

Manufacturing Expands Due To Higher Production, Lower Prices



Brad Holcomb, CPSM, CPSD

The November ISM Report On Business indicated economic activity expanded for the 28th consecutive month and the overall economy grew for the 30th straight month.

Both pieces of news are certainly welcomed by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Manufacturing Business Survey Committee, as signs the manufacturing sector is on the right track as 2011 transitions into 2012.

“It is a fairly balanced report,” says Holcomb. “It all adds up to continuing growth and my expectation, based on what I see and feel, is a continuation of that for the foreseeable future.”

The PMI registered 52.7 percent, an increase of 1.9 percentage points when compared to October’s reading of 50.8 percent. A reading above 50 percent indicates the manufacturing economy is generally expanding, while a reading below 50 percent means it is generally contracting. This marks the second time in the past three months where the PMI has registered over 51 percent.

According to Holcomb, several indexes offer reason for optimism heading into 2012, most notably new orders and production.

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"I'll put both of those in the pleasantly surprised category," he says. "I felt things were going to continue about 50, but this is really a nice surprise."

ISM's New Orders Index registered 56.7 percent in November, which is an increase of 4.3 percentage points when compared to the October reading of 52.4 percent.

This marks a turnaround for new orders, as the index read 49.6 in both August and September.

"I was particularly pleased with new orders coming up 4.3 to 56.7, because new orders really drive the bus here," says Holcomb. "It really is the pacing item."

The ISM Production Index registered 56.6 percent in November, up 6.5 percentage points when compared to the October reading of 50.1 percent. November was the third consecutive month of growth following one month of contraction.

The Production Index slipped to 48.6 percent in August, but has rebounded nicely since that time.

In addition, Holcomb points to the ISM Pricing Index as one of the most encouraging indicators he came across in the November Report On Business.

The Prices Index registered 45 percent in November, or 4 percentage points higher than the 41 percent reported in October. This is the second straight month of contraction in that index. A Prices Index above 49.4 percent, over time, generally indicates prices are increasing.

"It is a really important factor here," says Holcomb. "Prices are decreasing for the second consecutive month and providing some really good and well-appreciated pricing relief."

The Pricing Index dropped from 56.0 in September to just 41.0 in October before rising to 45.0 in November. While he says it is unlikely for the Prices Index to remain so low, Holcomb says he does not expect to see a spike in prices in the coming months.

"I see prices really not remaining below 50, but maybe easing back toward 50," he says. "But I feel it will be moderating."

Holcomb also feels pricing is and will continue to be a major determinant of the health of the manufacturing sector and the economy as a whole.

"Now that we're two months in the declining, that flows through the supply chain pretty well and encourages new orders, as well as it helps out manufacturing by increasing their margins," he states.

Overall, Holcomb likes what he sees in the report and he is pleased with the feedback he hears from various industries.

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"I did comment last time that I was picking up an optimistic tone in the comments, as well as the numbers and beneath the numbers," he says. "And I see more of that this time."

In his role as 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 supply management professionals across 18 different industry sectors. The Report On Business is released on the first business day of each month, and it features the PMI Index as its key measure.

For more information on the Institute for Supply Management, visit www.ism.ws [1].

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