Another drop in the ISM manufacturing index

HIGHLIGHTS

- The ISM manufacturing index fell for a second straight month in April, from 51.3 to 50.7, its lowest level this year.
- The number of sub-indexes that went up is matched by the number that went down. The main gains come from backlog of orders, supplier deliveries and current production.
- Prices paid lost 4.5 points to reach 50.0.
- The other sub-indexes that lost ground were employment, exports and both inventory-related indexes.

COMMENTS

The 0.6-point drop in the ISM index comes on top of the disappointing 2.9-point decline recorded in March. This means that in the space of two months, the manufacturing ISM has lost much of what it had gained since the end of 2012. The index still stands above the 50 mark, but is not far enough away from it to indicate healthy economic growth. Rather, it is pointing towards a spring slump after last winter’s 2.5% gain in real GDP.

The ISM’s decline appears modest compared with the sharper pullbacks seen in many of the regional indexes. Disappointing performances by the Empire index, the Philadelphia, Richmond, Kansas City and Dallas Fed indexes and the Chicago PMI index were suggesting a sharper drop in the ISM, even a slide below 50.

It is interesting to note that many of the sub-indexes did manage to gain ground in April. For example, the 1.3-point rise in the production component, and the 0.9-point uptick in “new orders” are encouraging. Especially since the main declines stem from the 3.0-point downturns in the manufacturing inventories and customer inventories sub-indexes. A contraction in inventory combined with growth in orders is usually a good omen. The 4.0-point decline in the “employment” component is more disappointing and heralds a lame performance by manufacturing employment for April; that indicator will be released on Friday.

Implications: The decline in the ISM index is one more in a string of bad news that have been published in recent weeks. Businesses appear to be less confident of the strength of the economy than they were at the beginning of the year. This suggests more sluggish real GDP growth in the spring.

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