ISM U.S. MANUF. INDEX DECLINES SHARPLY; PRODUCTION INDEX FALLS TO ALL-TIME LOW

*The ISM U.S. manufacturing sentiment index declined by 7.6pts to 44.5 in April (consensus: 36.0), the largest monthly decline since October 2008, reflecting a sharp contraction in activity (Chart 1). However, the headline index was inflated by a large increase in the supplier deliveries subindex (+11pts to 76) because of the disruptions to domestic and global supply chains that have lengthened delivery times (Chart 2). Other key subindexes declined to the 20s or 30s reflecting a steeper decline than suggested by the headline index (Chart 3).

*The details of the ISM were broadly weak -- six of the ten subindexes decreased, nine were below 50 (contraction territory), and only two of the 18 manufacturing industries reported growth (Chart 4). The ISM index could return above 50 when shuttered factories re-open in coming months, but the level of activity will remain low for some time.

*Published comments from respondents to the survey were mostly negative as expected (see below), while the food and beverage sector continues to stand out as the lone positive. One respondent from the sector noted that “The food processing B2B space remains steady. We are weathering the storm. There is a fortunate increased need for packaged foods.”

The new orders index tumbled by 15.1pts to 27.1, the largest decline since April 1951, and the backlog of orders index declined by 8.1pts to 37.8, reflecting the sharp drop-off in demand that could persist even after the worst stage of this crisis ends. The production index declined by 20.2pts to 27.5, the lowest in the survey’s 72-year history as 60% of respondents said production was lower (Charts 3 and 5). According to the ISM, “Food, Beverage & Tobacco Products was the only top-six industry sector that expanded, with the others contracting strongly due to lack of new orders and labor available to convert material.”

The ISM manufacturing employment index declined by 16.3pts to 27.5 in April, the second lowest on record, reflecting significant manufacturing job losses. Some affected employees who are on temporary layoff or furlough will be able to return to work when normal factory operations resume.

The ISM’s global trade indicators showed further weakening in both domestic and global demand. The ISM new export orders index declined by 11.3pts to 35.3, and the imports index increased slightly (+0.6pt to 42.7) but remained in contraction territory (Chart 6). Indicators from other countries reflect a similar deterioration in trade: South Korea’s exports declined by 19% yoy in April and China’s manufacturing PMI new export orders index declined by 12.9pts to 33.5 in April (Charts 7 and 8). We expect global trade to fall at least as much as the cumulative peak-to-trough 20% decline in 2008-2009.

We do not expect manufacturing activity to snap back. Factories will reduce production due to the undesired inventory build from the sudden, sharp drop in demand. The spike in unemployment and declines in disposable incomes will lead households to become more cautious and reduce spending on major household goods and big-ticket items. The re-opening of economies across the world will not be synchronized, so the recovery in global demand will be uneven. Global supply chains will take a while to sort and continue to distort production processes.

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Key published comments from respondents to the survey:

- “Thirty-percent decrease for April due to COVID-19 impact on both customers and suppliers.” (Computer & Electronic Products)
- “Production stopped, other than to make hand sanitizer for those in need.” (Chemical Products)
- “COVID-19 has created a wave of activities, including vendors closing, vendors focusing only on the medical industry, employees not coming to work, delayed shipments from overseas, [and] etcetera.” (Transportation Equipment)
- “COVID-19 has destroyed our market and our company. Without a full recovery very soon, and some assistance, I fear for our ability to continue operations.” (Nonmetallic Mineral Product)
- “Dealing with the effects of coronavirus and having 65 percent of our operations down.” (Furniture & Related Products)

Chart 1: ISM U.S. Manufacturing PMI Composite Index

Source: Institute for Supply Management/Haver Analytics

Chart 2: ISM Manufacturing Supplier Deliveries Index

Source: Institute for Supply Management/Haver Analytics
Chart 3: ISM Manufacturing Production Index

Source: Institute for Supply Management/Haver Analytics

Source: Monthly data Source: Institute for Supply Management and Haver Analytics

Chart 4: ISM Manufacturing - Number of Industries Reporting Growth

Source: Institute for Supply Management/Haver Analytics

Source: Monthly data Source: Institute for Supply Management and Haver Analytics
Chart 5: ISM Manufacturing - Share of Respondents Reporting Lower Production

Source: Institute for Supply Management/Haver Analytics

Chart 6: ISM Manufacturing New Export Orders and Imports Indexes

Source: Institute for Supply Management/Haver Analytics
Chart 7: South Korea Exports (year-over-year, %)

Source: Korea Customs Service/Haver Analytics

Source: Monthly data Source: Korea Customs Service and Haver Analytics

Chart 8: China Manufacturing PMI - New Export Orders Index

Source: China Federation of Logistics & Purchasing/CNBS/Haver Analytics

Source: Monthly data Source: China Federation of Logistics & Purchasing/CNBS and Haver Analytics
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