

ISM: Manufacturing on Target With Predictions

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Economic activity in the manufacturing sector expanded in May for the 12th consecutive month, and the overall economy grew for the 60th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business.

Manufacturing expanded in May as the PMI registered 55.4 percent, an increase of 0.5 percentage point when compared to April's reading of 54.9 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

"The 55.4 percent is almost square with predictions that are out there," says Bradley J. Holcomb, CPSM, CPSD, chair of the ISM Business Survey Committee. "So we're doing what's expected and what's expected is a good strong manufacturing sector."

A PMI in excess of 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the May PMI indicates growth for the 60th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 12th consecutive month.

Holcomb states, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through May (53.7 percent) corresponds to a 3.5 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI for May (55.4 percent) is annualized, it corresponds to a

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4.0 percent increase in real GDP annually.”

Orders, Production and Inventory

ISM’s New Orders Index registered 56.9 percent in May, an increase of 1.8 percentage points when compared to the 55.1 percent reported in April, indicating growth in new orders for the 12th 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 61.0 percent in May, which is an increase of 5.3 percentage points when compared to the 55.7 percent reported in April, indicating growth in production for the third 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.

“New orders displays a broad array of industries moving up in terms of new orders,” adds Holcomb. “Production at 61 is up 5.3 percentage points. That’s responding to new orders up almost 2 percentage points and also working off some of the backlog of orders which you can see is down 3 percentage points. With those two factors, almost 5 percentage points between the advance of orders and the decline of backlog, lead to the 5.3 percent increase in production. So manufacturers are trying to manage new orders, but also trying to manage the backlog of orders as well.”

ISM’s Backlog of Orders Index registered 52.5 percent in May, which is 3 percentage points lower than the 55.5 percent reported in April, indicating growth in order backlogs for the fourth consecutive month. Of the 85 percent of respondents who reported their backlog of orders, 21 percent reported greater backlogs, 16 percent reported smaller backlogs, and 63 percent reported no change from April.

The Inventories Index registered 53 percent in May, the same percentage as reported in April, and indicates raw materials inventories are growing for the fourth 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).

“The Inventories Index says that manufacturers are making sure that they have sufficient inventories of raw materials to cover these new orders,” explains Holcomb. “There’s also some indications of shortages of supplies and hoarding of materials in some categories. Fifty-three is really a good number to be at in an environment of not just growth, but accelerating growth.”

Exports, Imports and Prices

ISM’s New Export Orders Index registered 56.5 percent in May, which is 0.5 percentage point lower than the 57 percent reported in April. May’s reading reflects growth in the level of exports for the 18th consecutive month.

ISM’s Imports Index registered 54.5 percent in May, which is 3.5 percentage points

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lower than the 58 percent reported in April. This month's reading represents 16 consecutive months of growth in imports.

"The export of finished goods is at 56.5, down just half a point from a very strong 57 percent from last month," says Holcomb. "This continues to show that for 18 consecutive months the world really likes our finished products. In total, Imports is down 3.5 percentage points, but we're still importing considerable amounts of raw materials from other countries. A good flow of imports and exports continues to be the case."

The ISM Prices Index registered 60 percent in May, which is an increase of 3.5 percentage points compared to the April reading of 56.5 percent. In May, 31 percent of respondents reported paying higher prices, 11 percent reported paying lower prices, and 58 percent of supply executives reported paying the same prices as in April. 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 fairly indifferent for now, but stay tuned to this," explains Holcomb. "Price increases generally happen within the first quarter. This seems to suggest that it's been extended a little bit. It could be the result of a frigid first quarter where price negotiation meetings weren't able to take place. Having said that, I'm not concerned about the 60 percent. Our semi-annual report was released earlier this month by the same panel and it is predicting something in the neighborhood of a 2 to 2.5 percent increase for the entire year on raw materials. So we're well within that predicted range."

Employment

ISM's Employment Index registered 52.8 percent in May, which is a decrease of 1.9 percentage points when compared to April's reading of 54.7 percent, and represents the 11th 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.

"Well at 52.8, the Employment Index is growing for the eleventh consecutive month, which is good news," says Holcomb. "But yet it's down from last month. I would say there's nothing remarkable about that. Another thing I can say about 52.8 percent is that from the standpoint of correlation with the Bureau of Labor Statistics data on manufacturing employment — anytime our number is above 50.6 percent, that generally indicates an increase in their numbers as well."

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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