

ISM: Manufacturing Continues To Grow

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Economic activity in the manufacturing sector expanded in October for the second straight month after three consecutive months of contraction, according to the latest *Manufacturing ISM Report on Business*.

Bradley J. Holcomb, CPSM, CPSD

The October registered 51.7 percent, an increase of 0.2 percentage point from September's reading of 51.5 percent, indicating growth in manufacturing at a slightly faster rate. To add to the good news, the overall economy grew for the 41st consecutive month. A reading above 42.6 percent generally indicates expansion in this area.

"This helps to remind people that manufacturing is growing, despite its ups and downs and everything going on around us," said Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee.

"I'm pleased at the overall numbers," he added.

New Orders and Production

An increase in new orders and production are two driving forces behind the recent growth and activity in the manufacturing sector. That's certainly reflected in both the latest ISM New Orders and Production indexes.

ISM's New Orders Index registered 54.2 percent in October, which is an increase of 1.9 percentage points when compared to the September reading of 52.3 percent. This represents the second consecutive month of growth in new orders. The index registered 47.1 in August and 48 in July, so the situation has improved quite a bit in a few short months.

"New orders are the most significant driver," said Holcomb.

Meanwhile, ISM's Production Index registered 52.4 percent in October, which is an increase of 2.9 percentage points when compared to the 49.5 percent reported in September. This indicates a return to growth in production following two consecutive months of contraction.

"Production is a reflection of the new order increase and also continuing to work off the backlog of orders," said Holcomb. "That's gone down 2.5 points."

However, Holcomb cautioned against too much optimism regarding new orders and

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production growth in the future.

“There’s a lot that suggests a lukewarm demand environment,” he stated. “So I think there is probably some mixed signals here. Nevertheless, there are five industries of our 18 reporting growth in new orders, five remained constant from last month, and among those are some of our largest industries. Eight reported decline.”

Prices and Employment

These two indexes reversed course in October, but neither moved so significantly that there is any real cause for either great concern or overwhelming optimism.

The ISM Employment Index registered 52.1 percent in October, which is 2.6 percentage points lower than the 54.7 percent reported in September. This is the 37th consecutive month of growth in the Employment Index. That being said, October marked the 37th consecutive month of growth in the Employment Index.

The ISM Prices Index registered 55 percent in October, which is a decrease of 3 percentage points compared to the September reading of 58 percent. This particular index has seen some significant movement in both directions over the course of 2012, but it has hovered at or near the mid-50s for the past three months.

Exports and Imports

Two areas that didn’t see much improvement compared to past month were the ISM Inventories Index and the ISM New Export Orders Index.

“The ones that are disappointing, if I can put it that way, are imports and exports,” said Holcomb. (They’re) continuing to be a drag, reflecting this fragile global economy.”

ISM’s Imports Index registered 47.5 percent in October, which is 2 percentage points lower than the 49.5 percent reported in September. This month’s reading reflects the third consecutive month of contraction in imports since November 2011, when the Imports Index registered 49 percent.

New export orders registered 48 percent in October, which is 0.5 percentage point lower than the 48.5 percent reported in September. This month’s reading represents the fifth month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this current five-month period of contraction, the New Export Orders Index had registered 50 percent or above for the previous 35 consecutive months.

According to Holcomb, it’s probably going to be a few months until imports and exports climb back above 50 due to uncertainty in various global markets.

Overall, Holcomb said it was reasonable to assume there will be continued growth in the manufacturing sector over the course of the rest of the year.

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“I think a lot of consumers, which really ultimately drive this whole system, have been keeping their hands in their pockets,” said Holcomb. “But I think they are really starting to come out.”

Meanwhile, Daniel J. Meckstroth, Chief Economist for the Manufacturers Alliance for Productivity and Innovation (MAPI) said the October ISM Report provides reassurance that manufacturing is growing again, albeit at a slow rate, and not slipping back into recession.

“The current pace of growth in manufacturing is modest and should be much stronger,” Meckstroth stated. “There is pent-up demand for motor vehicles and housing and the capital stock of equipment and structures needs to be replenished. A potential capital spending boom is being held back by the uncertainty concerning the ‘fiscal cliff,’ the uncertainty about the severity of the recession in Europe, a lack of clarity on future business tax policy, and the lack of business confidence that policymakers can come up with a credible plan for federal deficit reduction.”

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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