ECONOMIC UPDATE

REGIONS

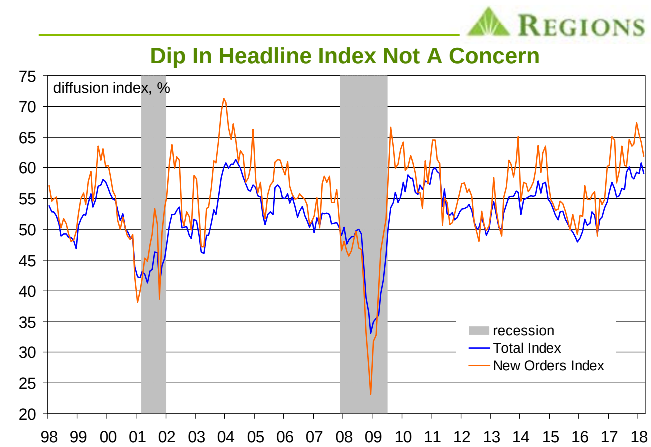
April 2, 2018

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

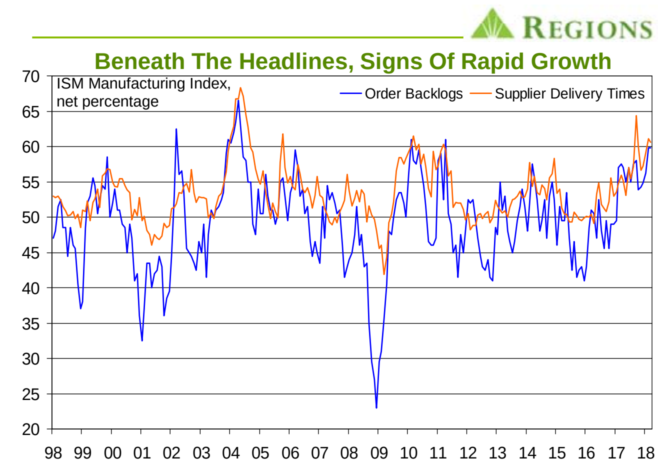
March ISM Manufacturing Index: Dip In Headline Index Not A Concern

- The ISM Manufacturing Index fell to 59.3 percent in March from 60.8 percent in February
- The new orders component fell to 61.9 percent, the employment component fell to 57.3 percent, and new export orders rose.

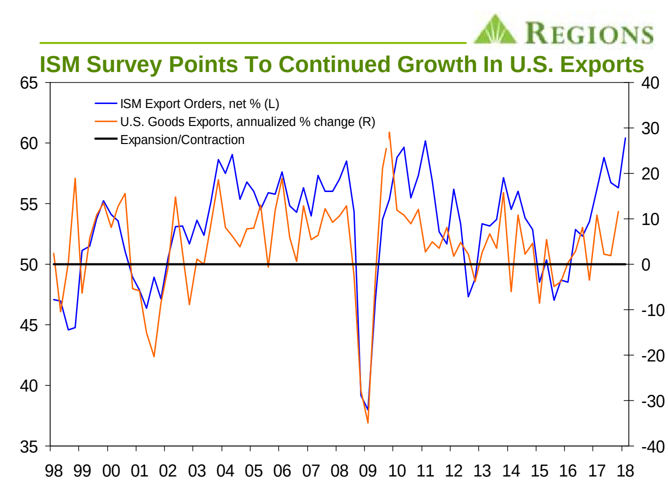
If you are whistling while you just happen to be walking past a graveyard, it doesn't mean you're whistling past the graveyard even though, you know, you kind of are. Which is our way of saying that it's okay to not be concerned over the dip in the ISM Manufacturing Index in March. At least that's what we think we're saying. In any event, the ISM Manufacturing Index dipped to 59.3 percent in March from February's 60.8 percent print. We and the consensus expected a reading of 60.0 percent in March. Our premise was that a few of the underlying components were due to settle back after hitting some lofty heights over recent months, and we thought such a settling back would imply a more sustainable pace of expansion in the factory sector. While we were a bit off on some of the details, directionally we were correct. March is the 19th consecutive month in which the headline index has been above the 50.0 percent break between contraction and expansion, and the details of the March data point to the steady growth in the factory sector seen over the past several quarters being sustained. This is not to say, however, there are not clouds forming on the horizon, most notably changes in U.S. trade policy that are likely to prompt counter measures from U.S. trading partners that could have an adverse impact of domestic manufacturing.



Of the 18 industry groups included in the ISM survey, 17 reported expansion in March with only the apparel, leather, & allied products group reporting diminished activity. It is interesting to note that over the past 19 months in which the headline index has indicated growth in manufacturing activity, the number of industry groups reporting growth in a given month has risen steadily – in September 2016, the first month the headline index climbed back over the 50.0 percent mark, only seven industry groups reported a higher level of activity. It is in this sense that the ongoing expansion can be considered to have become increasingly broad based. While comments from survey respondents indicate steady growth in demand, there are some concerns coming to the surface. Supply/capacity constraints were mentioned by more than a few respondents; while such constraints can be the trigger for increased capital spending, in the near term they are concerning as they may lead to missed/delayed sales. Of more prominence in the March comments, however, were tariffs and their potential impact on pricing and on demand. Though not apparent at this point in time, the effects of the tariffs represent a source of considerable uncertainty in several industry groups.



For now, though, demand remains robust. While settling back to 61.9 percent in March from a lofty 64.2 percent reading in February, the new orders index points to solid growth in orders. Indeed, 15 of the 18 industry groups reported higher orders in March and only one reported lower orders. The index of current production followed a similar path, declining between February and March but at 61.1 percent in March still indicating steady growth in output. Of the 18 industry groups, 14 reported higher production in March and two reported lower output. The employment index slipped to 57.3 percent in March, with 12 of the 18 industry groups reporting higher head counts and only one reporting a decline. Tariff talk and uncertainty notwithstanding, the index for new export orders came in at 58.2 percent in March, down from 62.8 percent in February but nonetheless the 25th consecutive month in which new export orders have grown. As seen in our bottom chart, the ISM's gauge of export orders has been a nice indicator of growth in U.S. exports of goods as reported in the GDP data.



The March reads on supplier delivery times and order backlogs point to some growing stresses in the factory sector – growing order backlogs are consistent with comments on capacity constraints. Those are good problems to have, but only up to a point given that inadequate capacity can choke off sales and lead prospective customers to look elsewhere. Elsewhere in this case likely being global competitors, which is also a potential outcome of U.S. tariffs. Indeed, our main concern at present is that trade policy could become a meaningful headwind to growth in the U.S. factory sector.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com