

# ISM Report Shows Mfg Expansion For 25th Straight Month

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Economic activity expanded for the 25th consecutive month in August, though at a slower rate than in July. According to the August Manufacturing ISM Report On Business, employment and inventories are growing while new orders and production are contracting.

Brad Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee, says he thinks there's every possibility that the manufacturing sector will continue to expand for the remainder of the year.

The PMI Index registered at 50.6 in August, just 0.3 percentage points below July. This is the lowest PMI Index since July of 2009.

The continued growth of the PMI Index "shows the ongoing robust strength of the manufacturing sector overall," he says. "But there are some areas of weakness."

These underlying concerns are not alleviating fears of which direction the economy is headed. New orders are contracting for the second consecutive month and backlog of orders are contracting for the third consecutive month. Holcomb says those two things are impacting production, which is contracting for the first time since May 2009. Despite some underlying softness, he says "we feel very, very good" about the PMI remaining positive.

ISM's New Orders Index registered 49.6 in August, which is an increase of 0.4 percentage points when compared to July. The Backlog of Orders registered 46 in August, 1 percentage point above July. While moving in the right direction, both are still contracting, though at slower rates than in July.

"I think there's every possibility that the PMI will hang in above 50, but I think it's going to be a few months before we see it ramping up and regaining any momentum," says Holcomb.

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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Despite the positive PMI, Holcomb doesn't believe this translates to a drastic decrease in unemployment. With the previous strong Employment Index, manufacturers were willing to fill critical positions, but Holcomb says we can just hope that it stays in positive territory before it starts to swing up again. August's Employment Index registered 51.8, a decrease of 1.7 percentage points when compared to the 53.5 percent reported in July.

But boding well for the future is a continuing drop in the Price Index. Plunging 30 points in the last four months, Holcomb says the lowering prices will eventually translate to lower finished goods pricing, which should encourage shoppers to place orders again.

"I'm still positive on the PMI for the balance of the year," he says.

With the economy still facing uncertainty, Holcomb says he doesn't believe the economy is really as bad as the headlines are making it out to be, and that Washington is playing a huge role in how people perceive the future of the economy.

"There's concern expressed about soft sales and weakness and the situation being tenuous," Holcomb says. "There's certainly apprehension related to the economy, related to customers willing to place orders, especially for equipment and big buys. And that, I think, is going to be eased if the rhetoric becomes positive and optimistic, and if Washington shows signs of working together better for these purposes."

The economy overall grew for the 27th consecutive month in August, proving to be much more resilient than many analysts anticipated. Holcomb said this report surprised many economists who predicted a contraction in the PMI.

"I think the fact that it stayed up is a sign that there is strength out there, that there is robustness. What we expect tomorrow in terms of employment numbers, I really don't know," Holcomb says. "We'll just have to wait and see."

*In his role as Chair of the Institute for Supply Management™ Manufacturing Business Survey Committee, Bradley J. Holcomb writes the monthly Manufacturing ISM Report On Business® based on the survey results of approximately 350 supply management professionals across 18 different industry sectors. The Report On Business® is released on the first business day of each month, and features the PMI Index as its key measure.*

*For more information on the Institute for Supply Management, visit [www.ism.ws](http://www.ism.ws) [1].*

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