

Marquette-ISM Report on Manufacturing April 2014- Final Release

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Final Version (includes ISM National Results for April, 2014)

*The Marquette-ISM Report on Manufacturing was prepared by **David Mielke and Terrin Clark**, graduates student in applied economics at Marquette University, and distributed by **Beth Krey**, Assistant Director of the Center for Supply Chain Management.*

Please direct data questions and requests for media commentary to Dr. Fisher.

This report should not be confused with the ISM National Report published by the Institute of Supply Management. While a reasonable attempt has been made to remain consistent with the national report, the contents of this report reflect only information pertinent to the southeast Wisconsin and northern Illinois region. This report is not used in the calculation of the national report.

Summary

Milwaukee-area PMI	April 2014	March 2014	February 2014
Seasonally adjusted	47.26	56.03	48.59

(Milwaukee, Wisconsin) – April's Index registered 47.26, below the 50-level indicating negative territory. This places the index below 50 for the second time this year (2014). It registered below 50 in three months of 2013 (April, May and August).

What respondents are saying in April 2014:

- Beginning of our summer lift
- Gained a new, non-automotive customer
- Lead times getting really bad
- What exactly do distributors do if they aren't stocking parts?
- Most commodities readily available, prices up slightly on chemicals

Important: See explanatory notes on the survey and diffusion index at the end of this report.

MANUFACTURING AT A GLANCE: April 2014*				
Index	Series Index Apr-14	Series Index Mar-14	Percentage Point Change	Direction
PMI	47.26	56.03	-8.8	declining
New Orders	40.38	60.88	-20.5	declining
Production	38.34	59.72	-21.4	declining
Employment	52.13	54.51	-2.4	growing
Supplier Deliveries	59.63	55.04	4.6	slower
Inventories	45.83	50.00	-4.2	declining
Customers' Inventories *	42.50	37.50	5.0	declining
Prices *	63.04	58.70	4.3	growing
Backlog of Orders *	54.17	54.55	-0.4	growing
Exports *	50.00	47.06	2.9	-
Imports *	52.63	55.88	-3.3	growing

(*) The indices are seasonally adjusted *except for* the Customers' Inventories, Prices, Backlog of Orders, Exports, and Imports Indexes, which do not meet the accepted criteria for seasonal adjustments.

What respondents are saying in April, 2014:

- Difficulty with distributors stocking parts
- Forward booking of summer shipments

- **Blue and White Collar Employment:**

We have collected input on Blue and White Collar Employment. The indices are below for **February 2014, March 2014, and April 2014**

	Diffusion Index Feb-14	Diffusion Index Mar-14	Diffusion Index Apr-14	Direction	Comments
Blue Collar	48.9	54.5	48.3	declining	--
White Collar	53.4	56.6	52.1	growing	--

Note: These have been calculated based on the seasonally adjusted (SA) Blue and White Collar indices.

What respondents are saying in April, 2014:

- Attrition not filled
- Direct labor lay-off continues; experiencing some salaried attrition

COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY

As an addition to the report, we have calculated commodity price indexes. We look forward to continuing to do so going forward. Below we have shown **February 2014, and March 2014, and April 2014**

Category	February 2014 Diffusion index	March 2014 Diffusion index	April 2014 Diffusion index	change in percentage point
Aluminum	62.5	40.0	63.3	23.3
Brass	70.0	40.0	50.0	10.0
Caustic Soda	25.0	25.0	50.0	25.0
Chemicals	75.0	75.0	75.0	0.0
Copper	61.1	33.3	30.0	-3.3
Copper Based Products	66.7	35.7	28.6	-7.1
Cocoa Powder	-	-	-	-
Corn	0.0	25.0	-	-
Corrugated Containers	50.0	50.0	54.5	4.5
Diesel	50.0	90.0	87.5	-2.5
Electronic Components	60.0	60.0	43.8	-16.3
Gasoline	41.7	100.0	100.0	0.0
High Density Polyethylene	37.5	33.3	50.0	16.7
Natural Gas	88.9	92.9	50.0	-42.9
Nickel	50.0	100.0	100.0	0.0

PET	50.0	50.0	50.0	0.0
Plastic Resins	70.0	66.7	50.0	-16.7
Polyester	62.5	66.7	50.0	-16.7
Polyethylene Resins	50.0	50.0	58.3	8.3
Soybean Oil	-	0.0	83.3	83.3
Stainless Steel	44.4	55.0	64.3	9.3
Starch	50.0	-	-	-
Steel	70.8	42.9	72.7	29.9
Steel Products	75.0	50.0	66.7	16.7
Sulfur	50.0	-	-	-
Tin Plate	66.7	50.0	-	-
Titanium Dioxide	0.0	50.0	50.0	0.0
Wheat	-	-	-	-
Beef/Pork	50.0	100.0	100.0	0.0

