

Marquette-ISM Report on Manufacturing March 2017- Final Release

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*The Marquette-ISM Report on Manufacturing was prepared by **Phyo T Aung**, 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	March 2017	February 2017	January 2017
Seasonally adjusted	61.77	58.69	59.81

(Milwaukee, Wisconsin) – March’s Index registered at 61.77, an increase from the 58.69 in February. March’s Index indicates positive territory.

What respondents are saying in March 2017:

- Increase in business caused cash flow issues.
- Lag in customer payments coupled with increased raw material purchases caused delays in payments to suppliers.
- Accounts receivables have increased and the cash flow issue has been resolved.
- Lots of pressure from suppliers to secure price increases.
- Customers seem to be very optimistic about the near future.
- Revenue shows their optimism is well founded.

- Demand for next 90 days is showing very good increases, but forecast remains limited to 90 days and customer show no confidence beyond that.
- Plastics significant pricing increases and long lead times due to raw material issues with the commodity.
- Most notably seems work from the mining, heavy equipment world is moving again.
- Overall, this month orders are up dramatically over January.

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

MANUFACTURING AT A GLANCE: March 2017*				
Index	Series	Series	Percentage	Direction
	Index	Index	Point	
	Mar-17	Feb-17	Change	
PMI	61.77	58.69	3.1	growing
New Orders	65.12	62.76	2.4	growing
Production	64.94	69.83	-4.9	growing
Employment	66.91	52.48	14.4	growing
Supplier Deliveries	61.88	58.39	3.5	slower
Inventories	50.00	50.00	0.0	growing
Customers' Inventories *	28.95	37.50	-8.6	declining
Prices *	79.55	81.82	-2.3	growing
Backlog of Orders *	66.67	61.11	5.6	growing
Exports *	50.00	53.57	-3.6	growing
Imports *	63.33	61.54	1.8	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 March 2017:

- Oil/gas sectors also show marked pick up.
- Incoming volume is up 25%.
- Chemical shortfalls and raw materials issues
- Have labor issues and anticipate more businesses.
- Forecasted demand is to increase.

Blue and White Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **January 2017, February 2017 and March 2017.**

	Diffusion Index Jan-17	Diffusion Index Feb-2017	Diffusion Index Mar-2017	Direction	Comments
Blue Collar	55.4	52.5	65.3	growing	-
White Collar	55.3	50.2	55.4	growing	-

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

What respondents are saying in March 2017:

- Increased lead times on electronic components.
- Increased pricing in plastic due to long lead times of raw materials.
- Increase in business caught suppliers off guard
- Focus on a service section 50% of biz in MKE because it is service-based.
- Negotiating to delay any increases.
- steel prices are up
- Increased Demand

Buying Policy

Average commitment lead-time for Capital Expenditures increased from 100 days to 114 days. Average lead-time for Production Materials decreased from 54 days to 40 days. Average lead-time for Maintenance, Repair and Operating (MRO) Supplies decreased from 20 days to 17 days.

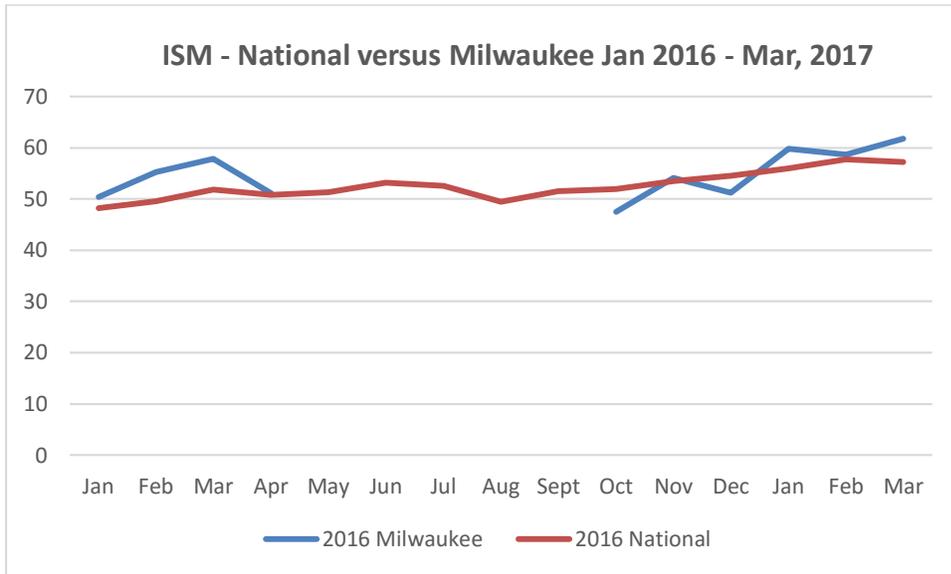
Six- Month Outlook on Business Conditions

In this outlook, there is an upward shift in positive expectations compared with February in terms of market conditions. Approximately 50% of respondents expect positive conditions, 36.36% expect conditions to remain the same and 13.64% of the respondents expect conditions to worsen within the next six months.

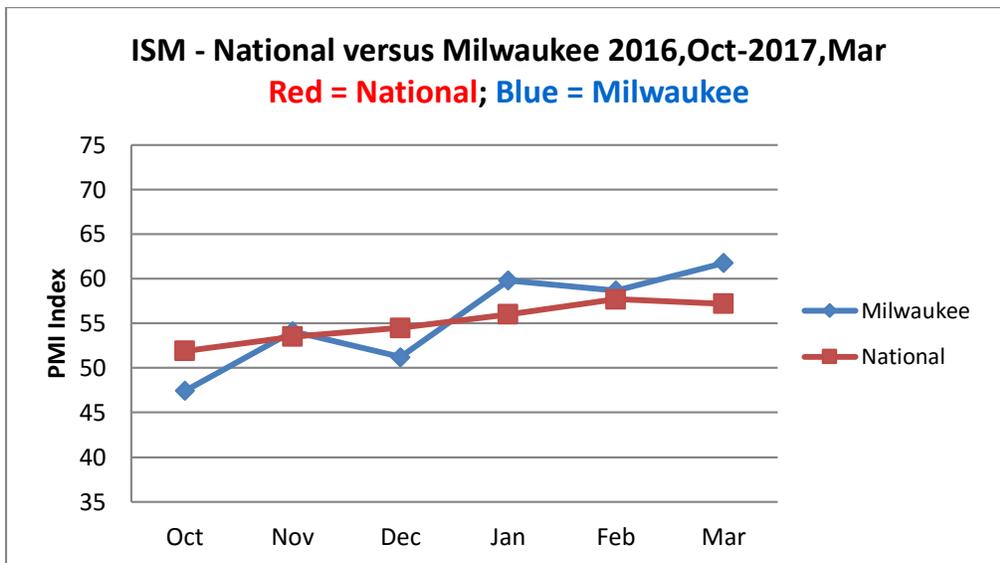
	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Mar-17	50.00%	36.36%	13.64%	68.18%
Feb-17	50.00%	45.00%	5.00%	72.50%
Jan-17	58.07%	32.26%	9.68%	74.19%

Milwaukee versus the Nation –

2016,Jan-2017,Mar Graph



2016, Oct – 2017, Mar 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>)