

ISM: Manufacturing Slowing, But Still Expanding

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Economic activity in the manufacturing sector expanded in April for the fifth consecutive month, say the nation's supply executives in the latest Manufacturing Institute for Supply Management (ISM) Report On Business.

"The Institute for Supply Management (ISM) index was 50.7 in April, down 0.6 percentage points from 51.3 in March. Fifty percent is the dividing line between growth and decline and the larger the number the better," said Daniel J. Meckstroth, Chief Economist for the Manufacturers Alliance for Productivity and Innovation (MAPI). "At 50.7, the indicator suggests that manufacturing activity is barely growing. Over the last 20 years, the ISM index has been at or below 50.7 one-third of the time.

"Employment in manufacturing has come to a halt and inventory cutting is underway to bring production in line with shipments," he added. "The ISM report points out that imports are growing faster than exports. Because U.S. manufacturing imports are substantially larger than exports, the trade impact on domestic manufacturing is now decidedly negative."

The PMI number indicated expansion in manufacturing for the fifth consecutive month, but at the lowest rate of the year. Although U.S. manufacturing continued to slow in April, underlying metrics show that there is more good news than there is cause for concern.

"It's obviously good to know that manufacturing still expanding," says Bradley J. Holcomb, CPSM, CPSD, chair of the ISM Business Survey Committee. "I want people to look at the five supporting metrics to really discern the whole story though. My point rests with the inventory numbers of 46.5 percent. That feeds directly into the PMI, weighing it down, but I think this inventory number is a good thing and strategic on the part of purchasing managers."

Orders, Production and Inventory

ISM's New Orders Index registered 52.3 percent in April, an increase of 0.9 percentage point when compared to the March reading of 51.4 percent. This represents growth in new orders for the fourth consecutive month. A New Orders Index above 52.2 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars).

ISM's Production Index registered 53.5 percent in April, which is an increase of 1.3 percentage points when compared to the 52.2 percent reported in March. This indicates growth in production for the eighth consecutive month. An index above 51.2 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

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“Manufacturing activity was relatively strong in the first three months of this year, led by pent-up demand for motor vehicles and the housing rebound,” Meckstroth added. “Some of the production growth came from unwanted inventory accumulation; manufacturers are now in the process of adjusting inventories back down, leading to a soft patch in industrial activity that may persist for a few months. The fundamentals, however, point to moderate 3 percent manufacturing industrial production growth this year—slightly faster than the overall economy, but not much.”

The Inventories Index registered 46.5 percent in April, which is 3 percentage points lower than the 49.5 percent reported in March. This month’s reading indicates that respondents are reporting inventories are contracting in April for the second consecutive month, and at a faster rate than in March. An Inventories Index greater than 42.7 percent, over time, is generally consistent with expansion in the Bureau of Economic Analysis’ (BEA) figures on overall manufacturing inventories (in chained 2000 dollars).

ISM’s Backlog of Orders Index registered 53 percent in April, which is 2 percentage points higher than the 51 percent reported in March. This is the third consecutive month of growth in order backlogs, following 10 consecutive months of contraction. Of the 85 percent of respondents who reported their backlog of orders, 25 percent reported greater backlogs, 19 percent reported smaller backlogs, and 56 percent reported no change from March.

Exports, Imports and Prices

ISM’s New Export Orders Index registered 54 percent in April, which is 2 percentage points lower than the 56 percent reported in March. This month’s reading represents the fifth consecutive month of growth in new export orders, and follows six months of contraction dating back to June 2012.

ISM’s Imports Index registered 55 percent in April, which is 1 percentage point higher than the 54 percent reported in March. This month’s reading represents the fifth consecutive month that the Imports Index has registered at or above 50 percent.

“Imports and export numbers show a good healthy level of exchange between our trading partners,” says Holcomb. “It’s a good flow despite the headlines and headwinds in Europe and China. This is data that shows our trade is at a healthy level.”

The ISM Prices Index remained unchanged at 50 percent in April, which is a decrease of 4.5 percentage points compared to the March reading of 54.5 percent. The Prices Index has decreased by 11.5 percentage points in the last two months. In April, 15 percent of respondents reported paying higher prices, 15 percent reported paying lower prices, and 70 percent of supply executives reported paying the same prices as in March. A Prices Index above 49.7 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Index of

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Manufacturers Prices.

“Purchasing managers have driven their inventory down because of what is happening in prices,” explains Holcomb. “The prices of raw materials has been coming down so purchasing managers are working their inventories down. That way they can take advantage of these lower prices to rebuild inventories.”

Employment

ISM’s Employment Index registered 50.2 percent in April, which is 4 percentage points lower than the 54.2 percent reported in March. This month’s reading indicates growth in employment for the 43rd consecutive month, but at a slower rate. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) data on manufacturing employment.

“Employment is clearly at a soft spot showing that it still growing, but growing much slower than last month,” concludes Holcomb. “Nevertheless employment has been growing for 43 consecutive months. The decrease in employment isn’t related to any particular issue or problems and is still forecasted to have a full 1 percent additional employment in the manufacturing base between now and the end of the year.”

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 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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