

Manufacturing Unexpectedly Accelerates Amid U.S. Growth Signs

written by Lauri Moon | June 6, 2016

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(IW - Bloomberg: 6-1-16) Signs of better U.S. growth are cropping up, including in manufacturing, which has been a laggard of the economy.

Activity at factories unexpectedly expanded at a faster pace in May, helped by an increase in orders, the Institute for Supply Management reported Wednesday. The Tempe, Ariz.-based group's index climbed to 51.3 from 50.8 in April, while the median forecast in a Bloomberg survey of 81 economists called for 50.3. Readings greater than 50 indicate growth.

Factories are using a pickup in bookings from the U.S. and abroad to help trim stockpiles, laying the ground for bigger gains in production later in the year. The recent stabilization in oil prices also will probably help stem the slump among energy producers that has contributed to weak business investment, and growth this quarter is set to get a boost from household purchases, which posted a better-than-forecast gain in April.

"Manufacturing is starting to look better," said Scott Brown, chief economist at Raymond James Financial Inc. in St. Petersburg, Florida, who had projected an ISM factory reading of 51.2. "It's an encouraging sign that things aren't unraveling. Ultimately, production is going to increase because of stronger consumer demand."

The new orders gauge was little changed at 55.7 compared with 55.8 in April. A measure of production cooled to 52.6 from 54.2.

Estimates for the manufacturing index in the Bloomberg survey ranged from 49 to 52.

Twelve of 18 industries surveyed by the purchasing managers' group reported growth in May.

One weak spot was the factory employment measure, which held at 49.2, indicating manufacturers trimmed payrolls last month.

In other signs that the industry is turning around, the index of supplier deliveries jumped to 54.1, the highest level since December 2014, from 49.1. A reading greater than 50 means shipments slowed, which often happens when suppliers have trouble keeping up with demand.

The ISM's gauge of factory inventories fell to 45 from 45.5. The index has been lower than 50 for almost a year as producers trim the amount of goods on hand.

Right Direction

"Things, for me, are pointing in the right direction," Bradley Holcomb, chairman of the ISM factory survey, said on a conference call with reporters. With businesses having pared stockpiles and orders picking up, "there's a bit of an inventory shortage" and "suppliers are now having a harder time catching up so they're slower."

The overall tone of the comments from manufacturers in the survey was "cautiously optimistic," he said.

The report also showed the headwinds from sluggish overseas markets may be dissipating. The index of export orders held at 52.5 in May, marking the third straight month demand from abroad has grown.

Manufacturers also are seeing a pickup in price pressures. The index of prices paid jumped to 63.5, the highest level since June 2011, from the previous month's 59.

The factory survey data follows a report on Tuesday that showed the American consumer came back with a vengeance in April after a sluggish start to the year. *Households increased spending during the month by the most since August 2009, and incomes also grew.*