

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

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Released: July 01, 2015

### ***Final Version (includes ISM National Results for June, 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	June 2015	May 2015	April 2015
Seasonally adjusted	46.55	47.70	48.08

(Milwaukee, Wisconsin) – June’s Index registered at 46.55, which is below the 50-level indicating *negative territory for the third straight month*. As can be seen in the charts at the end of this report, *the index has been positive thirteen of the eighteen months since January, 2014*.

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

- There have not been that many major issues at this time.
- Freight rates are increasing due to driver shortages.
- US scrap metal prices are low.

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

MANUFACTURING AT A GLANCE: June 2015*				
Index	Series Index June-2015	Series Index May-2015	Percentage Point Change	Direction
PMI	46.55	47.70	-1.2	declining
New Orders	44.96	44.13	0.8	declining
Production	44.19	42.68	1.5	declining
Employment	52.65	56.55	-3.9	growing
Supplier Deliveries	50.30	49.70	0.6	slower
Inventories	40.63	45.45	-4.8	declining
Customers' Inventories *	50.00	50.00	0.0	growing
Prices *	37.50	45.45	-8.0	declining
Backlog of Orders *	36.67	40.91	-4.2	declining
Exports *	42.31	43.75	-1.4	declining
Imports *	50.00	56.25	-6.3	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 June 2015:

- There are plans to institute a Kanban system ['Just-in-Time' system].
- Customers are expected to be pulling out [??] larger demand in next 12 weeks.
- There have also been talks about optimism for Quarter 4 but this optimism is not showing or reflected in the actual orders yet.
- Both production and orders from customers have been increasing.

Blue and White Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **April 2015, May 2015, and June 2015.**

	Diffusion Index April-2015	Diffusion Index May-2015	Diffusion Index June-2015	Direction	Comments
<b>Blue Collar</b>	52.6	47.8	58.8	growing	-
<b>White Collar</b>	44.6	52.2	62.8	growing	-

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

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

- Companies are continuing looking to add employees since last month.
- The main issue in regards to employment has been finding qualified employees.

#### 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 **April 2015, and May 2015, and June 2015.**

Category	April 2015 Diffusion index	May 2015 Diffusion index	June 2015 Diffusion index	change in percentage point
Aluminum	31.25%	50.00%	35.00%	-15.0
Brass	66.67%	50.00%	50.00%	0.0
Caustic Soda	50.00%	50.00%	25.00%	-25.0
Chemicals	50.00%	50.00%	40.00%	-10.0
Copper	70.00%	83.33%	33.33%	-50.0
Copper Based Products	83.33%	83.33%	33.33%	-50.0
Cocoa Powder	-	-	-	-
Corn	50.00%	-	50.00%	-
Corrugated Containers	50.00%	50.00%	50.00%	0.0
Diesel	70.00%	87.50%	60.00%	-27.5
Electronic Components	50.00%	75.00%	50.00%	-25.0
Gasoline	66.67%	91.67%	71.43%	-20.2
High Density Polyethylene	25.00%	50.00%	50.00%	0.0
Natural Gas	30.00%	50.00%	50.00%	0.0

Nickel	25.00%	75.00%	0.00%	-75.0
PET	50.00%	50.00%	25.00%	-25.0
Plastic Resins	37.50%	25.00%	42.86%	17.9
Polyester	50.00%	33.33%	37.50%	4.2
Polyethylene	25.00%	50.00%	75.00%	25.0
Resins	50.00%	50.00%	75.00%	25.0
Soybean Oil	-	-	-	-
Stainless Steel	40.00%	30.00%	31.25%	1.3
Starch	-	50.00%	-	-
Steel	18.75%	33.33%	28.57%	-4.8
Steel Products	31.25%	37.50%	33.33%	-4.2
Sulfur	-	-	-	-
Tin Plate	50.00%	50.00%	50.00%	0.0
Titanium Dioxide	50.00%	0.00%	50.00%	50.0
Wheat	-	-	-	-
Beef/Pork	0.00%	0.00%	0.00%	0.0

