

Economic Indicator — March 3, 2025

ISM Stays Above 50, Thanks to Lift from Long Wait Times

Summary

Manufacturing ISM was in expansion in February, but only barely so at 50.3. A jump in supplier deliveries kept the headline above 50. Three of the five components that feed into the headline were in contraction, and prices paid jumped to its highest since 2022.

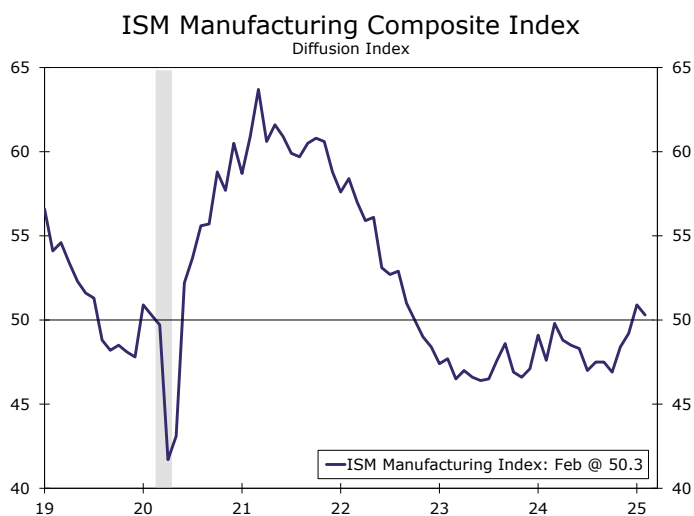
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Source: Institute for Supply Management and Wells Fargo Economics

Salvation in Long Wait Times

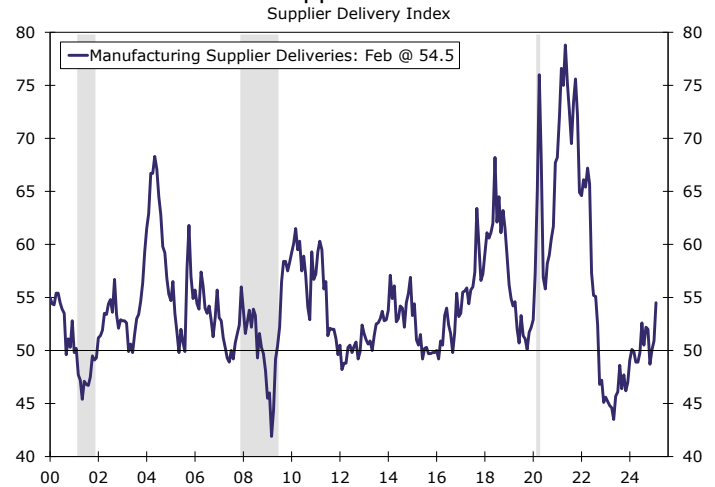
The ISM manufacturing index was in expansion if only barely so at 50.3, although a careful reading of the underlying components suggests this is hardly in an expansionary mood in the factory sector ([chart](#)). New orders fell 6.5 points to 48.6, inventories remain in contraction at 49.9 and employment fell 2.7 points to return to contraction territory at 47.6 in February. These three components all feed into the headline index which was only able to boast a reading north of 50 by virtue of two other components. The production index fell 1.8 points, but was still expansionary at 50.7, but the real lift came from supplier deliveries which shot up to 54.5 ([chart](#)). This was the broadest indication of wait-times since the supply chain disruption year of 2022. Longer wait times for supplier deliveries are additive because in normal times such a development is associated with a factory sector that cannot keep up with demand. Since that is not an accurate characterization of what is contributing to wait times today, the "expansionary" signal from the ISM should, for this month at least, be taken with a massive grain of salt.

Linkages Between Tariffs and Prices

The prices paid component jumped to its highest reading also since 2022 as the drumbeat of tariff developments continues to dominate the news cycle ([chart](#)). A 30-day stay of execution for new tariffs on Canada and Mexico runs out tomorrow. Barring another last minute swerve like last month, inbound goods from Mexico and non-energy goods from Canada will bite. Existing tariffs on China will also go up an additional 10%. In his first term, Trump's tariffs impacted roughly 16% of imports according to our estimates. Effective tomorrow, an additional 42% of imports will be subject to tariffs, meaning more than half the total goods entering the United States will be subject to tariffs.

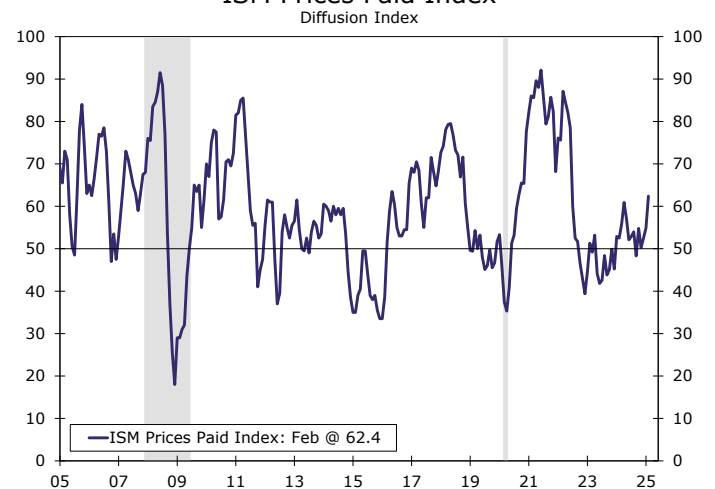
The manufacturing sector has struggled for the past few years with a higher interest rate environment. Policymakers at the Federal Reserve may opt to look through price increases caused by tariffs, but manufacturers do not have the luxury of looking through their own costs when they try to calculate their profit margin. Eight out of ten selected industry comments made specific reference to tariffs and their negative impact on their business. Examples include: "customers are still very hesitant to commit" - primary metals, "outlook on the durables side growing more pessimistic" - plastics and rubber. Perhaps none put the issue more succinctly than a respondent in the machinery space who put it bluntly, "The incoming tariffs are causing our products to increase in price."

ISM Supplier Deliveries



Source: Institute for Supply Management and Wells Fargo Economics

ISM Prices Paid Index



Source: Institute for Supply Management and Wells Fargo Economics

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