ISM: Manufacturing Back On Track

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Economic activity in the manufacturing sector returned to a slow, steady expansion in June, say the nation's supply executives in the latest Manufacturing Institute for Supply Management (ISM) Report On Business.

"The Institute for Supply Management (ISM) reported that its index of manufacturing activity increased from 49 in May to 50.9 in June. An index above 50 signals expansion," said Don Norman, Senior Economist for the Manufacturers Alliance for Productivity and Innovation (MAPI). "Notably, ISM's index for new orders increased from 48.8 in May to 51.9 in June while its export index jumped from 51 to 54.5. On the negative side, ISM's employment index fell from 50.1 in May to 48.7, its lowest level since the trough of the recession in June 2009.

"Coupled with last week's report on durable goods, the positive movements in ISM's manufacturing, new orders, and export indexes provide encouraging signs that manufacturing sector activity is rebounding from its anemic pace in late winter and early spring," Norman added. "The trends are consistent with our outlook for a moderate rebound in the pace of economic growth in the second half of this year."

The PMI number indicated expansion in manufacturing for the fifth time in six months, reversing May's contracting PMI rate of 49 percentage points. Although U.S. manufacturing is growing at a slow, steady rate, it's still in line to meet yearly expectations.

"We're back on track after May took a bit of a rest," says Bradley J. Holcomb, CPSM,

CPSD, chair of the ISM Business Survey Committee. “This month we’re happy to see that 1.9 percent increase in the PMI, beating most expectations that I've seen. That's definitely good news.”

Orders, Production and Inventory

ISM’s New Orders Index registered 51.9 percent in June, an increase of 3.1 percentage points when compared to the May reading of 48.8 percent. This represents growth in new orders after one month of contraction. 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 53.4 percent in June, which is an increase of 4.8 percentage points when compared to the 48.6 percent reported in May. This month’s reading indicates growth in production and follows the only month of contraction in production for the year. An index above 51.2 percent, over time, is generally consistent with an increase in the Federal Reserve Board’s Industrial Production figures.

“In the case of new orders and production 11, out of 18 industries are reporting growth,” says Holcomb. “In general, the industries leading the pack relate to housing (such as furniture and wood products), the auto industry and fabricated metal products. The areas struggling are in aerospace and chemical products. Computers and electronic components industries — which have been under pressure for the bulk of the year — have also been struggling.”

The Inventories Index registered 50.5 percent in June, which is 1.5 percentage points higher than the 49 percent reported in May. This month’s reading indicates that respondents are reporting inventories expanded in June, following three consecutive months of contraction. For the current year, 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).

“Inventory levels are being managed in a good range for the year,” adds Holcomb. “Manufacturing is in a slow growth situation with cautious optimization. Inventory levels are going to be tightly controlled in order to reduce costs and to avoid being stuck with extra inventories that can't be used later.”

ISM’s Backlog of Orders Index registered 46.5 percent in June, which is 1.5 percentage points lower than the 48 percent reported in May. This is the second month of contracting order backlogs since January 2013, when the index registered 47.5 percent. Of the 84 percent of respondents who reported their backlog of orders, 17 percent reported greater backlogs, 24 percent reported smaller backlogs, and 59 percent reported no change from May.

Exports, Imports and Prices

ISM's New Export Orders Index registered 54.5 percent in June, which is 3.5 percentage points higher than the 51 percent reported in May. This month's reading represents the seventh consecutive month of growth in new export orders, and follows six consecutive months of contraction dating back to June 2012.

ISM's Imports Index registered 56 percent in June, which is 1.5 percentage points higher than the 54.5 percent reported in May. This month's reading represents the seventh consecutive month that the Imports Index has registered at or above 50 percent.

"In terms of exports I think we were off three points last month so we're back on track, but exports in general have been about this level for the year," says Holcomb. "Imports are up 1.5 percentage points, so both are in a very healthy range right now indicating good flows in both directions."

The ISM Prices Index registered 52.5 percent in June, which is an increase of 3 percentage points compared to the May reading of 49.5 percent. This indicates that raw materials prices increased in June, following only one month of price decreases for the year in May. In June, 20 percent of respondents reported paying higher prices, 15 percent reported paying lower prices, and 65 percent of supply executives reported paying the same prices as in May. 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.

"The price index over the first half of the year indicates that things are on track to meet expectations of raw material prices," explains Holcomb. "It's consistent with the yearly 2 to 2.5 percent overall price increase, which is definitely within expectations and very manageable."

Employment

ISM's Employment Index registered 48.7 percent in June, which is 1.4 percentage points lower than the 50.1 percent reported in May. This month's reading indicates contraction in employment for the first time since September 2009, when the index registered 47.8 percent. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the BLS data on manufacturing employment.

"The contracting employment numbers were a surprise in light of the fact that we haven't been below 50 since September 2009, but at the same time I would not expect that to continue," concludes Holcomb. "It's significant in that we've been on a long run of growth with employment being the one exception. But it's just one data point and may be the result of an employment numbers correction or a wait-and-see approach by manufacturers to make sure that these new orders continue to flow."

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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