ECONOMIC UPDATE

REGIONS

April 1, 2026

Data Summary: March ISM Manufacturing Index; February Retail Sales

The **ISM Manufacturing Index** rose to 52.7 percent in March, above the consensus forecast of 52.3 percent but just shy of our forecast of 52.8 percent. This marks a third straight month in which the headline index was above the 50.0 percent break between contraction and expansion and puts the ISM's index more in line with other indicators showing growing momentum in the manufacturing sector over the past several months, particularly orders for core capital goods. That said, the conflict in the Middle East has led to sharply higher energy prices and has disrupted global shipping flows, adding to ongoing concerns and uncertainty around the path of tariff rates. Moreover, the spike in energy prices over the past few weeks adds to what for some time had been persistent and broadly based upward pressure on input prices, suggesting that either margins will come under further pressure or firms will become more aggressive in attempting to pass on higher input costs in the form of higher output prices. It is too soon to make a definitive call, but at the very least higher energy costs and disruptions in shipping flows pose a threat to the fledgling rebound in the manufacturing sector.

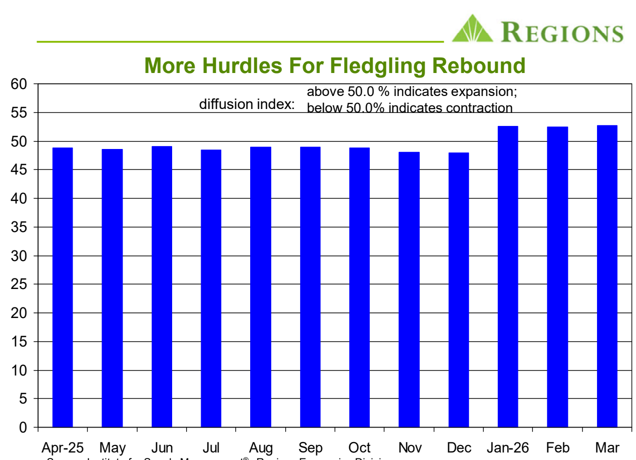
It is not surprising that the conflict in the Middle East dominated the comments from survey respondents passed along by ISM. Many firms noted already seeing impacts in the form of higher energy costs and supply chain disruptions. Though some respondents pointed to benefits from a less punitive tariff structure, others cited trade policy as an ongoing source of uncertainty. Though we'd caution against making any sweeping generalizations, one comment nonetheless touched on a risk we have cited, which is that firms may rein in capital spending until there is some sort of resolution to the conflict in the Middle East and more clarity around the ultimate path of tariffs which, the Supreme Court decision notwithstanding, remains very much up in the air.

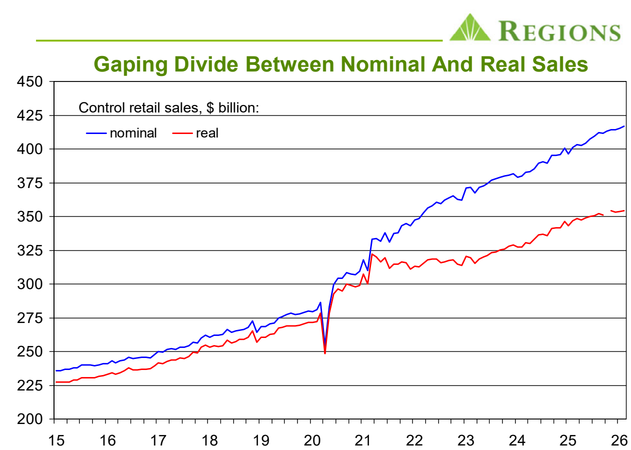
Thirteen of the eighteen broad industry groups included in the ISM survey reported growth in March, the most in any month since June 2022. Though settling back a bit as we anticipated, the new orders index came in at 53.5 percent in March, and the firm level details remain considerably more constructive than had been the case coming into this year. At the same time, despite a further increase in production, backlogs of unfilled orders grew further in March. Combined with firms continuing to assess customer inventories as being too low, this suggests support for orders, output, and employment in the manufacturing sector in the months ahead though this potential has to be put in the context of the effects of the conflict in the Middle East and lingering uncertainty around trade policy.

The places we can see the effects of the conflict in the Middle East are the supplier delivery times index, which indicated a substantial slowing in supplier delivery times in March, with some survey respondents noting lead times were already being impacted. The index of new export orders dipped back below the 50.0 percent mark, which merits attention given that foreign economies figure to be, at least initially, more impacted by the effects of the conflict. Additionally, the prices paid index jumped to 78.3 percent in March, the highest reading since June 2022, with 59.4 percent of firms reporting paying higher input costs, the highest share since June 2022. It is important to note, however, that even if there were a resolution to the conflict that led to a sharp reversal in energy prices, that still leaves us with what had been broadly based price pressures for other inputs, a point which seems to be somewhat overlooked.

Total **retail sales** rose by 0.6 percent in February, with ex-auto sales up 0.5 percent and control retail sales, a direct input into the GDP data on consumer spending on goods, also up 0.5 percent. In each instance, the results were above the consensus forecast but below our forecast. As is usually the case, one can point to a few seeming oddities in the retail sales data, including a much smaller increase in motor vehicle dealer revenue than suggested by the sharp increase in unit sales of new vehicles and a reported 1.0 percent decline in grocery store sales despite a jump in prices. More broadly, however, the March retail sales data are consistent with other indicators showing steady growth in consumer spending. The disruptions stemming from January's atypically harsh winter weather were made up for in February, with ten of the thirteen categories for which data are reported showing higher sales. Larger income tax refunds than seen last year and labor earnings that continue to grow at a rate faster than inflation were supportive of spending in February.

Higher gasoline prices will test that support, with retail gasoline prices up sharply since the start of the conflict in the Middle East. This only adds to the ongoing impact of cumulative price increases seen over the past few years, and more funds from tax refunds being diverted to gasoline/energy means less support for discretionary spending. We still see the labor market as being the key, and barring a spike in layoffs we expect continued, if somewhat slower, growth in consumer spending.





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