

Manufacturing Remains on Right Side of Growth Again in April

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(Modern Material Handling – Jeff Berman: 5-2-16) Manufacturing activity in April remained on the right side of growth for the second straight month, following six months of contraction, according to the April 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 50.8 (a reading of 50 or higher indicates growth) in April, which was down from March's 51.8. 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. April's PMI is 0.4 percent above the 12-month average of 50.4. ISM noted the overall economy has seen growth for 83 months in a row.

Including the PMI, one of the report's key metrics was up in March. New orders, which are often cited as the engine that drives manufacturing, were off 2.5 percent at 55.8, still a very strong number and growing the past four months, and production saw a 1.1 percent decline to 54.2, while also still growing over the last four months. Employment up 1.1 percent to 49.2 and remained in contraction mode for the last five months.

ISM said that of the 18 manufacturing sectors contributing to the report, 11 reported growth in April, including Wood Products; Printing & Related Support Activities; Paper Products; Plastics & Rubber Products; Primary Metals; Fabricated Metal Products; Chemical Products; Machinery; Computer & Electronic Products; Nonmetallic Mineral Products; and Food, Beverage; and Tobacco Products.

Comments submitted to the report by ISM member respondents were on the optimistic side. A printing and related support activities respondent said activity is increasing as his company moves into the busy season, and a miscellaneous manufacturing respondent explained that business conditions are stable, with sales and production rates steady to improving.

“New orders and production are broadening out their bases of support, with 15 of 18 sectors reporting gains in each category, even though the PMI was down slightly,” said Brad Holcomb, chair of the ISM Manufacturing Survey Business Committee, said in an interview.

April inventories at 45.5 were off 1.5 percent from March, which Holcomb said still represents a conservative inventory management strategy on behalf of manufacturers, with most of them likely being instructed to keep inventory levels down. This movement, he said, is likely pulling the PMI down, while noting that is not necessarily a bad thing.

“I think inventories are going to move up in the future, especially as new orders continue to grow,” he said. “New orders minus inventory for April is at 10.3, following 11.3 in March. It is a pretty strong indicator that we don’t have enough inventory to really support this ongoing level of new orders, assuming that continues.”

Prices jumped up 7.5 percent to 59.0, with all commodities, including those related to oil, showing gains. He cited metals and resins, among those seeing gains that are directly related to oil.

April supplier deliveries at 49.1 were down 1.1 percent from March but showed growth as a reading below 50 for this category indicates growth. And backlog of orders dipped 0.5 percent to 50.5.

“If you look at both production and backlog, they obviously work together,” he said. “Production is down a little bit, but backlog is up, which is a good thing as it supports continuing production. Supplier deliveries up and down around 50 is par for the course and sort of going along with the flow.”

While the PMI remained above 50 again in April, IHS Global Insight U.S. Economist Michael Montgomery was bearish in regard to the report.

“The PMI, cooled back down toward mediocrity in April, losing an index point to 50.8 from 51.8,” he stated in a research note. “Orders and production both remained over the 50-mark that separates expansion from contraction, but both lost a bit of ground

from the month before, also cooling back to mediocrity. The much-watched export reading firmed by another half point [to 52.5], but the import tally also rose by half a point, to yield no suggestion of an improving net foreign trade picture.”

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