

Marquette-ISM Report on Manufacturing
July 2017- Final Release

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Final Version (includes ISM National Results for July 2017)

*The Marquette-ISM Report on Manufacturing was prepared by **Gwen Davis**, 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	July 2017	June 2017	May 2017
Seasonally adjusted	56.98	58.68	57.22

(Milwaukee, Wisconsin) – July’s Index registered at 56.98, a decrease from the 58.68 in June. July’s Index continues to indicate positive territory.

What respondents are saying in July 2017:

- Plastic resin shortages affect suppliers
- Balance of 2017 continues to look strong but certainty beyond 90 days is lacking.
- Pricing increases on paper goods ranged from 6-9% and adhesives had a 3.5% pricing increase.
- Seasonal business levels are steady.

- Lead time is dependent on availability of raw material
- Demand continues at good levels, though it is usually lower during summer months
- Changing economic cycle leads to uncertainty

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

MANUFACTURING AT A GLANCE: July 2017*				
Index	Series	Series	Percentage Point Change	Direction
	Index	Index		
	Jul-17	Jun-17		
PMI	56.98	58.68	-1.7	declining
New Orders	56.76	63.07	-6.3	declining
Production	57.39	61.46	-4.1	declining
Employment	63.80	65.17	-1.4	declining
Supplier Deliveries	68.30	64.13	4.2	slower
Inventories	38.64	39.58	-0.9	declining
Customers' Inventories *	31.58	35.71	-4.1	declining
Prices *	77.27	73.91	3.4	growing
Backlog of Orders *	55.00	54.55	0.5	growing
Exports *	56.67	67.65	-11.0	declining
Imports *	66.67	59.38	7.3	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 July 2017:

- Lead times heavily dependent on the availability of raw materials
- Brought back component sourcing to the U.S.
- Difficulties in reducing order backlog
- Demand is expected to increase in September.
- China is the major resource of components to U.S.

Blue and White-Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **May 2017, June 2017, and July 2017.**

	Diffusion Index May-17	Diffusion Index Jun-17	Diffusion Index Jul-17	Direction	Comments
Blue Collar	65.7	59.1	61.6	growing	-
White Collar	57.0	55.3	52.8	growing	-

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

What respondents are saying in July 2017:

- Business is steady, even for seasonal businesses
- Balance of 2017 is strong
- Workers are being used overtime
- Difficulty in maintaining staffing levels affects raw material availability

Buying Policy

Average commitment lead-time for Capital Expenditures increased from 118 days to 133 days. Average lead-time for Production Materials increased from 41 days to 50 days. Average lead-time for Maintenance, Repair and Operating (MRO) Supplies decreased from 24 days to 20 days.

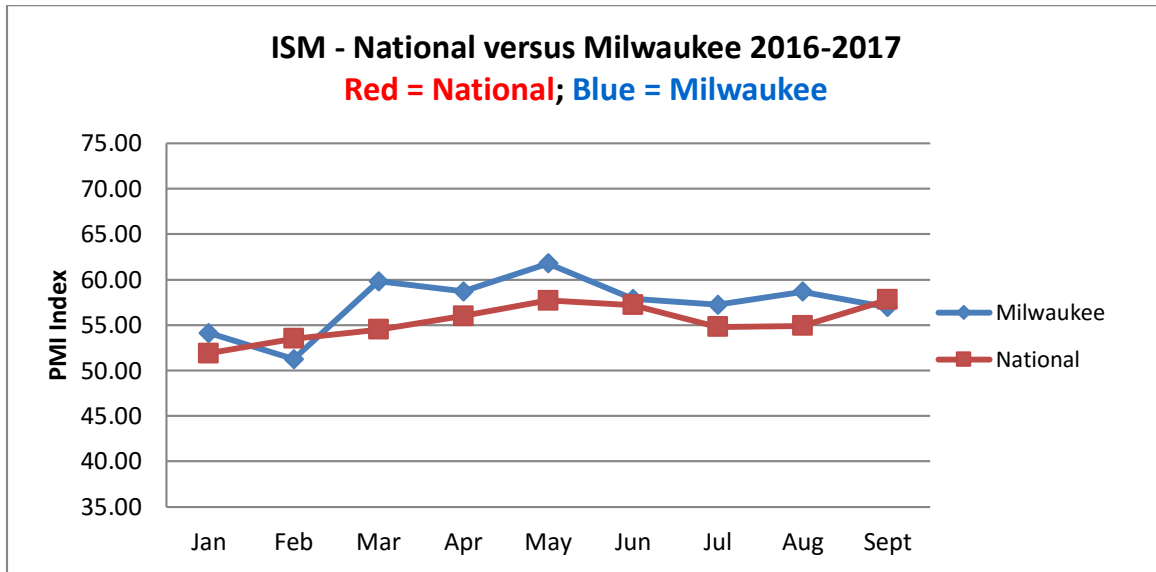
Six- Month Outlook on Business Conditions

In this outlook, there is an upward shift in positive expectations compared with March in terms of market conditions. Approximately 48% of respondents expect positive conditions, 48% expect conditions to remain the same and 4% of the respondents expect conditions to worsen within the next six months.

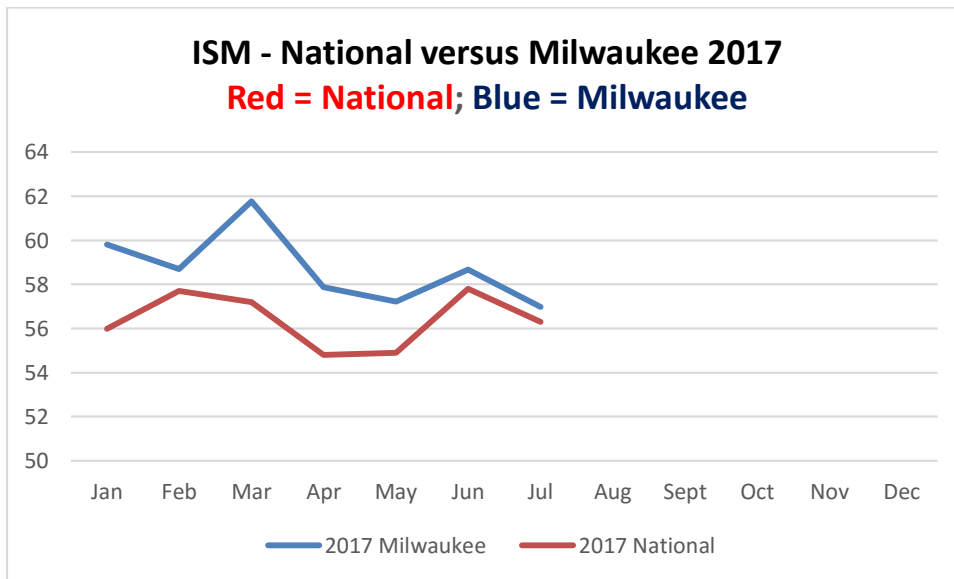
	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jul-17	31.82%	54.55%	13.64%	59.09%
Jun-17	41.67%	50.00%	8.33%	66.67%
May-17	50.00%	36.36%	13.64%	68.18%

Milwaukee versus the Nation –

Jan,2016-July,2017 Graph



2017 graph



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.

<https://www.instituteforsupplymanagement.org/files/ISMREPORT/ROBBroch08.pdf>