



ADAM BLAKE, AIF®, SENIOR MANAGING DIRECTOR

TAKING THE TEMPERATURE OF THE ECONOMY: PURCHASING MANAGERS' INDEX

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Perhaps it has always been the case, but it seems that there are many challenging factors facing investors today. Many of these factors are hard to put your finger on such as a trade deal with China, Brexit, political decisions, and decisions from the Federal Reserve. While the research team at Clearstead pours through a wide range of economic data, there is a shorter list of indicators that tend to get more attention, especially when volatility is high. The Purchasing Managers' Index can provide some leading insight into how businesses are adjusting to current economic conditions and can provide useful data to investors.

PURCHASING MANAGERS' INDEX (PMI)

Most economic indicators are backward-looking and may not be timely. Conversely, others such as PMI can be a leading indicator and provide the current pulse of businesses and the economy. PMI is a survey that is completed by purchasing managers from hundreds of companies around the world. These representatives respond to questions regarding what they are experiencing in areas such as employment, new orders, output, business activity, and prices. The purchasing managers are asked to provide data from their businesses relative to the prior month and reasons for change.

EMPOWERHER HOSTS ANNUAL LUNCHEON

EmpowHer, Clearstead's women's employee organization, hosted its annual luncheon on October 18th in Cleveland. Over 130 women clients and friends heard featured speaker Maryann Correnti discuss the success of her employer, Heinen's. Maryann shared her valuable experiences at Heinen's, and the crowd came away with great ideas for their own businesses.

More information on EmpowHer can be found on the Clearstead website, www.Clearstead.com.

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The survey questions are compiled and weighted into a composite score. A neutral score is 50. A score above 50 indicates expansion and a score below indicates contraction. Both the absolute level and the trend of the index can be useful in gauging the business environment.

There are two main producers of PMI indexes, the Institute of Supply Management (ISM) and the Markit Group. ISM has a much longer track record, but Markit Group is a global survey that provides comparable data of countries and regions around the world.

In the table below are the topics covered in the Markit Group survey for PMI Manufacturing and PMI Services. Note that the rows align with the equivalent type of question. A manufacturing business would respond to questions around "Output" which is equivalent to a services business responding to questions on "Business Activity."

PMI Manufacturing	PMI Services
Output	Business Activity
New Orders	New Business
Employment	Employment
Input Prices	Input Costs
Output Prices	Output Prices
Backlogs of Work	Outstanding Business
Future Activity	Future Activity
Suppliers' Delivery Times, Quantity of Purchases, Stocks of Purchases, Stocks of Finished Goods, New Export Orders	

Source: Markit Group

CURRENT PMI LEVELS

The table below charts the monthly PMI levels for Manufacturing and Services over the last year using the Markit Group survey. The table is a global PMI comparison color-coded to show higher levels in dark green and lower in white. Generally, one can see a deceleration over the course of the last year with particularly poor readings from Eurozone Manufacturing. Of note, there was a subtle pickup in the manufacturing levels in both the U.S. and China from August to September. The monthly change is hardly a trend but worth watching.

Global PMI

		Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	12M Trend
Global	Mfg	52.0	51.9	51.4	50.7	50.6	50.5	50.4	49.8	49.4	49.3	49.5	49.7	
	Serv	53.4	53.7	53.0	52.6	53.3	53.7	52.7	51.6	51.9	52.5	51.8	51.6	
US	Mfg	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6	50.4	50.3	51.1	
	Serv	54.8	54.7	54.4	54.2	56.0	55.3	53.0	50.9	51.5	53.0	50.7	50.9	
Eurozone	Mfg	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47.0	45.7	
	Serv	53.7	53.4	51.2	51.2	52.8	53.3	52.8	52.9	53.6	53.2	53.5	51.6	
UK	Mfg	51.1	53.3	54.3	52.8	52.1	55.1	53.1	49.4	48.0	48.0	47.4	48.3	
	Serv	52.2	50.4	51.2	50.1	51.3	48.9	50.4	51.0	50.2	51.4	50.6	49.5	
Japan	Mfg	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	
	Serv	52.4	52.3	51.0	51.6	52.3	52.0	51.8	51.7	51.9	51.8	53.3	52.8	
China	Mfg	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	
	Serv	50.8	53.8	53.9	53.6	51.1	54.4	54.5	52.7	52.0	51.6	52.1	52.1	
India	Mfg	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	
	Serv	52.2	53.7	53.2	52.2	52.5	52.0	51.0	50.2	49.6	53.8	52.4	48.7	
S. Korea	Mfg	51.0	48.6	49.8	48.3	47.2	48.8	50.2	48.4	47.5	47.3	49.0	48.0	

