

Marquette-ISM Report on Manufacturing January 2014- Final Release

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[Final Version – Includes the results of the ISM-National survey]

*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	January 2014	December 2013	November 2013
Seasonally adjusted	52.82	54.27	52.06

(Milwaukee, Wisconsin) – January’s seasonally adjusted Index for Milwaukee’s manufacturing sector registered at 52.82, which is above the ‘pivotal’ 50. January is the fifth consecutive month with a PMI index value of over 50.

What respondents are saying in January 2014:

- No major supply chain issues – All commodities are readily available and the economy remains sluggish
- The difficulty in predicting incoming customer orders has become an on-going problem over the past 12 months due to high volatility in order patterns.
- We are hearing some softness on the consumer end.

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

MANUFACTURING AT A GLANCE: January 2014*				
Index	Series Index Jan-14	Series Index Dec-13	Percentage Point Change	Direction
PMI	52.82	54.27	-0.6	growing
New Orders	49.50	56.02	-4.0	declining
Production	59.59	55.49	3.9	growing
Employment	53.46	58.82	-5.1	growing
Supplier Deliveries	53.70	58.13	-2.7	slower
Inventories	47.83	42.86	5.0	declining
Customers' Inventories *	45.24	42.11	3.1	declining
Prices *	65.22	59.52	5.7	growing
Backlog of Orders *	45.45	42.86	2.6	declining
Exports *	50.00	50.00	0.0	--
Imports *	52.94	53.33	-0.4	growing

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

What respondents are saying in January, 2014:

- Trying to get ahead of Chinese New Year
- (Regarding exports) – Brazil slowing – end of government subsidy

Blue and White Collar Employment:

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

	Diffusion Index Nov-13	Diffusion Index Dec-13	Diffusion Index Jan-14	Direction	Comments
Blue Collar	47.7	53.7	55.7	growing	--
White Collar	56.1	56.3	49.0	declining	--

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

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 **October, November, and December 2013.**

Category	November 2013 Diffusion index	December 2013 Diffusion index	January 2014 Diffusion index	change in percentage point
Aluminum	40.0	41.7	53.6	11.9
Brass	16.7	50.0	78.6	28.6
Caustic Soda	50.0	50.0	50.0	0.0
Chemicals	60.0	41.7	70.0	28.3
Copper	42.9	37.5	70.0	32.5
Copper Based Products	37.5	50.0	92.9	42.9
Cocoa Powder	-	-	-	-
Corn	0.0	0.0	0.0	0.0
Corrugated Containers	50.0	50.0	54.5	4.5
Diesel	30.0	35.7	58.3	22.6
Electronic Components	50.0	50.0	66.7	16.7
Gasoline	0.0	21.4	56.3	34.8
High Density Polyethylene	50.0	75.0	50.0	-25.0
Natural Gas	60.0	60.0	58.3	-1.7
Nickel	50.0	50.0	71.4	21.4
PET	-	50.0	50.0	0.0
Plastic Resins	60.0	57.1	64.3	7.1
Polyester	50.0	50.0	50.0	0.0

Polyethylene	50.0	70.0	75.0	5.0
Resins	50.0	50.0	62.5	12.5
Soybean Oil	0.0	0.0	0.0	0.0
Stainless Steel	45.0	45.5	46.2	0.7
Starch	50.0	-	-	-
Steel	72.7	58.3	57.1	-1.2
Steel Products	68.8	54.2	64.3	10.1
Sulfur	-	-	-	-
Tin Plate	50.0	100.0	75.0	-25.0
Titanium Dioxide	75.0	50.0	25.0	-25.0
Wheat	-	-	-	-
Beef/Pork	100.0	100.0	100.0	0.0

What respondents are saying in January 2014:

- Supply constraint in key commodity
- We are receiving increases in proposals, but we have been able to push most back.
- Negotiated steel for 2014

Buying Policy

Average commitment lead time for Capital Expenditures increased by 7 days to 93 days. Average lead time for Production Materials increased by 2 days to 37 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased by 2 days to 21 days.

