

ISM: Solid Numbers All Around

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Economic activity in the manufacturing sector expanded in April for the 11th consecutive month, and the overall economy grew for the 59th consecutive month, say the nation's supply executives in the latest *Manufacturing ISM Report On Business*.

Manufacturing expanded in April as the PMI registered 54.9 percent, an increase of 1.2 percentage points when compared to March's reading of 53.7 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

A PMI in excess of 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the April PMI indicates growth for the 59th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 11th consecutive month.

Bradley J. Holcomb, CPSM, CPSD, chair of the ISM Business Survey Committee says, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through April (53.3 percent) corresponds to a 3.3 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI for April (54.9 percent) is annualized, it corresponds to a 3.9 percent increase in real GDP annually."

Orders, Production and Inventory

The New Orders Index registered 55.1 percent in April, the same percentage as reported in March. This reading represents growth in new orders for the 11th consecutive month. A New Orders Index above 52.1 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 55.7 percent in April, which is a decrease of 0.2 percentage point when compared to the 55.9 percent reported in March, indicating growth in production for the second consecutive month. An index above 51.1 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

"While the production index is down .2 percentage points in terms of rate of growth, it's still a solid 55.7 growing over last month," adds Holcomb. "I like the new orders and production numbers. This month, all of our reporting metrics are above 50 and are all parlaying into that 54.9 PMI."

ISM's Backlog of Orders Index registered 55.5 percent in April, which is 2

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percentage points lower than the 57.5 percent reported in March, indicating growth in order backlogs for the third consecutive month. Of the 88 percent of respondents who reported their backlog of orders, 26 percent reported greater backlogs, 15 percent reported smaller backlogs, and 59 percent reported no change from March.

The Inventories Index registered 53 percent in April, an increase of 0.5 percentage point when compared to the 52.5 percent reported in March, and indicates inventories are growing for the third consecutive month. An Inventories Index greater than 42.8 percent, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories (in chained 2000 dollars).

"I think the inventories number shows that manufacturers don't want to be caught short on inventories of raw materials in this environment of continuously improving growth," explains Holcomb. "I think it's very consistent with everything else and is certainly another positive indicator."

Exports, Imports and Prices

ISM's New Export Orders Index registered 57 percent in April, which is 1.5 percentage points higher than the 55.5 percent reported in March. April's reading reflects growth in the level of exports for the 17th consecutive month.

The Imports Index registered 58 percent in April, which is 3.5 percentage points higher than the 54.5 percent reported in March. This month's reading represents 15 consecutive months of growth in imports.

"These numbers show us that the world really likes U.S. finished goods, which is largely represented by the exports number," says Holcomb. "Imports reflects incoming raw materials which we continue to like from other parts of the world. Together it shows the economy is moving quite well internationally."

The ISM Prices Index registered 56.5 percent in April, which is a decrease of 2.5 percentage points compared to the March reading of 59 percent. In April, 25 percent of respondents reported paying higher prices, 12 percent reported paying lower prices, and 63 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 Manufacturers Prices.

"The drop in the Prices Index is very nominal and I would say even expected," explains Holcomb. "Prices generally increase and do so most often in the first quarter during supplier negotiations. That season is starting to wind down now. Overall, very nominal and it indicates that prices of raw materials will be modestly increasing this year."

Employment

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ISM's Employment Index registered 54.7 percent in April, which is an increase of 3.6 percentage points when compared March's reading of 51.1 percent, and represents the 10th consecutive month of growth in employment. An Employment Index above 50.6 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) data on manufacturing employment.

"I think the employment number is perhaps a catch up from the first three months where weather had an impact here, but also is kind of a forward looking metric," says Holcomb. "Employers would not add to the company headcount if they didn't feel good about continuation of new orders. They've got more visibility and detail on their order books than we have. It is promising number when you see employment go up that much."

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.

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