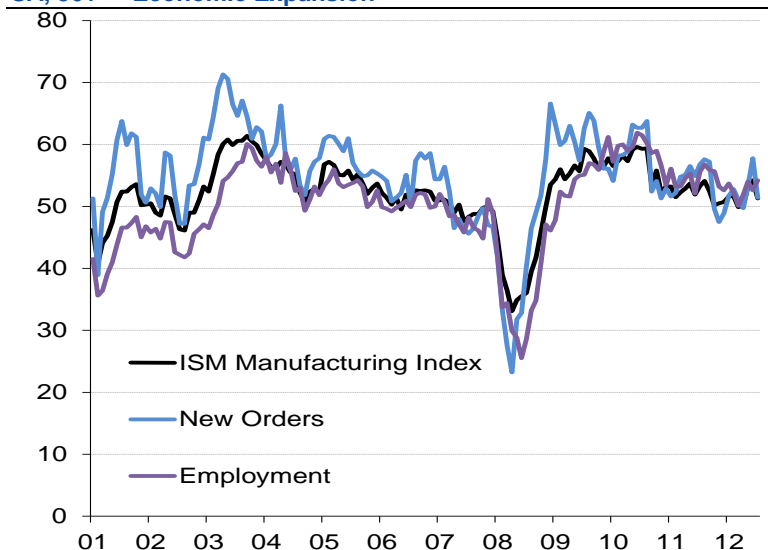
Manufacturing Activity Slows Despite Employment & Export Growth

- The ISM Manufacturing Index fell to 51.3, an unexpected decline from February
- New orders and production dip as manufacturing decelerates
- Employment and export orders grow despite the overall slow down

The ISM Manufacturing Index declined to 51.3 in March after a strong report in February as new orders and production falter somewhat. As expected, the first half of 2013 continues to be mixed in terms of industrial data as most manufacturing indices pointed to a better situation in March. However, the ISM figure decelerated by a sizeable amount on a heavy decline in new orders which fell 6.4 points to its lowest level since December of last year. Production also expanded at a slower rate, falling from 57.6 in February to 52.2 in March as an overall slowdown in output was noted from most industries. In regards to the first quarter however, both new orders and production are faring better than they had at the end of 2012, which sures up optimism that 2H13 should prove to be better for industrial and manufacturing growth. On the bright side, employment and new export orders accelerated in March. Employment rose 1.6 points to 54.2, its highest reading since June of last year and a strong gain despite the component's weakness in February. New export orders also grew by a substantial clip to 56.0, up 2.5 points and also reaching its highest level since April of last year. This is a marked improvement given the slow global recovery and may point toward a better outlook in terms of foreign demand for U.S. goods in the coming months.

Despite the deceleration in new orders and production, we do not expect the ISM manufacturing index to continue its decline much further as the underlying growth in the sector remains relatively strong despite some headwinds from spending cuts. With fundamentals like global demand and employment showing signs of improvement, it is unlikely that much of March's decline will persist in April.

Chart 1
ISM Manufacturing Index & New Orders
SA, 50+ = Economic Expansion



Source: Institute for Supply Management & BBVA Research

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