

Marquette-ISM Report on Manufacturing February 2015- Final Release

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*The Marquette-ISM Report on Manufacturing was prepared by **Chris Bango**, a graduate student in Applied Economics at Marquette University, and distributed by **Beth Krey**, Associate 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	February 2015	January 2015	December 2014
Seasonally adjusted	50.32	51.60	57.61

(Milwaukee, Wisconsin) – February’s Index registered at 50.32, which is above the 50-level indicating positive territory. This places the index above 50 for sixteen of the past eighteen months.

What respondents are saying in February 2015:

- January was a slow month for some companies
- Companies are continuing to anticipate an economic bounce.

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

MANUFACTURING AT A GLANCE: February 2015*				
Index	Series Index Feb-2015	Series Index Jan-2015	Percentage Point Change	Direction
PMI	50.32	51.60	-1.3	growing
New Orders	41.70	49.41	-7.7	declining
Production	45.51	63.39	-17.9	declining
Employment	58.13	54.58	3.5	growing
Supplier Deliveries	59.20	51.74	7.5	slower
Inventories	47.06	38.89	8.2	declining
Customers' Inventories *	61.76	50.00	11.8	growing
Prices *	38.24	33.33	4.9	declining
Backlog of Orders *	38.24	44.44	-6.2	declining
Exports *	53.85	50.00	3.8	growing
Imports *	43.33	57.69	-14.4	declining

(*) 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 February 2015:

- Increased volumes of orders and weather conditions at the East ports are impacting the ability to deliver on-time and accept near term orders. There have also been West Port congestion problems.
- Companies have been limited on accepting near term orders.
- Companies are currently experiencing a lull before the spring orders come in for summer installs.

Blue and White Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **December 2014, January 2015, and February 2015.**

	Diffusion Index Dec-14	Diffusion Index Jan-15	Diffusion Index Feb-15	Direction	Comments
Blue Collar	52.6	57.3	46.5	declining	-
White Collar	52.6	45.8	58.1	growing	-

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

What respondents are saying in February 2015:

- Freight issues have resulted due to labor disputes.
- There have been issues replacing workers.

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 **December 2014, and January 2015, and February 2015.**

Category	December 2014 Diffusion index	January 2015 Diffusion index	February 2015 Diffusion index	change in percentage point
Aluminum	66.67%	31.82%	40.00%	8.2
Brass	33.33%	16.67%	37.50%	20.8
Caustic Soda	75.00%	75.00%	50.00%	-25.0
Chemicals	50.00%	28.57%	37.50%	8.9
Copper	16.67%	12.50%	37.50%	25.0
Copper Based Products	25.00%	16.67%	25.00%	8.3
Cocoa Powder	-	50.00%	-	-
Corn (NA)	0.00%	0.00%	0.00%	0.0
Corrugated Containers	50.00%	50.00%	50.00%	0.0
Diesel	0.00%	0.00%	66.67%	66.7
Electronic Components	50.00%	50.00%	75.00%	25.0
Gasoline	0.00%	0.00%	58.33%	58.3
High Density Polyethylene	50.00%	40.00%	50.00%	10.0
Natural Gas	16.67%	41.67%	25.00%	-16.7

Nickel	50.00%	33.33%	25.00%	-8.3
PET	50.00%	25.00%	0.00%	-25.0
Plastic Resins	41.67%	21.43%	20.00%	-1.4
Polyester	50.00%	25.00%	37.50%	12.5
Polyethylene	37.50%	37.50%	37.50%	0.0
Resins	50.00%	20.00%	16.67%	-3.3
Soybean Oil	0.00%	-	0.00%	-
Stainless Steel	31.25%	43.75%	50.00%	6.3
Starch	-	-	-	-
Steel	25.00%	22.22%	35.00%	12.8
Steel Products	41.67%	37.50%	44.44%	6.9
Sulfur	-	-	-	-
Tin Plate	50.00%	25.00%	50.00%	25.0
Titanium Dioxide	50.00%	50.00%	25.00%	-25.0
Wheat	-	0.00%	-	-
Beef/Pork	0.00%	50.00%	0.00%	-50.0

