

Marquette-ISM Report on Manufacturing February 2014- Final Release

Contact: Dr. Douglas Fisher
Director, Center for Supply Chain Management
Marquette University
(414) 288-3995
douglas.fisher@marquette.edu

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*The Marquette-ISM Report on Manufacturing was prepared by **David Mielke**, graduate 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	February 2014	January 2014	December 2013
Seasonally adjusted	48.59	52.82	54.27

(Milwaukee, Wisconsin) – January’s seasonally adjusted Index for Milwaukee’s manufacturing sector registered at 48.59, which is below the ‘pivotal’ 50. February is the first month in the last six months with a PMI index value of below 50.

What respondents are saying in February 2014:

- There are no near term commodity or service issues affecting our supply chain. Most cost drivers are stable/unchanged.
- This is our seasonal slow period.
- Rail traffic is very slow and congested. There are much longer than normal transit times, which are causing shortages and reductions in production.
- US weather having impact for on-time delivery of incoming material.

- Some early excitement for China exports tempered by late February as orders pulled back

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

MANUFACTURING AT A GLANCE: February 2014*				
Index	Series Index Feb-14	Series Index Jan-14	Percentage Point Change	Direction
PMI	48.59	52.82	-4.2	declining
New Orders	41.63	49.50	-7.9	declining
Production	40.55	59.59	-19.0	declining
Employment	51.15	53.46	-2.3	still positive
Supplier Deliveries	61.92	53.70	8.2	slower
Inventories	47.73	47.83	-0.1	still negative
Customers' Inventories *	34.21	45.24	-11.0	declining
Prices *	63.64	65.22	-1.6	growing
Backlog of Orders *	42.86	45.45	-2.6	declining
Exports *	60.00	50.00	10.0	growing
Imports *	50.00	52.94	-2.9	-

(*) 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, 2014:

- The lack of orders in November and December has impacted our production for January, February, and March.
- We are seeing fewer orders.
- Customer is adding new products.
- We are fulfilling orders from previous months (we have long lead times).
- Our Industry typically sees an increase in orders February and March.

- **Blue and White Collar Employment:**

We have collected input on Blue and White Collar Employment. The indices are below for **December 2013, January 2014, and February 2014.**

	Diffusion Index Dec-13	Diffusion Index Jan-14	Diffusion Index Feb-14	Direction	Comments
Blue Collar	53.7	55.7	48.9	declining	--
White Collar	56.3	49.0	53.4	growing	--

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

What respondents are saying in February, 2014:

- Short term layoffs

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 2013, January 2014, and February 2014.**

Category	December 2013 Diffusion index	January 2014 Diffusion index	February 2014 Diffusion index	change in percentage point
Aluminum	41.7	53.6	62.5	8.9
Brass	50.0	78.6	70.0	-8.6
Caustic Soda	50.0	50.0	25.0	-25.0
Chemicals	41.7	70.0	75.0	5.0
Copper	37.5	70.0	61.1	-8.9
Copper Based Products	50.0	92.9	66.7	-26.2
Cocoa Powder	-	-	-	-
Corn	0.0	0.0	0.0	0.0
Corrugated Containers	50.0	54.5	50.0	-4.5
Diesel	35.7	58.3	50.0	-8.3
Electronic Components	50.0	66.7	60.0	-6.7
Gasoline	21.4	56.3	41.7	-14.6
High Density Polyethylene	75.0	50.0	37.5	-12.5
Natural Gas	60.0	58.3	88.9	30.6
Nickel	50.0	71.4	50.0	-21.4

PET	50.0	50.0	50.0	0.0
Plastic Resins	57.1	64.3	70.0	5.7
Polyester	50.0	50.0	62.5	12.5
Polyethylene Resins	70.0	75.0	50.0	-25.0
Soybean Oil	0.0	0.0	-	-
Stainless Steel	45.5	46.2	44.4	-1.7
Starch	-	-	50.0	-
Steel	58.3	57.1	70.8	13.7
Steel Products	54.2	64.3	75.0	10.7
Sulfur	-	-	50.0	-
Tin Plate	100.0	75.0	66.7	-8.3
Titanium Dioxide	50.0	25.0	0.0	-25.0
Wheat	-	-	-	-
Beef/Pork	100.0	100.0	50.0	-50.0

What respondents are saying in February 2014:

- We are seeing some increases in pricing from a few suppliers. Some say it is due to the increase in metal prices, but the increase is very small.
- Some prices of petroleum based products have moved higher by 1-3%.
- Negotiated new pricing.

