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Economics Group

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Manufacturing Activity Stumbles in April

The ISM index fell to a two-and-a-half-year low in April as the manufacturing sector continues to face a challenging global environment and somewhat softer domestic demand.

Slowdown in Hiring Expected, New Orders More Concerning

Despite some signs of growth abroad potentially firming and a modest improvement in core capital goods orders recently, the U.S. manufacturing sector remains under pressure. The ISM manufacturing index fell 2.5 points to 52.8, signaling the slowest pace of growth in two and a half years.

The drop in the composite index can primarily be traced to two components: employment and new orders. Starting with employment, the drop in the hiring index to 52.4 from 57.5 was perhaps the least surprising aspect of the report given the index had jumped by 5.2 points the previous month. The pickup in employment in March looked at odds with the slowdown in the industry's new orders and production. After manufacturers added an average of 22,000 jobs per month in 2018, we expect the sector's contribution to payrolls to be noticeably more minimal in the months ahead.

A 5.7 drop in the new orders index, now at 51.7, suggests that the sector is not about to exit the current soft patch. While not as dramatic as the 10.5 point plunge in December, the near-stall out of orders points to a weakening trend in domestic demand and continued malaise overseas. The troublesome global backdrop was evident in the export orders index sinking into contraction territory for the first time in three years. Along with anemic growth overseas and lingering uncertainty about tariffs, the 1.2% increase in the dollar over the past three months has added to U.S. manufacturers' challenges selling into foreign markets.

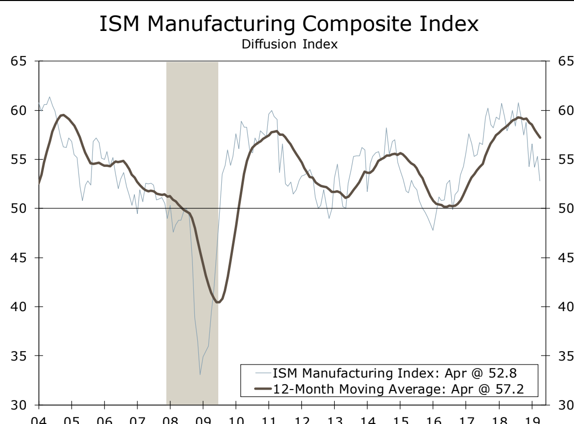
It Wasn't All Bad News

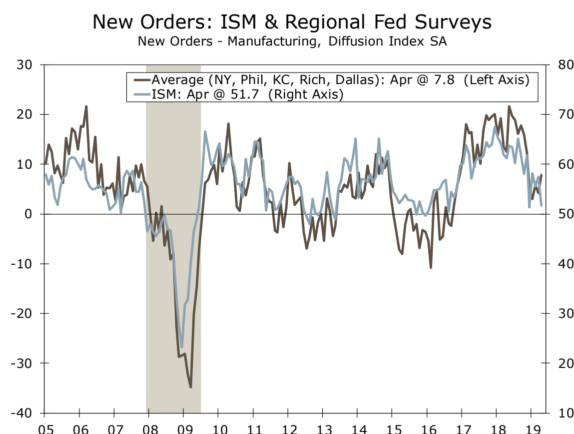
Respondents reported supplier delivery times lengthening a bit (a sign suppliers are busy), although that may be due in part to delays at the U.S./Mexico border based on survey comments. Also, backlogs of new orders rose to a five month high. Although production eased over the month (down 3.5 points to 52.3), the rise in backlogs does not fully square with the drop in new orders, and may—hopefully—suggest the sharp slowdown in new orders is somewhat exaggerated. In fact, a simple average of the regional purchasing managers' indices from the Federal Reserve for April showed new orders actually picking up last month.

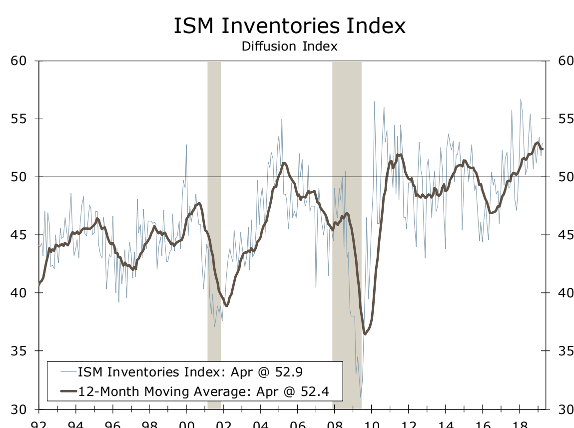
Inventories Yet to Be Worked Off and Muted Price Pressure

A surge in inventories was a major force behind the first quarter's stronger-than-expected GDP print. The first look at how inventories are faring in Q2 suggest that, as of now, a major snapback is not in the cards. The inventory index increased more than a point in April.

In addition to production and orders slowing over the month, the tepid read on input cost inflation suggests that the inventory build is to some degree unintentional. The prices paid index fell to 50.0, signaling no change in prices and a marked departure from 2018 when the index averaged 71.7.







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