Steady Growth In Store For Manufacturing

Mike Schmidt, Associate Editor, MBT

Steady and sustainable growth seems to be in store for the manufacturing sector and the economy as a whole over the course of the next few months.

At least that's according to the latest Manufacturing ISM Report on Business. It states economic activity in the manufacturing sector expanded in February for the 31st consecutive month, and the overall economy grew for the 33rd consecutive month.

Furthermore, the PMI registered 52.4, a decrease of 1.7 percentage points when compared with January's reading of 54.1. A reading above 50 percent indicates the manufacturing economy is generally expanding, while a reading below 50 percent means it is generally contracting.

"Some folks have looked at the PMI being down 1.7 and questioned that," says Bradley J. Holcomb, CPSM, C.P.M., Chair of the ISM Manufacturing Business Survey Committee. "But if you combine January and February together, we're really off to a good, and I'll say sustainable, start."

Especially if one was to compare the early-2012 PMIs with those from a year ago.

"Last year in the first four months it was right at 60ish, and that was just too strong to start out," continues Holcomb. "Then we kind of lost some steam in the back half of the year. This I think positions us very well for continued growth in these ranges."

Bradley J. Holcomb, CPSM, C.P.M., Chair of the ISM Manufacturing Business Survey Committee

Supplier Deliveries

While this most recent report didn't see many significant or surprising percentage point changes to various indexes, ISM's Supplier Deliveries Index saw a notable decrease from January. The delivery performance of suppliers to manufacturing organizations was faster in February, as the index registered 49 percent. This is a 4.6 percentage points lower than the 53.6 reported in January. The faster delivery comes after 31 consecutive months in which supplier deliveries slowed.

"That hasn't happened since May of 2009, when the index was 48.9," says Holcomb. "But I'm not at all concerned about it. It just shows that suppliers have sort of caught up with their inventory and their production as they feed manufacturing. It'll be interesting to watch, but certainly nothing to be concerned about whatsoever."

Prices

The ISM Prices Index has been on the rise for some time now. It registered 61.5 percent in February, 6 percentage points higher than the 55.5 percent reported in January. This marks the second consecutive month this index has reflected an increase in the price of raw materials since September of this past year.

“This is pretty normal and, quite frankly, nominal when suppliers introduce their new pricing to manufacturers at the start of the year,” says Holcomb. “When you look back a year ago, this index was up in the eighties, so this is pretty moderate by comparison.”

That being said, the Chair of the ISM Manufacturing Business Survey Committee does not expect a repeat of 2011.

“I think this is going to be fairly moderate for the year and certainly nothing I’m concerned about at this point,” Holcomb adds.

Exports

Another area of note is ISM’s New Export Orders Index, which registered 4.5 percentage points higher than the 55 percent reported in January. While the index has stayed at 50 percent or above for the past 32 straight months, Holcomb was a bit surprised to see it reach such heights.

“55 was already strong and the 12-month average was already 54.5,” says Holcomb. “So with all the news we hear about concerns in China and Europe, etc., we’re still showing very, very strong exports. So that was a good news surprise.”

Overall Outlook

According to Holcomb, there is some concern regarding financial issues in places such as Europe and China. However, he states that many of those who contributed opinions to the report feel like those issues will be resolved in due time.

“So I think this is a very sustainable point that we’re at and I look forward to much of the same over the next few months,” says Holcomb.

He also points to two indexes as key to the continued stable and solid growth he expects to see in the manufacturing sector and overall economy in the coming months: new orders and prices.

While prices have been on the rise a bit, the ISM New Orders Index showed slightly less growth this month. The index registered 54.9 percent in February, which is a decrease of 2.7 percentage points when compared to the January reading of 57.6 percent.

“New orders kind of drive the bus here,” says Holcomb. “I look for new orders to

stay in this range and to be consistent and relatively smooth over the course of the next few months, and that will bode well for production and employment."

In his role as the 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 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 of Supply Management, visit www.ism.ws *[1].*

Source URL (retrieved on *09/22/2014 - 2:33am*):
http://www.impomag.com/articles/2012/03/steady-growth-store-manufacturing?qt-digital_editions=0&qt-most_popular=0

Links:
[1] http://www.ism.ws/