ISM: U.S. Manufacturing Continues Sideways

It appears that it's more of the same in U.S. manufacturing.

While the overall economy grew for the 42nd consecutive month, economic activity in the manufacturing sector contracted in November following two months of modest expansion, according to the latest *Manufacturing ISM Report On Business*.

Bradley J. Holcomb, CPSM, CPSDThe PMI registered 49.5 percent, a decrease of 2.2 percentage points from October's reading of 51.7 percent, indicating contraction in manufacturing for the fourth time in the last six months. November's PMI reading reflects the lowest level since July 2009 when the PMI registered 49.2 percent. A reading above 50 indicates the manufacturing economy is generally expanding. A reading below 50 percent indicates that it is generally contracting.

"The case is interesting, but not necessarily all that significant," says Brad Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee. "The last six months have been plus or minus a little bit around the 50 mark with an average of 50.3. So overall it's just a continuation of moving sideways for the last six months."

Employment

The one index that really shows the most dramatic number in this month's report is employment. ISM's Employment Index registered 48.4 percent, a decrease of 3.7 percentage points, which is the index's lowest reading since September 2009 when the Employment Index registered 47.8 percent.

"Prior to this month we've had 37 consecutive months of growth in the employment index," adds Holcomb. "What it suggests is that along with inventories coming down 5 points, it shows that manufacturing is taking a deep breath right now. It's not investing in personnel or inventories, and is waiting for resolution on the fiscal cliff. Because companies just don't know what the impact of the fiscal cliff means and are not willing to continue to move forward without that resolution."

Production

Production is up 1.3 percentage points from October to 53.7 percent, but it's not because of the new orders. This number reflects manufacturing continuing to chew into the backlog of orders, in other words, old orders.

"That's down to 41.0, which is its lowest level since April 2009," explains Holcomb. "Without continuation of growth of new orders, the production just can't persist at those levels. This is always about continuous flow and growth in new orders, and that's being challenged right now because the global environment we're in, continuing uncertainty and the fiscal cliff worry."

Imports And Exports

ISM's New Export Orders Index registered 47 percent in November, which is 1 percentage point lower than the 48 percent reported in October. This month's reading represents the sixth month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this current six-month period of contraction, the New Export Orders Index had registered 50 percent or above for the previous 35 consecutive months.

"Imports and exports have been declining for 4 to 6 months, which has broken a trend of growth there," says Holcomb. "It's another reflection of global economic uncertainty."

ISM's Imports Index registered 48 percent in November, which is 0.5 percentage point higher than the 47.5 percent reported in October. This month's reading reflects the fourth consecutive month of contraction in imports since November 2011, when the Imports Index registered 49 percent.

"Nothing here is going to get back on track unless something really good happens with the economy," adds Holcomb. "That includes the negotiation on the fiscal cliff with an outcome that is favorable first to consumers and customers getting out their pocketbooks, but also favorable to businesses overall that would encourage them to invest in new equipment, plants and so on. Imports and exports is just another factor that's going to be relatively contained until something good happens."

Getting Back On Track

Holcomb doesn't feel there is anything really new that people should be concerned about. That is because the last six months have been pretty much the same—right around the 50 percentage point mark.

"The one thing that has been resolved in the past month is the presidential election, which people were looking at," explains Holcomb. "I'm not sure how business feels about it, but it's behind us. What's not behind us is this fiscal cliff situation. One comment from a respondent this month said that if the resolution involves more taxes and spending cuts, then all bets are off."

With manufacturers in a lull, things aren't necessarily getting worse, but they're also not getting better. Companies are continuing a sideways movement, looking for direction and not finding it, and hoping the fiscal cliff issue will be resolved in favor of the economy and manufacturing in particular.

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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