

ISM Manufacturing PMI Fell to 47.8 in February, Giving Back January's Gains

- **The ISM Manufacturing PMI came in at 47.8 in February 2024, giving back January's bounce**
- **New Orders fell back into contractionary territory with a 49.2 reading for February 2024**
- **Employment reading of 45.9 for February 2024, weakest since July 2023**

The ISM Manufacturing PMI report for February 2024 fell to 47.8, giving back the gains seen in January (49.1). 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 survey's topline result has not surpassed that breakeven threshold of 50 since September 2022. February's slide resulted from notable downshifts in the New Orders, Production and Employment.

Demand seen among manufacturers slipped in February, resulting in a survey result of 49.2 for the ISM Manufacturing report's New Orders component index. This is down from 52.5 in January, which was the strongest showing since May 2022 (55.1). February's slightly contractionary result is reflective of the caution that is likely to prevail among goods retailers in the months to come. Restrictive monetary policy (read: high interest rates) and tight lending conditions have been at work for more than a year now, and manufacturers' wares are much more dependent upon the financing that these conditions have effectively targeted. Volatility around the expansionary/contractionary threshold of 50 can be expected in the near term from the New Orders component of the ISM Manufacturing report as businesses work to balance the need to satisfy ongoing demand with the high & rising costs of doing so.

Inventory build has been a significant contributor to GDP results for the past two quarters, and looks to continue that in 2024Q1. The Inventories component index of the ISM Manufacturing PMI report came in at 45.3 for February 2024 – still contractionary, but still slightly higher than the year-end 2023 results for November (44.3) and December (43.9). Given the Fed's "higher for longer" rhetoric coupled with wage costs that are now outpacing inflation, manufacturers may be taking some risk off of the table by building inventories now – or at least not actively shrinking inventories – rather than waiting to see what the production cost environment could become toward mid-year. Consumer demand has shown no signs of slowing despite higher borrowing costs, ongoing inflation and diminished savings. So manufacturers should have little concern about getting stuck with warehouses full of unsellable product.

Commodity Prices for manufacturers came in at 52.5 for February 2024, posting a second consecutive result above the expansionary threshold of 50 for the first time since August & September of 2022 (52.5 and 51.7, respectively). The Commodity Prices component index of the report spent most of 2023 in the low- to mid-40s range, subduing concerns regarding upstream inflationary pressure. But two months of higher readings for the ISM Manufacturing Index's Commodity Prices category to open this year should serve as a reminder that risks to progress on inflation remain. Should manufacturers' cost pressures be sustained over the next couple of months and demand sees increased momentum, supply-side inflationary pressure as a result of producers passing their own costs on to consumers could easily stall progress toward the Fed's goal of a sustained 2% pace of inflation.

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