

Marquette-ISM Report on Manufacturing June 2014- Final Release

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Final Version (includes ISM National Results for June, 2014)

*The Marquette-ISM Report on Manufacturing was prepared by **Terrin Clark**, a 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	June 2014	May 2014	April 2014
Seasonally adjusted	60.57	63.49	47.26

(Milwaukee, Wisconsin) – June’s Index registered 60.57, well above the 50-level indicating positive territory. This places the index above 50 for eight of the past ten months.

What respondents are saying in June 2014:

- No major supply chain issues at this time.
- No change in orders up or down for US customers, but seeing inquiries on the ability to meet an increase in the future.

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

MANUFACTURING AT A GLANCE: June 2014*				
Index	Series Index Jun-14	Series Index May-14	Percentage Point Change	Direction
PMI	60.57	63.49	-2.9	growing
New Orders	60.27	70.75	-10.5	growing
Production	59.30	69.60	-10.3	growing
Employment	60.50	59.93	0.6	growing
Supplier Deliveries	61.03	62.41	-1.4	slower
Inventories	61.76	54.76	7.0	growing
Customers' Inventories *	31.25	45.00	-13.8	declining
Prices *	61.76	59.52	2.2	growing
Backlog of Orders *	58.82	59.52	-0.7	growing
Exports *	53.85	50.00	3.8	growing
Imports *	57.14	56.67	0.5	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, 2014:

- Customer summer shutdowns.
- Seasonal slowdown as a reason for change (vs. seasonal shutdown or something else that doesn't fit)
- We've been at a high level for months.
- Need to stock to support short lead time.

Blue and White Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **April 2014, May 2014, and June 2014**

	Diffusion Index Apr-14	Diffusion Index May-14	Diffusion Index Jun-14	Direction	Comments
Blue Collar	48.3	59.9	59.8	growing	-
White Collar	52.1	53.0	51.2	growing	-

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

What respondents are saying in June, 2014:

- Port strike.
- West coast capacity in contract negotiation phase.
- Really bad customer service right now!

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 2014, and May 2014, and June 2014**

Category	April 2014 Diffusion index	May 2014 Diffusion index	June 2014 Diffusion index	change in percentage point
Aluminum	63.3	50.0	88.3	38.3
Brass	50.0	83.3	91.7	8.3
Caustic Soda	50.0	50.0	75.0	25.0
Chemicals	75.0	70.0	110.0	40.0
Copper	30.0	50.0	55.0	5.0
Copper Based Products	28.6	60.0	58.6	-1.4
Cocoa Powder	-	-	-	-
Corn	-	0.0	-	-
Corrugated Containers	54.5	55.0	82.0	27.0
Diesel	87.5	30.0	102.5	72.5
Electronic Components	43.8	50.0	68.8	18.8
Gasoline	100.0	21.4	110.7	89.3
High Density Polyethylene	50.0	100.0	100.0	0.0
Natural Gas	50.0	62.5	81.3	18.8

Nickel	100.0	100.0	150.0	50.0
PET	50.0	0.0	50.0	50.0
Plastic Resins	50.0	58.3	79.2	20.8
Polyester	50.0	50.0	75.0	25.0
Polyethylene	58.3	62.5	89.6	27.1
Resins	66.7	50.0	91.7	41.7
Soybean Oil	83.3	-	-	-
Stainless Steel	64.3	70.8	99.7	28.9
Starch	-	-	-	-
Steel	72.7	57.7	101.6	43.9
Steel Products	66.7	44.4	88.9	44.4
Sulfur	-	-	-	-
Tin Plate	-	50.0	-	-
Titanium Dioxide	50.0	50.0	75.0	25.0
Wheat	-	-	-	-
Beef/Pork	100.0	100.0	150.0	50.0