Buying Policy

Average commitment lead time for Capital Expenditures increased by 6 days to 99 days. Average lead time for Production Materials remained constant at 37 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased by 1 day to 20 days.

Six- Month Outlook on Business Conditions

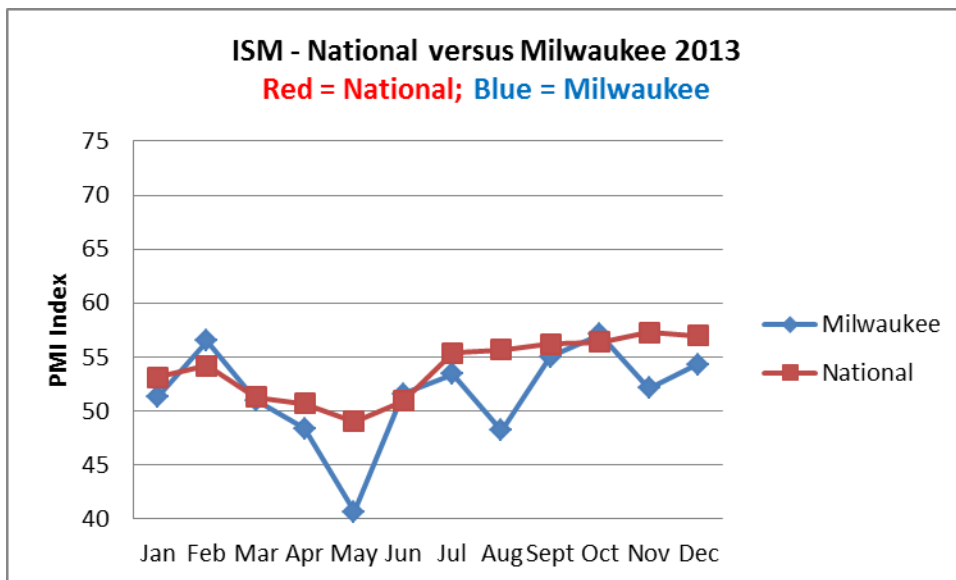
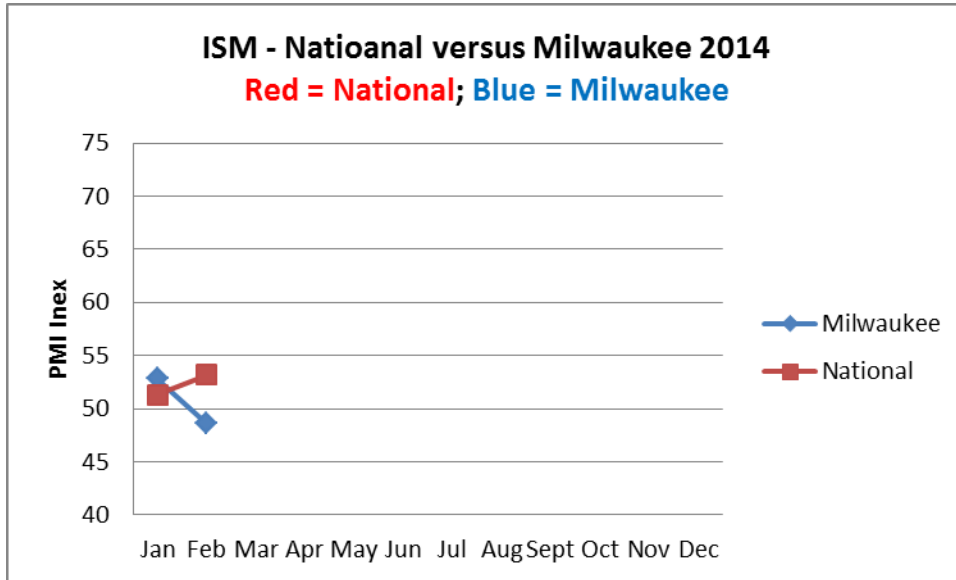
In this outlook, there is a downward shift in positive expectations compared with January in terms of market conditions. Approximately 31.9% of respondents expect positive conditions, 50% expect conditions to remain the same and 18.2% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Feb-14	31.8%	50.0%	18.2%	56.8%
Jan-14	40.9%	40.9%	18.2%	61.4%
Dec-13	42.9%	42.9%	14.3%	64.3%

Regarding the six-month outlook, respondents are saying:

- Very slow start to 2014
- Little confidence in numbers past 90 days
- Economic growth remains sluggish
- Stable order cycles, announced new customer programs

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>