

Economic Analysis

ISM manufacturing index stays in expansion zone

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- The ISM manufacturing index sent positive signals in April, despite falling to 50.8 from 51.8
- New orders and production held on to most gains made in March
- Manufacturing activity is likely to pick up speed as 2Q16 gets underway

The ISM Manufacturing Index posted a loss in April, surprising more to the downside than was expected (consensus stood at 51.5). Dipping from a solid 51.8 in March is not necessarily all negative, as the index remained in expansion territory for the second month in a row, after spending the period between October and February in the contraction zone. The relative strength in March and April indicates that growth in the U.S. manufacturing sector is picking up, despite doing so at a modest speed. The likely reasons for this growth are the relative weakening of the U.S. dollar since February and the relief that the oil and gas industry and its suppliers are getting from increased oil prices.

New orders fell from 58.3 to 55.8, which was still the second best showing in sixteen months. The production index declined from 55.3 to 54.2—the second best showing in nine months. The declines in April in the two components did not erase all of the gains made in March. While the production index is somewhat lower than its historical average, the new orders index is higher, which is especially encouraging. Adding to the positive overtones of the report, the employment component increased to 49.2 from 48.1—the highest reading in five months—signaling a deceleration in the decline in manufacturing employment, which we saw in February and March. The April supplier deliveries index pointed to faster supplier deliveries, while the inventories index pointed to contracting raw materials inventories. Of the 18 manufacturing industries, 11 reported growth in April. The four industries that reported contraction were: petroleum and coal products, transportation equipment, miscellaneous manufacturing, and furniture and related products.

Overall, the April report for the ISM Manufacturing survey is positive, as it indicates weaker headwinds for the manufacturing sector going into the second quarter. Manufacturing is not likely to be a primary driver for growth in 2016, but the drag stemming from it is likely to subside.

Chart 1
ISM manufacturing, new orders and employment indices (SA, 50+ = Economic expansion)



Source: ISM and BBVA Research

Chart 2
ISM new orders index, manufacturers' shipments and orders (Index SA and YoY% change)



Source: ISM, Census Bureau and BBVA Research

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