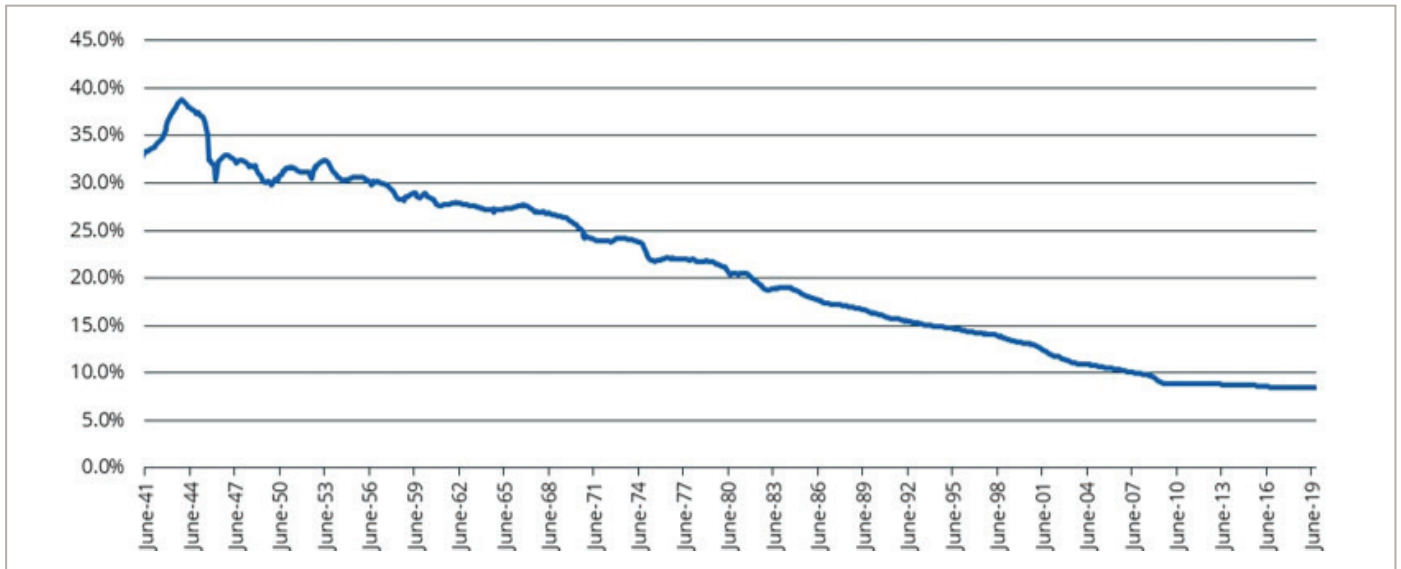
Source: Markit Group

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Over a long period of time, the U.S. has transitioned from a workforce highly dependent on manufacturing to one mostly of services. The table below shows the decline in U.S. manufacturing jobs as a percentage of total employment. Technology and outsourcing have driven this transition. As we evaluate the PMI data, we are interested in the readings of both manufacturing and services. It is certainly possible to have contraction in Manufacturing coupled with expansion in Services.

% of U.S. Manufacturing Employment to Total Employment



Source: Federal Reserve Bank of St. Louis

FINAL THOUGHTS

It's easy to get caught up in headlines on the bull/bear market influencers of the day. At Clearstead, we think it's important to stay grounded and focus on hard data. Clearstead works with hundreds of foundations, family businesses, public companies, hospitals, universities, and private clients. We often spend time with these groups asking what they are seeing in the economy and their areas of focus. We find these conversations valuable and a good gauge of economic activity. Similarly, the Purchasing Managers' Index is a quick and reliable data point to see how businesses are performing and adjusting to economic conditions. There are of course many other useful economic indicators.

We are committed at Clearstead to being disciplined, but continuously challenging ourselves, to drive the best results for our clients.

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Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

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MARKET BENCHMARK RETURNS

October 31, 2019		1M	3M	12M	YTD
US Large Cap	S&P 500	2.2%	2.4%	14.3%	23.2%
US Small Cap	Russell 2000	2.6%	-0.4%	4.9%	17.2%
Developed Intl	MSCI EAFE	3.6%	3.8%	11.0%	16.9%
Emerging Intl	MSCI Em Mkt	4.2%	1.0%	11.9%	10.4%
Real Estate	NAREIT	1.1%	6.8%	24.2%	28.8%
Core Fixed	BarCap Agg	0.3%	2.4%	11.5%	8.8%
Short Fixed	BarCap 1-3Yr	0.3%	1.1%	4.9%	3.8%
Long Fixed	BarCap LT G/C	-0.1%	5.8%	26.0%	20.9%
Corp Debt	BarCap Corp	0.6%	3.0%	14.9%	13.3%

Source: Bloomberg

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