### Buying Policy

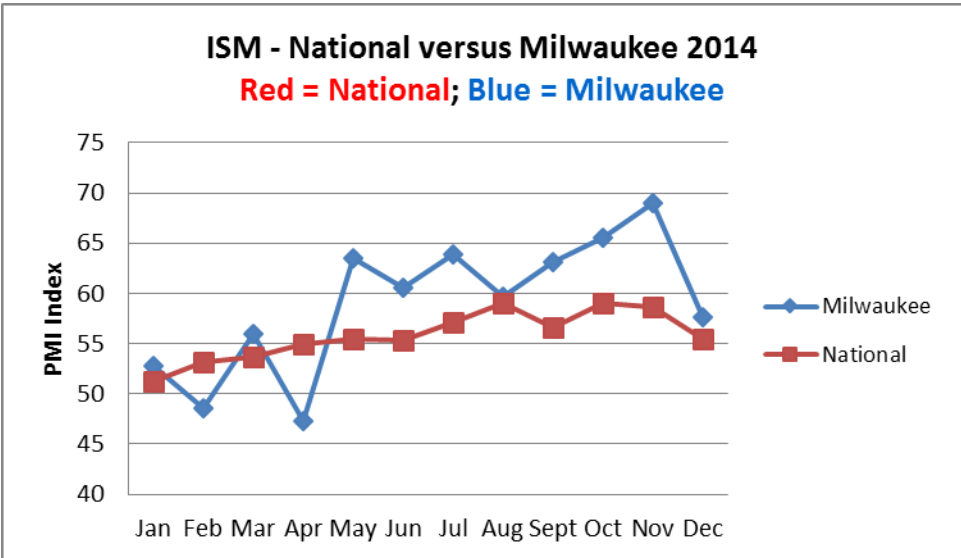
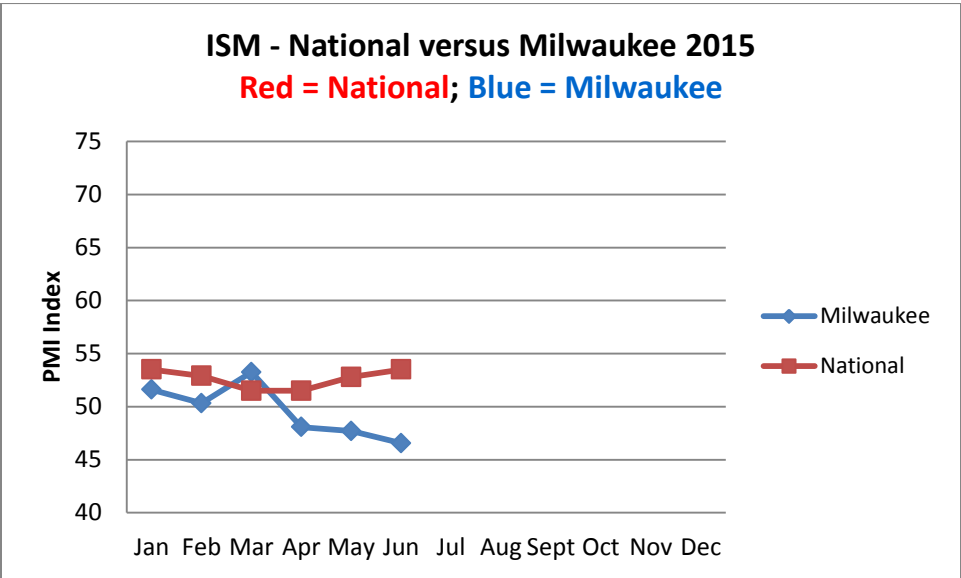
Average commitment lead time for Capital Expenditures decreased by 38 days to 83 days. Average lead time for Production Materials increased by 9 days to 36 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 4 days to 21 days.

### Six- Month Outlook on Business Conditions

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

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
<b>June-15</b>	<b>43.8%</b>	<b>37.5%</b>	<b>18.8%</b>	<b>62.5%</b>
May-15	54.5%	36.4%	9.1%	72.7%
April-15	46.2%	53.8%	0.0%	73.1%

**Milwaukee versus the Nation** – (for graphs of 2010, 2011, 2012, and 2013 see the December 2013 and December 2012 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>