ISM: Manufacturing Is Back On Track

Mike Schmidt. Associate Editor, Manufacturing Business Technology

The manufacturing sector is back on track – at least for now.

Economic activity in the manufacturing sector expanded in September following three straight months of slight contraction, according to the latest Manufacturing *ISM Report on Business*.

Brad Holcomb, CPSM, CPSD

The September PMI registered 51.5 percent, an increase of 1.9 percentage points when compared to the August reading of 49.6 percent. A reading above 50 percent indicates the manufacturing economy is expanding, while a reading below 50 percent means it is contracting. To add to the good news, the overall economy grew for the 40thconsecutive month. A reading above 42.6 percent generally indicates expansion in this area.

It’s a welcome sight, but there are no assurances the recent turnaround will last.

“I’m not ready to get really excited about a new direction or significant change, but certainly we can hope it hangs in there” says Brad Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee.

“We’re making a good showing,” he adds, noting that an uptick in new orders is driving growth in the manufacturing sector.

New Orders

ISM’s New Orders Index registered 52.3 percent in September, an increase of 5.2 percentage points when compared to the August reading of 47.1 percent. Prior to September, new orders had contracted for three consecutive months.

“It’s a reflection of consumer activity and consumer confidence, so I’m pleasantly surprised to see that 5.2 percentage-point bump” says Holcomb.

Employment

There was also good news to be found in the most recent performance of the ISM Employment Index. After registering 56.6 percent in June, the Index dropped to just 51.6 percent in August. However, it rebounded to 54.7 in September – the 36th straight month of growth in this area.

“When I see employment going up like that it represents some additional optimism on the part of manufacturing to make sure there is good, solid and growing

employment in advance of those new orders," says Holcomb.

Prices

A month following a significant jump from 39.5 percent to 54.0 percent, the ISM Prices Index rose again. It registered 58.0 in September, an increase of four percentage points compared to August. However, Holcomb says he doesn't expect much more volatility in this index over the course of the next three months.

"I don't expect much change," says Holcomb. At the end of the day, 58 isn't overheated."

Production

While ISM's Production Index contracted for the second time since May of 2009. However, a reading of 49.5 was an increase of 2.3 percentage points when compared to the 47.2 reading in August.

Overall, the September report featured a wealth of positive data. But it's going to take a lot to ensure continued growth in the manufacturing sector.

"We need that consumer confidence stepping way back to be strong and improving in order to generate new orders," says Holcomb.

"We're not in a robust economy right now," he continues. "It is kind of a push, actually."

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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