Six- Month Outlook on Business Conditions

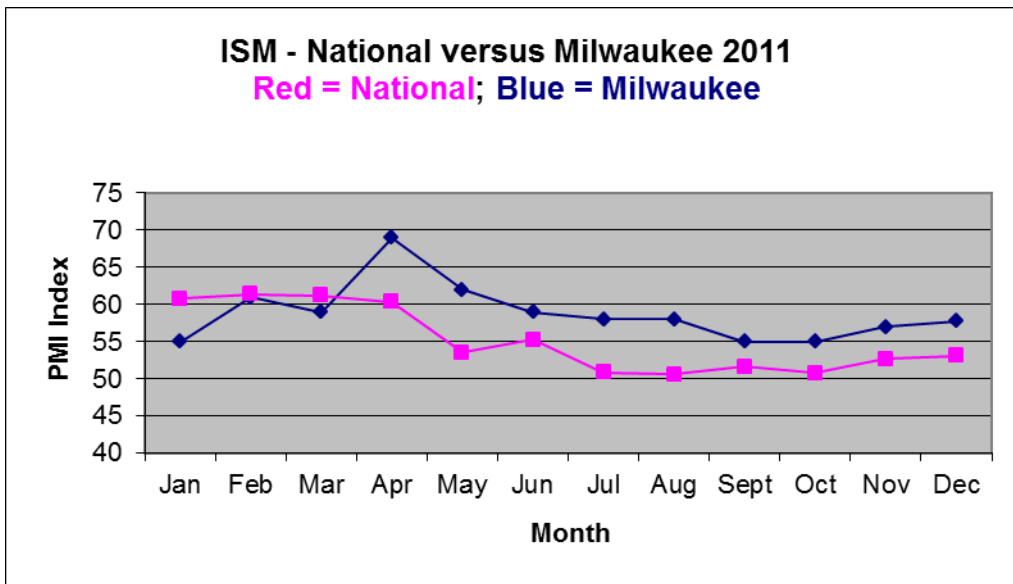
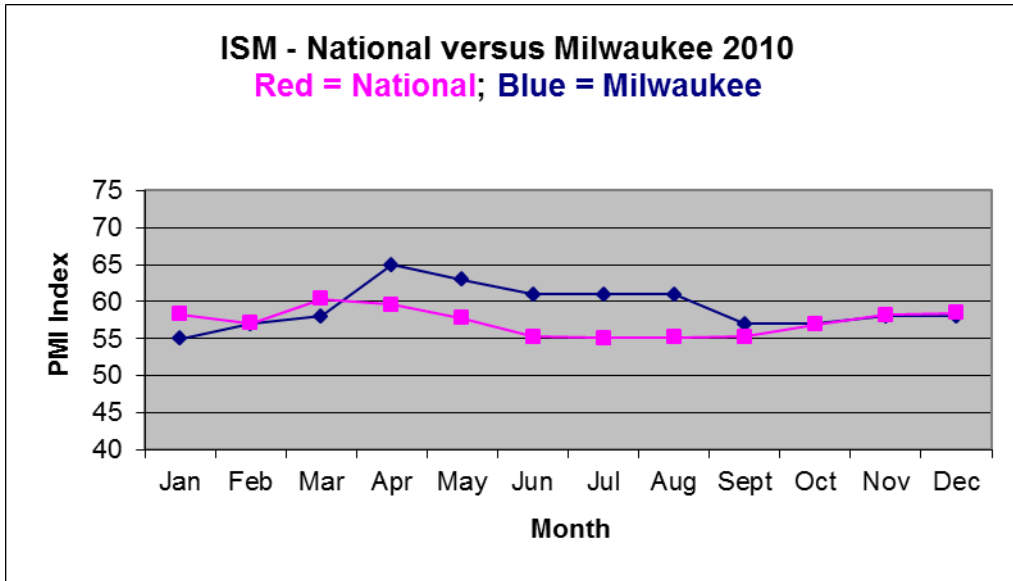
In this outlook, expectations remained relatively consistent from December to January in terms of market conditions. Approximately 40.9% of respondents expect positive conditions, 40.9% expect conditions to remain the same and 18.2% expect conditions to worsen within the next six months.

