ISM: Manufacturing Continues Its Positive Start To 2013

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U.S. manufacturing continues its positive start to 2013.

“The Institute for Supply Management (ISM) reported that its Index increased to 54.2 from 53.1 in January. A diffusion index greater than 50 indicates that manufacturing is growing,” noted Daniel Meckstroth, Chief Economist for the Manufacturers Alliance for Productivity and Innovation (MAPI). “The Index has been at 54.2 or higher only about one-third of the time over the last 20 years. Clearly, the ISM report for February is very favorable and suggests that manufacturing activity last month was growing at a rapid pace.”

The PMI indicated expansion in manufacturing for the third consecutive month. This month’s reading reflects the highest PMI since June 2011, when the index registered 55.8 percent. The New Orders Index registered 57.8 percent, an increase of 4.5 percent over January’s reading of 53.3 percent, indicating growth in new orders for the second consecutive month. As was the case in January, all five of the PMI’s component indexes — new orders, production, employment, supplier deliveries and inventories — registered in positive territory in February. In addition, the Backlog of Orders, Exports and Imports Indexes all grew in February relative to January.

“The PMI is a little bit above my expectations but I try to stay away from expectations and try to focus on the data,” says Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management Business Survey Committee. “In any case, I am certainly pleased with this number as it shows that we are building momentum in 2013.

“Of our 18 industries, 15 are reporting new growth in new orders, only one reporting a slight decline and two that are standing pat. The one that is showing a decrease in new orders, wood products, is still showing a positive PMI. I can't point to one thing that has sent the PMI higher, but I can say that consumer confidence seems to be high and people are getting off their wallets. The two sectors that are showing up in our list that I’m somewhat concerned about are consumer electronic products and chemical products, which have been under pressure for a while now”

Orders, Production and Inventory

ISM’s New Orders Index registered 57.8 percent in February, an increase of 4.5 percentage points when compared to the January reading of 53.3 percent. This represents growth in new orders for the second 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 57.6 percent in February, which is an increase of 4 percentage points when compared to the 53.6 percent reported in January. This indicates growth in production for the sixth 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 Inventories Index registered 51.5 percent in February, which is 0.5 percentage points higher than the 51 percent reported in January. This month’s reading indicates that respondents are reporting inventories growing in February for the second consecutive month. 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.

“Anything above 50 in the context of a growing sector shows that manufacturers want to have more inventory on hand, so they’re not caught short in terms of their ability to fill these new orders,” explains Holcomb. “There is also a huge backlog of orders now so manufacturers are beefing up their inventories to meet demands.”

ISM’s Backlog of Orders Index registered 55 percent in February, which is 7.5 percentage points higher than the 47.5 percent reported in January. This is the first month of growth in order backlogs since March 2012, when the index registered 52.5 percent. Of the 83 percent of respondents who reported their backlog of orders, 26 percent reported greater backlogs, 16 percent reported smaller backlogs, and 58 percent reported no change from January.

Imports and Exports

ISM’s Imports Index registered 54 percent in February, which is 4 percentage points higher than the 50 percent reported in January and indicates that import levels are growing for the second time in the past three months. ISM’s New Export Orders Index registered 53.5 percent in February, which is 3 percentage points higher than the 50.5 percent reported in January. This reading represents only the third month of growth in the index since May 2012, when the index registered 53.5 percent.

“Imports and exports have been modest to underwater for a few months,” says Holcomb. “The fact that they've jumped up three and four points, respectively, shows that the global economy is cooperating. The global economy is kicking in with some good give-and-take and supporting U.S. manufacturing.”

Employment

ISM’s Employment Index registered 52.6 percent in February, which is 1.4 percentage points lower than the 54 percent reported in January. This month’s reading indicates growth in employment for the 41st consecutive month. 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.

“The employment index is still in healthy territory,” adds Holcomb. “It's reflective of a sentiment to fill open positions. However, one response this month did signal that finding workers to fill highly skilled positions are becoming harder and harder to find.”

Moving Forward

“Overall, the February ISM report suggests strong growth in the upcoming February industrial data,” Meckstroth concluded. “Some caution is appropriate, however. February may be a euphoric period following the resolution of the fiscal cliff but it precedes the headwinds of sequester and federal shutdown deadlines this month. MAPI expects manufacturing production to increase 2.2 percent this year, which is slower pace than the 4.2 percent growth in 2012.”

The extent of the increase in new orders was a surprise to Holcomb he says, but he indicated that U.S. manufacturing had the good January he hoped for and the solid February he expected. Two decent months in a row makes for a good beginning for 2013 but doesn't help predict what will happen over the next few months.

“I think we’re going to operate at a very tight range of where we are right now for the next few months,” added Holcomb. “I think there is very little uncertainly right now relative to what we've seen late last year with the elections, the fiscal cliff, and the many questions this month about the impact of this in so-called ‘sequestration.’ At this point I expect any sequester significance may show up more in the services sector the manufacturing, but our panelists aren't really focusing on that all at this point.”

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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