ISM Reports Manufacturing Finishes 1st Half 2016 in Good Shape

written by Lauri Moon | August 10, 2016

(Modern Materials & Handling — Jeff German: 7-1-16)   Manufacturing finished the first half of 2016 in strong shape, based on the June edition of the Manufacturing Report on Business from the Institute for Supply Management (ISM).

The PMI, the index used by the ISM to measure growth, was 53.2 (a reading of 50 or higher indicates growth), which topped May by 1.9% and is the fourth straight month of growth, too. What's more, the PMI is now at its highest level going back to February 2015, when it was at 53.3. From October through February, the PMI had seen sub-50 readings, with October marking the first month that the PMI was below 50 since November 2012. June's PMI is 2.9% above the 12-month average of 50.3. ISM noted the overall economy has seen growth for 85 consecutive months.

Each of the report's core four metrics, including the PMI, saw growth in June. New orders, which are often cited as the engine that drives manufacturing, saw a 1.3% increase to 57.0 and reached its highest level since coming in at 57.4 in December 2014. Production was up 2.1% at 54.7 and at its highest level since July 2015's 55.0. Employment rose 1.2% to 50.4.

ISM said that of the 18 manufacturing sectors contributing to the report, 13 reported growth in June, including: Printing & Related Support Activities; Textile Mills; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Fabricated Metal Products; Apparel, Leather & Allied Products; Paper Products; Miscellaneous Manufacturing; Computer & Electronic Products; Chemical Products; Primary Metals; Machinery; and Nonmetallic Mineral Products. *The three industries reporting contraction in June are*: Electrical Equipment, Appliances & Components; Transportation Equipment; and Plastics & Rubber Products.

ISM member respondents cited in this month's report were encouraging. A food, beverage, and tobacco respondent said his company is gaining new customers through better sales management, and a machinery respondent said business is steady with some signs of increase.

A plastics and rubber products respondent said demand continues to be robust. A primary metals respondent observed that orders are slowing from China, and American consumers are still steady.

“I really like this whole report,” said Brad Holcomb, chair of the ISM Manufacturing Survey Business Committee, in an interview. “It’s been building and increasing in momentum for the last four-to-six months, and we are finishing the first half of the year on a high note.”

Backlog of orders in June saw a 5.5% jump to 52.5, which Holcomb said is a bodes well for future production growth, and supplier deliveries slowed at a faster rate, with a 1.3% difference to 55.4 (a reading above 50 for this metric indicates slowing).

Exports and imports were up 1.0% and 2.0% to 53.5 and 52.0, respectively.

“These metrics all show that things are solidifying and continuing a positive trend after some sluggishness,” he said. “But now things are going the other way. And if you look at some other related news, consumer confidence and spending is up, too, with all things starting and ending with consumers.”

The report’s section on buying policy also paints a positive picture for the current state of manufacturing, with capital expenditures in June average days for commitment lead time went from 127 days in May to 131 days in June. This reflects companies placing more orders for capital equipment.

And with the first half of the year being relatively solid, Holcomb said that this shows manufacturers’ CFO’s are opening up the purse strings to approve projects.

“Things are set up well to align with our forecast we made in May,” he said.

Brexit impact: In a separate report issued today on Britain’s decision to leave to the European Union last week (Brexit), ISM respondents’ feedback indicated that while most procurement executives don’t foresee major disruptions, many are cautiously watching the situation closely and believe Brexit will hamper growth to varying degrees.

Nearly 60% (58%) of manufacturing respondents cited a negligible net financial impact, with 7% saying it was negative, 31% saying it was slightly negative, 4% saying it is slightly positive, and 0% saying it is positive.

“My response to Brexit is ‘who knows?’” said Holcomb. “One scenario is that Europe becomes more competitive, as each nation hunkers down and fights for its share of the marketplace and competes more strongly. In the short-term, there is going to be concerns about the price of currency, currency fluctuations, and other things. The stock market is already completely recovered after the fall, and I am willing to stick with our forecast…and that estimated adjusted increase in our manufacturing revenues of 2.8% appears to remain on track.”

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