

ISM: Manufacturing Momentum Continues

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Economic activity in the manufacturing sector expanded in September for the fourth consecutive month and the overall economy grew for the 52nd consecutive month, say the nation's supply executives in the latest *Manufacturing ISM Report On Business*.



Manufacturing expanded in September as the PMI registered 56.2 percent, an increase of 0.5 percentage point when compared to August's reading of 55.7 percent. September's reading reflects the highest overall PMI reading in 2013. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

"At 56.2 percentage points, we've got three months of expansion in a row, which constitutes the full third quarter," says Bradley J. Holcomb, CPSM, CPSD, chair of the ISM Business Survey Committee. "With the average for the third quarter at 55.8, compared to the 51.5 average for the first six months of the year, we're meaningfully ahead of the first half of the year and I feel like three months in a row is a pretty good statement of trend and momentum."

Orders, Production and Inventory

ISM's New Orders Index registered 60.5 percent in September, a decrease of 2.7 percentage points when compared to the August reading of 63.2 percent. This represents growth in new orders for the fourth consecutive month, but at a moderately slower rate than in August. A New Orders Index above 52.2 percent,

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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 62.6 percent in September, which is an increase of 0.2 percentage point when compared to the 62.4 percent reported in August. This month's reading indicates growth in production for the fourth 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.

"The August new orders at 63.2 percentage points was at a very high level so coming down 2.7 points is interesting," adds Holcomb. "I looked at the history and we now have two months of 60+ in new orders and we haven't seen that since 2011. Things are going to go up and down and they can't keep going up. Of course at 60.5 points, the message is it is still a strong number and we've got 12 industries reporting growth in new orders and only three reporting declines."

The Inventories Index registered 50 percent in September, which is 2.5 percentage points higher than the 47.5 percent reported in August. This month's reading indicates that respondents are reporting inventories are unchanged from August. For the first nine months of 2013, inventories of raw materials have registered in a well-managed range from a high of 51.5 percent in February to a low of 46.5 percent in April. 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).

"At 50, the Inventories Index is right at the balance point — so very much in check and I suspect that it will come down again because there is a concerted preference to keep inventory levels low," explains Holcomb. "You can kind of tie inventory and employment together in the sense that manufacturing right now does not want to get caught short of employment or inventories, which will impact its ability to fill orders."

ISM's Backlog of Orders Index registered 49.5 percent in September, which is 3 percentage points higher than the 46.5 percent reported in August. This is the fifth consecutive month of contracting order backlogs. Of the 86 percent of respondents who reported their backlog of orders, 19 percent reported greater backlogs, 20 percent reported smaller backlogs, and 61 percent reported no change from August.

Exports, Imports and Prices

ISM's New Export Orders Index registered 52 percent in September, which is 3.5 percentage points lower than the 55.5 percent reported in August. September's reading reflects growth in the level of exports relative to August, but at a moderately slower level. This month's reading also represents the 10th consecutive month of growth in new export orders.

ISM's Imports Index registered 55 percent in September, which is 3 percentage points lower than the 58 percent reported in August. September's reading reflects

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growth in the level of imports relative to August, but at a moderately slower level. This month's reading also represents the 10th consecutive month that the Imports Index has registered at or above 50 percent.

"The import and export numbers just show that both are growing, but at a slower rate," says Holcomb. "Now keep in mind that we've been growing for 8 to 10 months in these two categories and although they may be a little lower this month, these are still very good numbers indicating that the global economy is working in both directions and supporting manufacturing."

The ISM Prices Index registered 56.5 percent in September, which is an increase of 2.5 percentage points compared to the August reading of 54 percent. This month's reading indicates an increase in raw materials prices for the second consecutive month. In September, 22 percent of respondents reported paying higher prices, 9 percent reported paying lower prices and 69 percent of supply executives reported paying the same prices as in August. A Prices Index above 49.7 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Index of Manufacturers Prices.

"I think the Prices Index is indifferent right now and I think it's short-lived," adds Holcomb. "This month our lists of commodities that are up in price is not very long. So bottom line is, prices are very much in check and not concerned about inflation or anything close to it."

Employment

ISM's Employment Index registered 55.4 percent in September, which is 2.1 percentage points higher than the 53.3 percent reported in August. This month's reading indicates expansion in employment for the third consecutive month. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the BLS data on manufacturing employment.

"The Employment Index is at the highest level for the year," says Holcomb. "I think it reflects these new orders that we been talking about and production levels that simply require more employees. With three months in a row of a strong PMI, that encourages manufacturing to add to its employment numbers, which we can see here this month."

Overall Results

Even with shaky budget negotiations and upcoming debt ceiling talks going on in Washington, there wasn't a single comment of concern from respondents this month. Manufacturing just assumes that these things are going to get worked out. Not since 1976 has any slowdown or shutdown of the government had any material effect on the markets and even that was relatively short-lived.

"Most of the comments were very positive indicating that sales are trending upwards," adds Holcomb. "I like the comment from the food and beverage industry saying that they're looking at an even better fourth quarter than the third quarter."

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There are only one or two industries that are in the other direction. Machinery is one of them with overall business flat to down across the board and they have been under pressure for some time. It's not surprising because that all relates to capital expenditures for companies, and CFOs tend to keep the purse strings pretty tight until they see a good trajectory of growth. I think, broadly speaking, it's very positive from our forward-looking standpoint and pretty broad-based across all industries."

Holcomb is pleasantly surprised at this month's PMI number going up a tad, but he expected it to be in this range based on the sense he's gotten from previous reports. Three very solid months in a row is setting a new level for U.S. manufacturing.

"I think it's solid," explains Holcomb. "It shows manufacturing strengths and everything is kind of lined up for continuation at this level."

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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