What’s Driving The Global Manufacturing Resurgence?

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The latest monthly figures for global manufacturing activity during August show continued expansion in industrial performance in many regions of the world. It’s a far cry from the industrial rollercoaster and dips into contraction over much of the last two years. Today, all the signals are that factory output is steadily increasing and new orders are again beginning to boom, especially in developed Western economies.

But what is driving this renewed growth? What underlying trends are now pushing manufacturing indicators upwards in these particular global economies? The figures certainly suggest a welcome change of fortunes in many nations:

U.S.: Activity across the U.S. manufacturing sector continued to grow in August. The latest figures from the U.S. Institute of Supply Management (ISM) show a PMI of 55.7 for last month, up from 55.4 in July. That is well above the 50 threshold that indicates growth and the fastest rate of expansion in over two years. The new orders index also shot ahead, says ISM, up from 58.3 to 63.2 in August.

The alternative U.S. manufacturing PMI from researchers Markit also showed new orders rising at the fastest rate since early this year. "Inflows of new orders – a useful guide to future production – are growing at the fastest rate for seven months," noted Markit's chief economist, Chris Williamson. "At the same time, inventories of finished goods showed the largest fall since 2009 as some companies reported that demand often exceeded production. Factories will need to ramp up production to replace depleted inventories given this order book growth."

“Exports are also rising alongside growing domestic sales, despite weak demand from many emerging markets," he added. "Importantly, with the eurozone pulling out of recession and growth picking up in the UK and Japan, exports look likely to continue to act as an important driver of U.S. economic growth in coming months."

Eurozone: The 17-nation Eurozone’s manufacturing sector PMI, meanwhile, hit a 26-month high of 51.4 points, up from 50.3 in July. This includes two-year highs in Germany, the Netherlands, Italy and Spain. Factories across central Europe also reported growth in output and new business in August, with PMIs beating forecasts in Poland (52.6) and the Czech Republic (53.9), and pushing Hungary back into expansion (51.7). Overall, growth rates for Eurozone production, new orders and new export business all accelerated to the fastest since May 2011, while the region’s new orders-to-inventory ratio hit a 28-month high, boding well for continued growth in next few months.

UK: British manufacturing also accelerated suddenly last month with a PMI of 57.2, up from 54.8 in July and its fifth straight month of expansion. "The UK's factories are booming again, ”said Rob Dobson, an economist at Markit. “Orders and output are growing at the fastest rates for almost 20 years, as rising demand from domestic customers is being accompanied by a return to growth of [the U.K.’s] largest trading partner, the Eurozone."

China: China's factory activity also swung back into growth for the first time in four months in August as domestic demand rebounded. The Markit/HSBC Purchasing

Managers' Index (PMI) climbed to 50.1 last month, up sharply from July's 47.7. However, new export orders fell for the fifth straight month, perhaps a reflection of the increasingly regional production approaches being adopted by global manufacturing companies as they rethink their factory footprints to be closer to regional and local markets.

South Africa: Even South Africa is beginning to see a change of fortunes, with the August manufacturing PMI showing activity growing at its fastest pace in six years at 56.5 in August from 52.2 in July, the highest since August 2007. New orders also increased to 57.5 from 55.0.

India: Not so positive are India's results for August, with the Indian manufacturing PMI sinking to 48.5, down from 50.1 in July. India has now dropped into the contraction zone for the first time in more than four years. National fiscal policies and internal ecomonic sluggishness appear to be taking their toll.

The question is, of course, why are we now seeing this growth in manufacturing activity in many areas of the world? Is it a temporary improvement, or does it reflect some fundamental underlying trends that will be sustainable for the future?

Industry observers have suggested a number of economic, industrial and market factors may be at play here. Here are some examples.

* Is it the result of the widespread re-stocking of inventories, now running low as companies reduced stock levels over the last 18 months so they are now beginning to replenish their stores, but this time moving more towards on-demand, build-to-order business models?

* Are regional manufacturing strategies increasingly swinging the production pendulum away from low-cost Asian locations, and closer to regional and local markets around the world so boosting demand and activity in developed nations?

* Are reduced fears over U.S. financial health, so prevalent at the beginning of the year on the back of the Fiscal Cliff crisis, now abating and so boosting U.S. buyer confidence and industrial investment and production?

* Is it partly because Europe's economic recovery is now looking more stable, encouraging buyer confidence across the region and helping to fuel domestic production and demand, and international trade?

* Is it because the world is now beginning to see a vibrant new wave of innovation, much of it digitally-dependent, that's creating whole new product ranges, and sometimes new markets, so stimulating global demand and helping to drive industrial expansion?

Or is it something else? What do you think is driving the current expansion in manufacturing activity across many of the world's major economies?