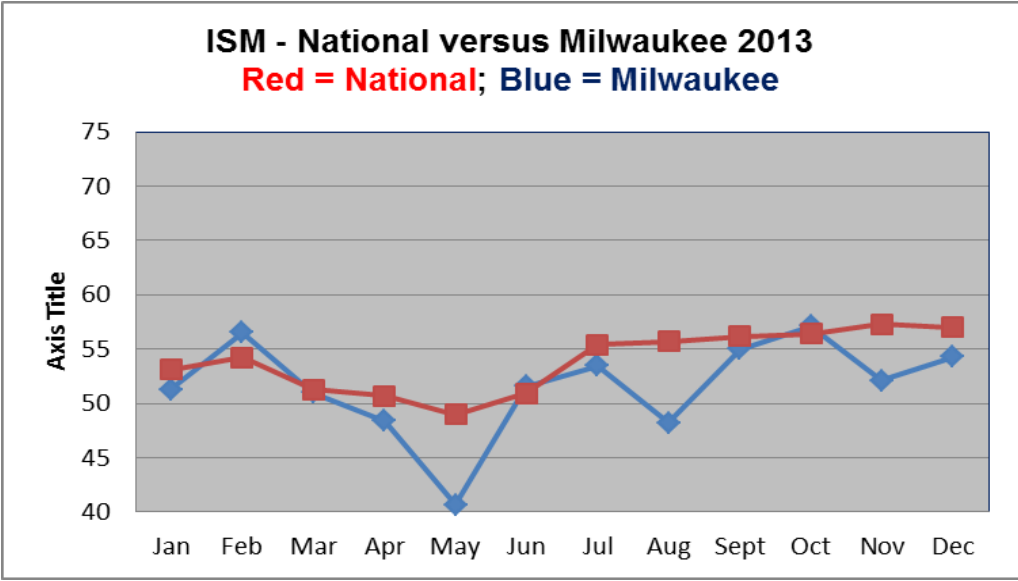
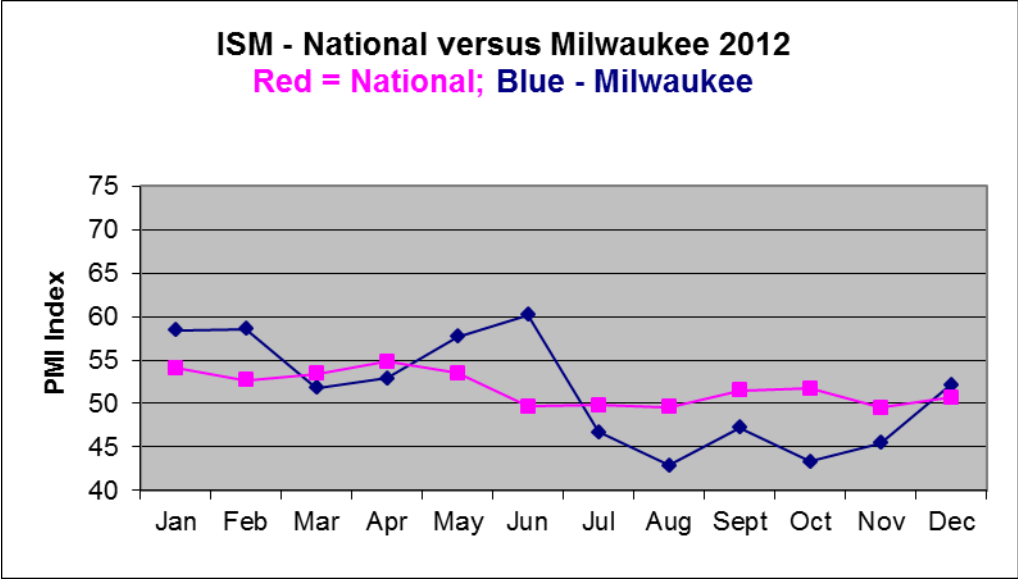
	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jan-14	40.9%	40.9%	18.2%	61.4%
Dec-13	42.9%	42.9%	14.3%	64.3%
Nov-13	21.1%	63.2%	15.8%	52.6%

Regarding the six-month outlook, respondents are saying:

- We are experiencing a very slow start to the year.
- Coming off low cycle
- Seasonal trend

Milwaukee versus the Nation –





[Graph for 2014 will be inserted in February. Milwaukee's Index is 52.8 for January, 2014, and the ISM-National PMI is 51.3.]

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>