

U.S. Flash

Manufacturing Activity Slows Despite A Rise In New Orders

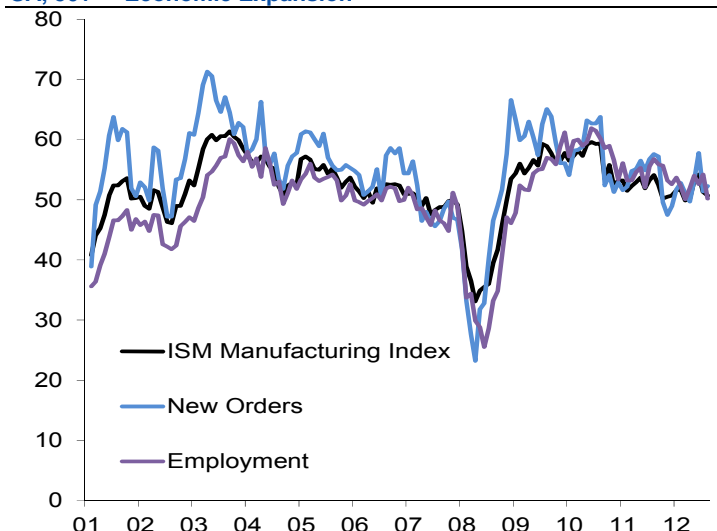
- **The ISM Manufacturing Index fell slightly to 50.7 on employment deceleration**
- **New orders and production rose for the month despite the headline decline**
- **Mixed data shows a slight rise in demand despite a decline in employment & exports**

The ISM Manufacturing Index decelerated slightly to 50.7 in April despite a rise in new orders and production. Although the overall index declined, new orders for April rose to 52.3, halting the deceleration that was expected as we entered into 2Q13. In addition to the rise in new orders, production also rose for the month to 53.5 which reversed the sharp decline seen in last month's report. While both components did not recover back to February levels above the 57 clip, April's acceleration was unexpected and bodes well in terms of the general sentiment around in the manufacturing sector. On the downside, the employment index, a gauge on hiring and general labor market conditions for manufacturing, declined sharply by 4 points to 50.2, very close to falling below 50 into contraction territory. This is in line with the weaker than expected jobs report for March which showed a decline in the number of manufacturing employees. The index is within a tenth of its low for almost the past 5 years and will be watched heavily due to its proxy for the health of the manufacturing sector in terms of long-term growth. Inventories continued to fall further below the 50 level to 46.5 as firms shed a lot of the buildup that came from the beginning of the year. In line with 2Q13 expectations, new export orders decelerated and the measure of imports rose as global demand continues to remain soft.

Despite the acceleration in new orders and production, we do not expect the ISM manufacturing index to jump significantly on either side of its current level in the coming months. With expectations for a slower second quarter and manufacturing already slumping at the end of 1Q13, new orders and production don't seem to have the momentum to drive up the index at a highly accelerated rate. Nonetheless, there is at least some solace in the fact that the overall index remains above 50 despite the trajectory from the prior month.

Chart 1

ISM Manufacturing Index & New Orders SA, 50+ = Economic Expansion



Source: Institute for Supply Management & BBVA Research

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