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Economics Group

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ISM: Manufacturing Recovery Continues

The ISM manufacturing index registered 50.8 in April, indicating a second consecutive month of expanding factory activity. New orders suggest further improvement in the near term, but hiring remains soft.

Recovery from the Doldrums

Manufacturing activity continued to recover in April, with the ISM index coming in at 50.8 (top chart). The second consecutive above break-even reading indicates the manufacturing sector is recovering from the weight of the strong dollar, collapsing commodity prices and weakening global growth. While many challenges persist for the industry, the report offers some indication that the worst of the manufacturing slump may be over.

Supporting the composite index was continued expansion in production, new orders and backlogs. Current production remained strong last month, with the index coming in at 54.2. Twelve sectors registered improvement in production, including paper, plastics, chemicals and fabricated metals.

Orders as a Leading Indicator

Also encouraging was the continued positive numbers for new orders at 55.8 (middle chart). The new orders index intimates that the pickup in current production should not give way in the near term. Fifteen industries registered a gain in new orders with improvement in paper, plastics, chemicals and fabricated metals. Moreover, backlogs of orders remained above break-even with seven industries reporting a gain.

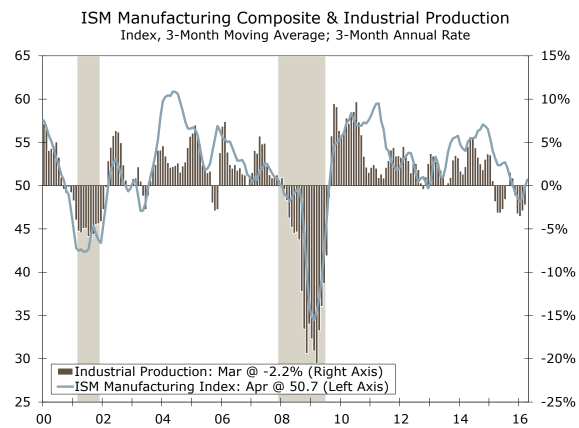
Supporting new orders was a second consecutive plus-50 read on export orders. The export orders index rose to 52.5, and while not seasonally adjusted, it is at its highest level since November 2014. Eight industries reported a gain in export orders. While the dollar still sits at relatively strong levels, the giveback since January looks to be offering some relief to manufacturers selling overseas.

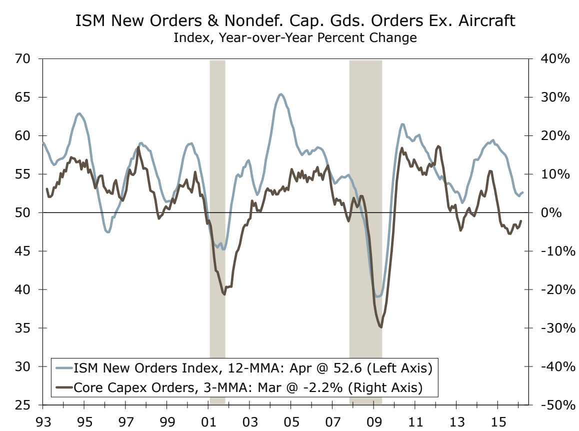
Inventories continued to contract in April, with the index slipping to 45.5. Yet, manufacturers reported that customer inventories looked too low for a third straight month, leading us to believe that the drag from inventories should fade in the coming months.

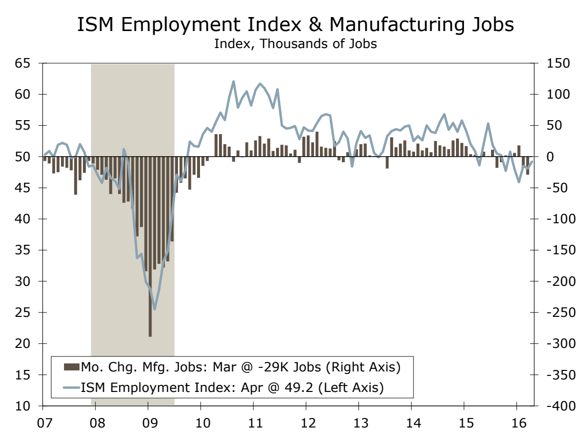
Employment Still Soft, but Near-Term Support for Inflation

Respondents continued to report weak hiring conditions. The employment index remained in contraction territory at 49.2, although this was up 1.1 point from last month (bottom chart). Taken at face value, the employment index suggests another cut to manufacturing payrolls in this Friday's payroll report, although less severe than the past two months where payrolls have declined by an average of 23,500 jobs.

Manufacturers reported an increase in input prices for the second straight month in April. A rebound in commodity prices, including energy products and metals, led 12 out of 18 industries to report higher input costs. The prices index rose to a 20 month high of 59.0 and suggests some support to near-term inflation.







Source: Institute for Supply Mgmt., U.S. Depts. of Labor and Comm., Fed. Res. Board and Wells Fargo Securities, LLC

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