

ISM: Manufacturing Is 'Resilient'

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Resilient and strong are two of the best words to describe the current state of manufacturing in the United States, at least according to the May Manufacturing ISM *Report On Business*.



Bradley J. Holcomb, CPSM, CPSD

Economic activity in the manufacturing sector expanded in May for the 34th consecutive month, and the overall economy grew for the 36th straight month. The report also indicated there is little to no reason to think anything will stand in the way of sustained growth during the second half of 2012.

"I suspect we are going to see a continuation of this current trend over the next few months," says Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee.

The PMI registered 53.5 in May, down 1.3 percentage points when compared to April's reading of 54.8 percent. A reading above 50 percent indicates the manufacturing economy is generally expanding, while a reading below 50 percent means it is generally contracting.

"Overall I think it is a really solid report even though the PMI is down 1.3, it is still operating in a very nice range, as it has been all year," says Holcomb, noting that the average PMI over the course of the past 12 months stands at 53.1.

New Orders

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No index gives Holcomb more reason to expect future growth in manufacturing and the overall economy than this month's ISM New Orders Index. It registered 60.1 percent in May, its highest reading since April of last year and an increase of 1.9 percentage points over April.

"I'm pretty pleased with that number," says Holcomb. "New orders drive this whole system. Order books seem to be strong across a broad array of industries, and that certainly bodes well for the next several months."

Prices

One index that read quite different than it did a few short weeks ago is ISM's Prices Index. It registered 47.5 percent in May, down 13.5 percentage points compared to the April reading of 61 percent. This is the first month the index reflected a decrease in the price of raw materials since December 2011, when it also registered 47.5 percent. The index hovered around 61 percent for the past three months prior to this month's significant decrease, and it has approached nowhere near the heights it did in early-to-mid 2011.

"Up until this month the Prices Index has been relatively moderate compared to last year," says Holcomb. "I think last year we were in the 80s. Now we are in the 60s, which already signals moderating price increases. Now to see this fairly dramatic decrease is welcome good news."

What effect or effects will lower prices have on the manufacturing industry and economy as a whole? Holcomb has a few ideas.

"It will indirectly have a fairly significant impact pretty broadly," he says. "I think it will impact inventories. We'll see inventories come up as they need to anyway, because (companies) will be able to get inventories at lower prices. They need inventories to fill those strong new orders, so it all works together."

Employment

Another reason for future optimism is the steady, albeit slow, growth in the area of employment. ISM's Employment Index registered 56.9 in May, down 0.4 percentage points from the 57.3 percent reported in April. It has been quite the consistent index over the course of the last several months, something Holcomb has liked to see.

"Employment is holding pretty steady and pretty even at a good strong 56.9," he says. "To the extent that stays up, that shows the confidence that manufacturing has and a continuation of new orders. That's one to watch."

Production

ISM's Production Index registered 55.6 in May, down 5.4 percentage points when compared to the 61 percent reported in April. However, given the uptick in new orders, Holcomb doesn't expect it to decrease further in 2012.

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"I think it's going to be at or slightly above the current number," says Holcomb. "If you look at the backlog, which impacts production, it is down a bit. This means there won't be as much of a pull. But new orders more than overshadow that. I think that's what we are going to see."

Overall, Holcomb states he is quite pleased with what he saw from this month's report.

"Manufacturing again has shown its resilience" he says. "I expect it to stay that way."

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].

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