

ISM: Manufacturing on Solid Ground for the Remainder of 2014

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Economic activity in the manufacturing sector expanded in June for the 13th consecutive month, and the overall economy grew for the 61st consecutive month, say the nation's supply executives in the latest *Manufacturing ISM Report On Business*.

Manufacturing expanded in June as the PMI registered 55.3 percent, a slight decrease of 0.1 percentage point when compared to May's reading of 55.4 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

"The PMI is essentially the same as last month," says Bradley J. Holcomb, CPSM, CPSD, chair of the ISM Business Survey Committee. "Fifteen of our 18 industries are reporting growth, which is great. Plus, all five of the supporting indexes that go into the PMI are well above 50, led by new orders."

A PMI in excess of 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the June PMI indicates growth for the 61st consecutive month in the overall economy and indicates expansion in the manufacturing sector for the 13th consecutive month.

Holcomb states, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through June (54.0 percent) corresponds to a 3.6 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI for June (55.3 percent) is annualized, it corresponds to a 4.0 percent increase in real GDP annually."

Orders, Production and Inventory

ISM's New Orders Index registered 58.9 percent in June, an increase of 2 percentage points when compared to the 56.9 percent reported in May, indicating growth in new orders for the 13th 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 60 percent in June, which is a decrease of 1 percentage point when compared to the 61 percent reported in May, indicating growth in production for the fourth 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 being up is really a great sign, relative to its own index," adds Holcomb. "Production at 60 is still a very high number for any of these indexes, even though it's down a point from last month. Everything is at really remarkably strong numbers. You can see the backlog of orders is down 4.5 points. So there was a pretty strong bite into the backlog of orders from production. That's a good relationship between new orders, production and the backlog of orders for this month."

ISM's Backlog of Orders Index registered 48 percent in June, which is 4.5 percentage points lower than the 52.5 percent reported in May, indicating contraction in order backlogs for the first time since January 2014 when the Backlog of Orders Index also registered 48 percent. Of the 83 percent of respondents who reported their backlog of orders, 18 percent reported greater backlogs, 22 percent reported smaller backlogs, and 60 percent reported no change from May.

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

"Inventories have been at 53 even for three consecutive months," explains Holcomb. "The number itself has not changed, but believe me there's a lot of activity paddling under the water in terms of the details. Inventories are very actively, aggressively managed in order to meet production on an ongoing basis. So at 53, that's a good sign that companies are seeing strong orders in their forward-looking order books to keep inventory numbers above 50."

Exports, Imports and Prices

ISM's New Export Orders Index registered 54.5 percent in June, which is 2 percentage points lower than the 56.5 percent reported in May. June's reading reflects growth in the level of exports for the 19th consecutive month.

ISM's Imports Index registered 57 percent in June, which is 2.5 percentage points

higher than the 54.5 percent reported in May. This month's reading represents 17 consecutive months of growth in imports.

"I think those indexes reflect normal month-to-month variations," says Holcomb. "Both indexes in the mid-50s show that the global economy is working with us, they continue to like our exports of finished products and we like their raw materials in terms of imports."

The ISM Prices Index registered 58 percent in June, which is a decrease of 2 percentage points compared to the May reading of 60 percent. In June, 23 percent of respondents reported paying higher prices, 7 percent reported paying lower prices, and 70 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.

"I think its good news that it's down a couple of points," explains Holcomb. "The increases are attenuating. The list of commodities up in price is shorter than last month, quite a bit, so I think it's still pretty nominal and consistent with the May forecast of a less than 2 percent increase in prices for the year."

Employment

ISM's Employment Index registered 52.8 percent in June, which is the same percentage as reported in May, and represents the 12th 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.

Overall

Holcomb indicates that there aren't any specific concerns facing manufacturing right now and that the opposite is more likely. Business volumes are stable and are getting stronger, depending upon the specific industry, but all pointing in the right direction.

"I'm pleasantly surprised that our growth continues," adds Holcomb. "The average PMI for 2013 was 53.9 and it finished on a pretty strong note. The first six months of 2014 has an average number of 54.0, so a tenth of point higher, and that with the industry starting on a softer note this year. I particularly like the trend when I compare it to last year and it feels like we're on more solid ground these days. It's a great launching point for us to continue moving in that direction for the second half of the year."

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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