

## Marquette-ISM Report on Manufacturing January 2015- Final Release

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### ***Final Version (includes ISM National Results for January, 2015)***

*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	January 2015	December 2014	November 2014
Seasonally adjusted	51.60	57.61	68.93

(Milwaukee, Wisconsin) – January's Index registered at 51.14, which is above the 50-level indicating positive territory. This places the index above 50 for fifteen of the past seventeen months.

### **What respondents are saying in January 2015:**

- There have been delays in both East and West coast ports. These delays have been between 2 to 3 weeks in both coasts.
- Many companies had longer shut downs during the long holiday break and when they came back to work at the New Year, they began placing new orders.
- Orders are steady during the normal seasonal slump period.

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

MANUFACTURING AT A GLANCE: January 2015*				
Index	Series Index Jan-15	Series Index Dec-14	Percentage Point Change	Direction
PMI	51.60	57.61	-6.0	growing
New Orders	49.41	64.24	-14.8	declining
Production	63.39	62.27	1.1	growing
Employment	54.58	52.58	2.0	growing
Supplier Deliveries	51.74	58.97	-7.2	slower
Inventories	38.89	50.00	-11.1	declining
Customers' Inventories *	50.00	50.00	0.0	--
Prices *	33.33	40.00	-6.7	declining
Backlog of Orders *	44.44	36.67	7.8	declining
Exports *	50.00	50.00	0.0	growing
Imports *	57.69	59.09	-1.4	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 January 2015:

- There is a strong belief that oil prices will increase.
- Major declines in the cost of gasoline and natural gas have yet to cause corresponding product prices (i.e. plastics, etc.) to fall.
- Driver shortages have led to reduced services on long haul LTL and rates are firm.
- Acrylic, also known as Plexiglas, went up approximately 3-5% during the beginning of the month.
- Steel mills have reduced the discount points to distribution making the net to customers higher.

#### Blue and White Collar Employment:

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

	Diffusion Index Nov-14	Diffusion Index Dec-14	Diffusion Index Jan-2015	Direction	Comments
<b>Blue Collar</b>	67.9	52.6	57.3	growing	-
<b>White Collar</b>	60.1	52.6	45.8	declining	-

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

#### What respondents are saying in January 2015:

- There has been some reorganization of duties among current 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 **November 2014, and December 2014, and January 2015.**

Category	November 2014 Diffusion index	December 2014 Diffusion index	January 2015 Diffusion index	change in percentage point
Aluminum	72.22%	66.67%	31.82%	-34.8
Brass	30.00%	33.33%	16.67%	-16.7
Caustic Soda	50.00%	75.00%	75.00%	0.0
Chemicals	70.00%	50.00%	28.57%	-21.4
Copper	21.43%	16.67%	12.50%	-4.2
Copper Based Products	20.00%	25.00%	16.67%	-8.3
Cocoa Powder	-	-	50.00%	-
Corn	0.00%	0.00%	0.00%	0.0
Corrugated Containers	56.25%	50.00%	50.00%	0.0
Diesel	6.25%	0.00%	0.00%	0.0
Electronic Components	100.00%	50.00%	50.00%	0.0
Gasoline	5.56%	0.00%	0.00%	0.0
High Density Polyethylene	83.33%	50.00%	40.00%	-10.0
Natural Gas	50.00%	16.67%	41.67%	25.0
Nickel	30.00%	50.00%	33.33%	-16.7
PET	25.00%	50.00%	25.00%	-25.0
Plastic Resins	50.00%	41.67%	21.43%	-20.2
Polyester	50.00%	50.00%	25.00%	-25.0

Polyethylene	50.00%	37.50%	37.50%	0.0
Resins	50.00%	50.00%	20.00%	-30.0
Soybean Oil	0.00%	0.00%	-	-
Stainless Steel	57.14%	31.25%	43.75%	12.5
Starch	-	-	-	-
Steel	44.44%	25.00%	22.22%	-2.8
Steel Products	55.56%	41.67%	37.50%	-4.2
Sulfur	-	-	-	-
Tin Plate	50.00%	50.00%	25.00%	-25.0
Titanium Dioxide	25.00%	50.00%	50.00%	0.0
Wheat	-	-	0.00%	-
Beef/Pork	50.00%	0.00%	50.00%	50.0

### Buying Policy

Average commitment lead time for Capital Expenditures increased by 2 days to 93 days. Average lead time for Production Materials increased by 16 days to 44 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 2 days to 16 days.