Buying Policy

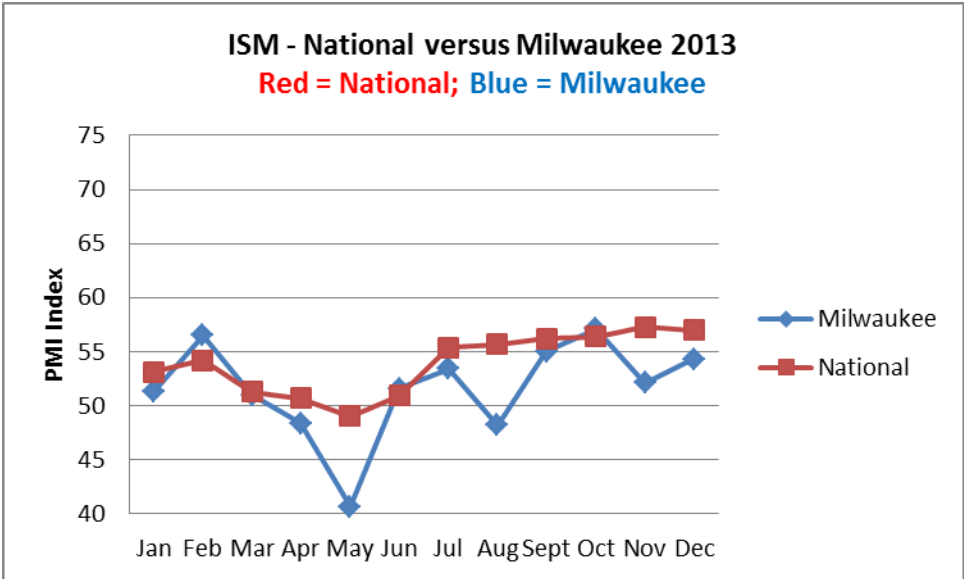
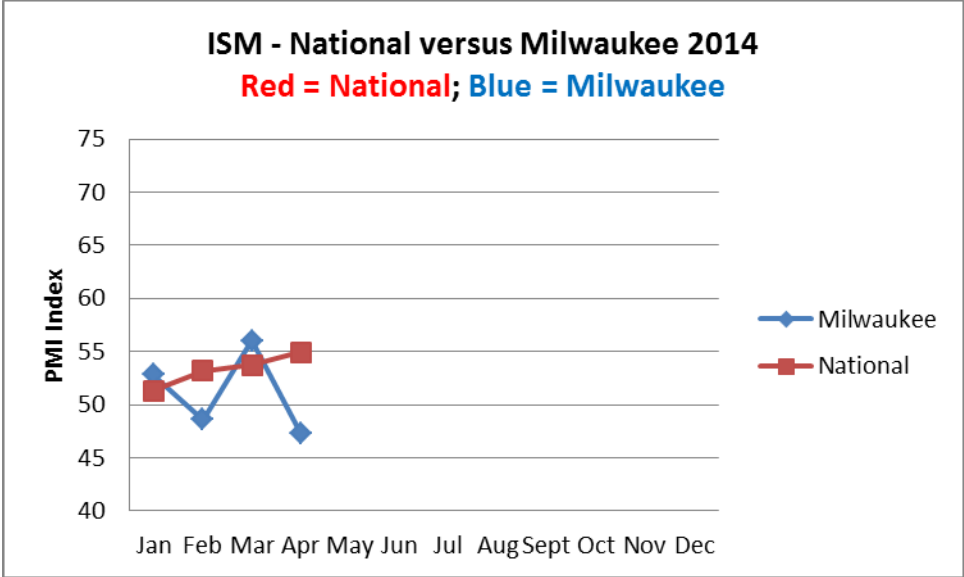
Average commitment lead time for Capital Expenditures decreased by 4 days to 87 days. Average lead time for Production Materials increased by 4 days to 39 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased by 1 day to 18 days.

Six- Month Outlook on Business Conditions

In this outlook, there is a downward shift in positive expectations compared with March in terms of market conditions. Approximately 23.8% of respondents expect positive conditions, 57.1% expect conditions to remain the same and 19.0% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Apr-14	23.8%	57.1%	19.0%	52.4%
Mar-14	42.9%	42.9%	14.3%	64.3%
Feb-14	31.8%	50.0%	18.2%	56.8%

Milwaukee versus the Nation – (for graphs of 2010, 2011, and 2012, see Dec 2013’s report)



Insights on the ISM PMI from the National Organization:

ISM *Manufacturing Report On Business*[®] Background

In February 1982, the PMI was developed by the U.S. Department of Commerce (DOC) and ISM. The index, based on analytical work by the DOC, adjusts five components of the Institute's monthly survey — new orders, production, employment, supplier deliveries and inventories — for normal seasonal variations, applies equal weights to each and then calculates them into a single monthly index number.

An update of research originally done by Theodore S. Torda, the late economist for the DOC, shows a close parallel between growth in real Gross Domestic Product (GDP) and the PMI. The index can explain about 60 percent of the annual variation in GDP, with a margin of error that averaged $\pm .48$ percent during the last ten years. George McKittrick, an economist at the DOC, said "Not only does the PMI track well with the overall economy, but the indication provided by ISM data about how widespread changes are, complements analogous government series that show size and direction of change."

In January 1989, the Supplier Deliveries Index from the *Report* became a standard element of the DOC's Bureau of Economic Analysis Index of Leading Economic Indicators. The data was incorporated into the index from June 1976 forward. In January 1996, The Conference Board began compiling this index.

What Is a Diffusion Index?

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. The percent response to the "Better," "Same" or "Worse" question is difficult to compare to prior periods. Therefore, the percentages are "diffused" for this purpose. A diffusion index takes those indicating "Better" and half of those indicating "Same" and adds the percentages. This effectively measures the bias toward a positive (above 50 percent) or negative index (below 50 percent). For example, if the response is 20 percent "Better," 70 percent "Same," and 10 percent "Worse," then the diffusion index would be 55 percent ($20\% + [0.50 \times 70\%]$). The data for each question is converted to a diffusion index and then seasonally adjusted.

For each index, a reading above 50 percent indicates expansion of an index, while a reading below 50 percent indicates it is generally declining. And a reading of 50 percent indicates "no change" from the previous month. Supplier Deliveries is an exception. A Supplier Deliveries Index above 50 percent indicates slower deliveries, and below 50 percent indicates faster deliveries.

<http://www.ism.ws/files/ISMReport/ROBBroch08.pdf>