

# Market Commentary 5/8/24

An Oxford Harriman & Company Market Commentary

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## An Increase in Manufacturing Orders May Point to Future Economic Growth

The Institute of Supply Management (ISM) conducts a monthly survey that focuses on the manufacturing industry. The survey asks purchasing and supply managers from over 400 manufacturing companies and 20 different industries (i.e., the individuals who manage their firm's supply chains) about their business and operations. Survey questions ask about new orders, production levels, employment, inventory, and prices. Investors and economists follow the survey closely because it can provide context about broader economic conditions.

The survey question about new orders asks if orders increased or decreased compared to the prior month. Readings above 50 indicate orders increased, while readings below 50 indicate orders decreased. This index is important because purchasing decisions must be made in advance to meet future manufacturing needs. If orders rise and a company expects to increase production, it must buy the required raw materials and other manufacturing inputs months ahead. As a result, rising orders are viewed as positive for the economy.

During the pandemic, the index dropped below 30 as the economy shut down. When the economy reopened and manufacturing activity resumed, order activity increased. The ISM New Orders index rose above 50 in June 2020 and remained above 50 until May 2022, which signaled an extended period of rising orders and economic expansion. However, the rate of growth for new orders slowed in the second half of 2022 as the Federal Reserve raised interest rates. This index remained below 50 throughout 2023, signaling a slowdown in orders and manufacturing activity.

However, the ISM New Orders index climbed above the key 50 threshold in January 2024 and has fluctuated between 49 and 51 in the subsequent

months. A sustained reading above 50 may indicate that manufacturing activity is starting to expand again. Additionally, this may also provide insight into corporate earnings, which tend to be stronger when the ISM New Orders index is higher. This is important as we believe earnings will be a key contributor to the returns of equities as we move through 2024.

## Sources:

Ycharts  
The Wall Street Journal  
Bloomberg

Have a great week ahead,

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