Buying Policy

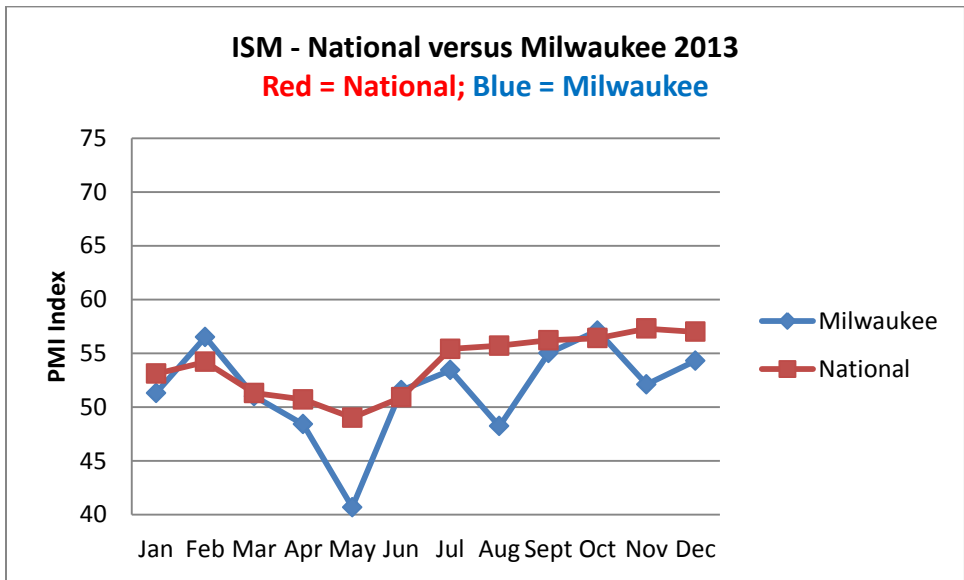
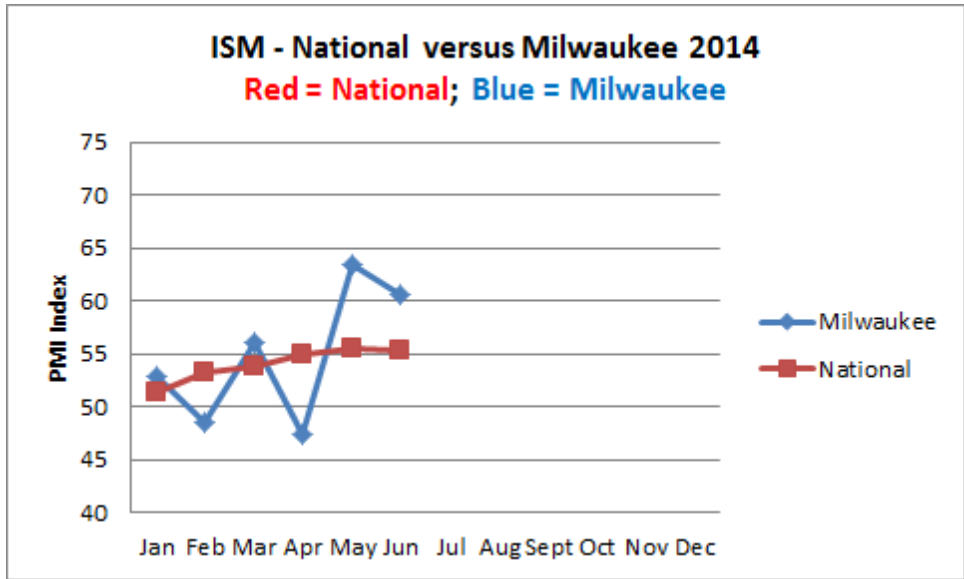
Average commitment lead time for Capital Expenditures decreased by 41 days to 86 days. Average lead time for Production Materials decreased by 7 days at 32 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 5 days to 21 days.

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 25.0% of respondents expect positive conditions, 62.5% expect conditions to remain the same and 12.5% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jun-14	25.0%	62.5%	12.5%	56.3%
May-14	45.0%	45.0%	10.0%	67.5%
Apr-14	23.8%	57.1%	19.0%	52.4%

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>