Buying Policy

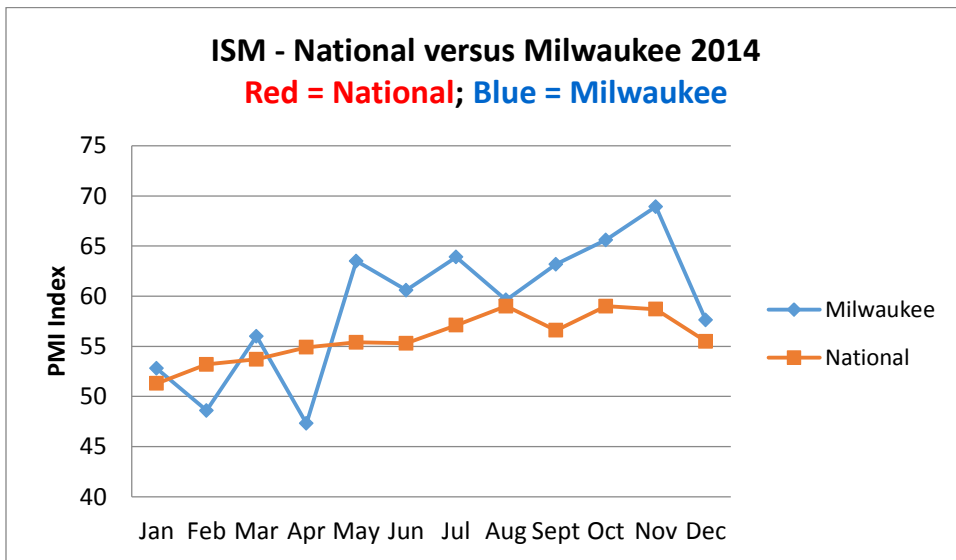
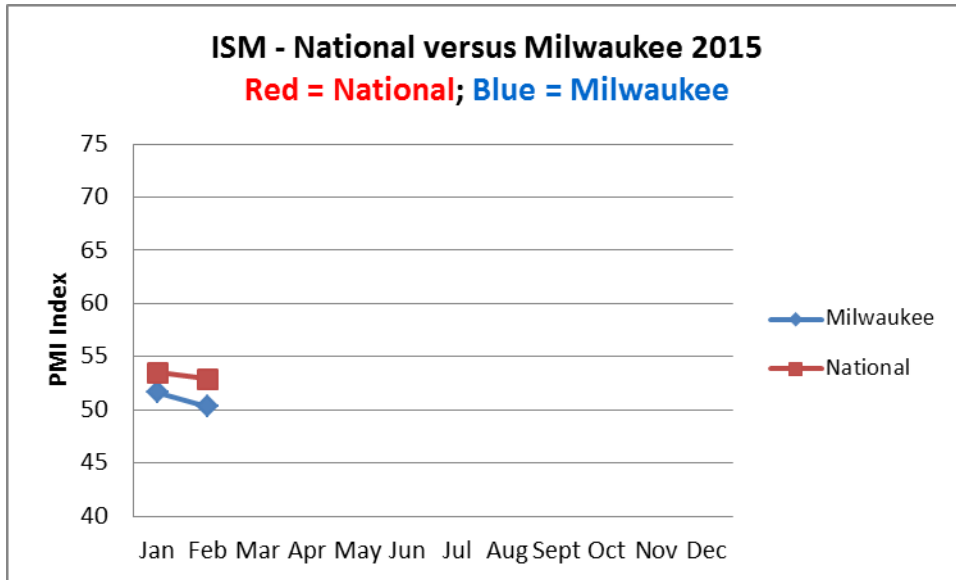
Average commitment lead time for Capital Expenditures increased by 29 days to 122 days. Average lead time for Production Materials decreased by 8 days to 36 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 5 days to 21 days.

Six- Month Outlook on Business Conditions

In this outlook, there is a downward shift in positive expectations compared with January in terms of market conditions. Approximately 33.3% of respondents expect positive conditions, 53.3% expect conditions to remain the same and 13.3% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Feb-15	33.3%	53.3%	13.3%	60.0%
Jan-15	37.5%	43.8%	18.8%	59.4%
Dec-14	38.5%	53.8%	7.7%	65.4%

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



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>