### Six- Month Outlook on Business Conditions

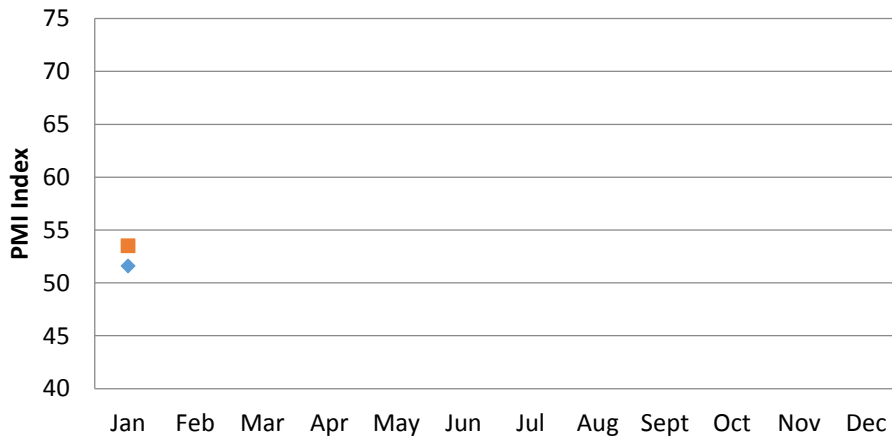
In this outlook, there is a downward shift in positive expectations compared with December in terms of market conditions. Approximately 37.5% of respondents expect positive conditions, 43.8% expect conditions to remain the same and 18.8% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jan-15	37.5%	43.8%	18.8%	59.4%
Dec-14	38.5%	53.8%	7.7%	65.4%
Nov-14	47.1%	41.2%	11.8%	67.65%

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

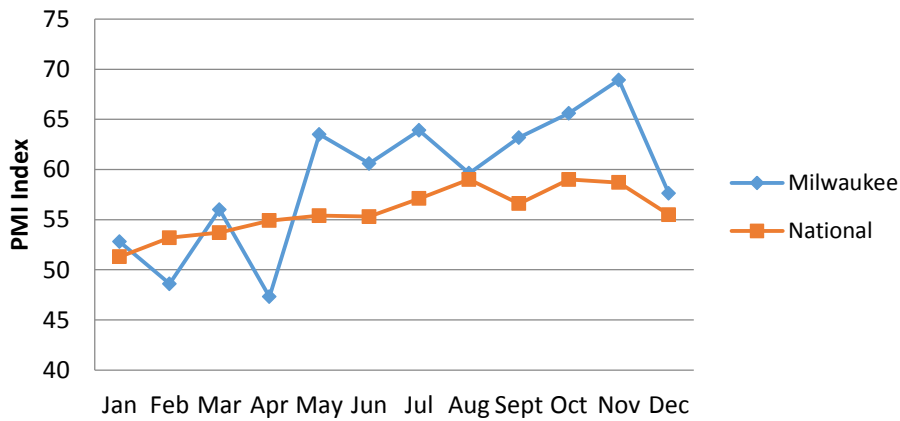
### ISM - National versus Milwaukee 2015

Red = National; Blue = Milwaukee



### ISM - National versus Milwaukee 2014

Red = National; Blue = Milwaukee



## Insights on the ISM PMI from the National Organization:

### ISM *Manufacturing Report On Business*<sup>®</sup> 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 x 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>