

ISM Manufacturing Pulled Back to 49.2 in April 2024

- **The ISM Manufacturing PMI retreated to 49.2 in April 2024, down from 50.3 in March**
- **Manufacturing cost pressures continued to increase in April 2024, highest Commodity Prices result since June 2022 at 60.9**
- **New Orders and Production gave back gains in April 2024 after solid jumps in the month prior**

The ISM Manufacturing PMI report dipped below the dividing line between expansionary and contractionary conditions in April 2024. The topline index came in at 49.2 for the month, down modestly from the 50.3 result posted in March – itself the first expansionary reading since September 2022. 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. Both New Orders and Production sub-indices contributed to April's pullback.

The New Orders component index of the ISM Manufacturing PMI continued to tiptoe along the dividing line between expansion and contraction in April 2024, posting a reading of 49.1 for the month. New Orders being reflective of anticipated demand in the months to come, this component's volatility around the breakeven threshold of 50 (Jan. & Mar. > 50; Feb. & Apr. < 50) align with uncertainty regarding broader expectations for the U.S. economy. GDP growth slowed to open 2024, according to the Bureau of Economic Analysis' first quarter report released last week. With monetary policy set to remain contractionary with higher interest rates for months to come, continued slowing in economic activity – and therefore New Orders for manufacturers – is to be expected. The U.S. consumer has refused to give up their spending habits, though, creating a demand forecasting conundrum for retailers and hence a difficult-to-predict straddling of expansionary & contractionary conditions for the ISM Manufacturing PMI's New Orders component.

The ISM Manufacturing PMI's Production component index retreated somewhat in April 2024, but managed to remain in expansionary territory at 51.3 for the month. While consumer prices continue to rise and borrowing costs remain high, household spending remains robust and manufacturers are therefore still forging ahead to service demand through current Production activity. The Inventories and Customer Inventories component indices of the ISM Manufacturing PMI report came in at 48.2 and 47.8 in April 2024, both having posted contractionary readings for most of the past year. Current Production activity, therefore, is reflective of retailers maintaining a cautious outlook and stocking shelves only with an eye toward the building potential for slower demand, preferring not to get caught with excess product inventory if and when demand slows.

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Commodity Prices for manufacturers continued their resurgence in April 2024, posting a reading of 60.9 for the month. This is the highest reading for the Commodity Prices component index of the report since June 2022 and has gained momentum toward the excessive price pressures seen at the worst of what is still an ongoing battle against inflation, when monthly Commodity Prices readings from the ISM Manufacturing PMI report routinely exceeded 70. Manufacturers' own higher costs will inevitably be passed on to consumers, and operate with a lag as new pricing realities form around those rising costs. The Fed's job of re-establishing a sustainable 2% pace of consumer price inflation therefore continues to become more difficult with the resurgent upstream price pressures facing the U.S. economy. PNC continues to forecast two (2) 25 basis point rate cuts from the Fed in 2024, with three (3) more to follow in 2025. Inflationary pressure coming from goods producers appear set to put that outlook to the test.

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