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ISM Manufacturing Survey Falls to 49.0, Disappointing on All Fronts as Tariff Realities Manifest

- **The ISM Manufacturing PMI decreased to 49.0 in March 2025, bearing out the expected impacts of tariff action**
- **New Orders for March 2025 posted a second consecutive sharp drop, falling to 45.2 – weakest since May 2023**
- **Production slipped back into contractionary territory at 48.3 for March 2025**
- **Commodity Prices revealed further upward pressure facing manufacturers with a rise to 69.4, the highest reading since June 2022**

The ISM Manufacturing PMI fell to 49.0 for March 2025. The downbeat narratives surrounding tariff rhetoric and actions are on display with the March 2025 report, with manufacturers' cost pressures accelerating, Production declining, and New Orders drying up. Both manufacturers' own inventories and their customers' inventories saw gains in March 2025's report, further supporting the scenario where recent hints of a manufacturing turnaround may well have simply been the result of businesses stocking up in order to get ahead of tariff impacts. Whether U.S. manufacturers' response to the new production dynamics can stabilize industrial trends remains to be seen, but these earliest of returns are not encouraging.

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. March 2025's topline reading of 49.0 is a return to contraction after two months above the expansionary threshold and what looked like an encouraging trend through the second half of 2024.

The ISM Manufacturing PMI's Employment component index fell further into contractionary territory in March 2025 with a reading of 44.7 for the month. This follows February's 47.6 result after the Employment component index managed a minimal expansionary reading of 50.3 to open the new year. Hiring trends among manufacturers will be the truest test as to whether the industry's response to tariff actions represent the renaissance envisioned by the Trump Administration's policy designs, or if U.S. industry is perhaps structurally limited in its capacity to fill the void created by higher-priced imported goods.

At 45.2, New Orders for manufacturers posted its weakest reading since May 2023 (43.4). Results for the New Orders component of the ISM Manufacturing PMI offer perspective on what direction the U.S. manufacturing sector will follow in the months to come. After New Orders moved strongly above the expansionary threshold of 50.0 through 2024Q4, the February and March readings reveal that the short-lived trend was preparation for subsequent near-term weakness as the rhetoric surrounding tariffs became action and the realities of higher

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manufacturers' costs hit home. While New Orders and Production declined in the March 2025 ISM Manufacturing PMI report, the Inventories and Customers' Inventories sub-indices were both stronger.

Still more concerning is the March 2025 ISM Manufacturing PMI survey's Commodity Prices reading of 69.4. This is the highest Commodity Prices result since June 2022 (78.5) and extends the trend of accelerating costs for manufacturers to four months. Inflation woes have remained stubbornly entrenched despite the Federal Reserve's monetary policy words and actions, with the Fed's preferred inflation metric still well above the 2.0% year-over-year average target (2.79% in January 2025). Higher costs for manufacturers, as demonstrated by the March 2025 ISM Manufacturing PMI's Commodity Prices sub-index, suggest that renewed upstream price pressure will be pushing consumer prices higher through at least mid-year.The Federal Reserve's job of balancing continued economic expansion with the need for higher rates to tame inflation remains an unenviable one.

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