

Marquette-ISM Report on Manufacturing November 2014- Final Release

Contact: Dr. Douglas Fisher
 Director, Center for Supply Chain Management
 Marquette University
 (414) 288-3995
douglas.fisher@marquette.edu

Released: December 01, 2014

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

*The Marquette-ISM Report on Manufacturing was prepared by **Terrin Clark and Chris Bango**, two graduate students 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	November 2014	October 2014	September 2014
Seasonally adjusted	70.25	65.61	63.18

(Milwaukee, Wisconsin) – November's Index registered 70.25, well above the 50-level indicating positive territory. This places the index above 50 for thirteen of the past fifteen months.

What respondents are saying in November 2014:

- There have been several component shortages at suppliers.
- There has been poor customer service.
- There has been an increase in year-end budget spending.
- There are expectations of a lull in the oil/gas market.
- There is a hope for continued GDP growth and potential expansion into new markets

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

MANUFACTURING AT A GLANCE: November 2014*				
Index	Series Index Nov-14	Series Index Oct-14	Percentage Point Change	Direction
PMI	70.25	65.61	4.6	growing
New Orders	72.42	83.85	-11.4	growing
Production	75.92	78.81	-2.9	growing
Employment	71.50	45.77	25.7	growing
Supplier Deliveries	73.94	66.71	7.23	slower
Inventories	57.50	52.94	4.6	growing
Customers' Inventories *	39.47	37.50	2.0	declining
Prices *	62.50	55.88	6.6	growing
Backlog of Orders *	72.50	61.76	10.7	growing
Exports *	53.33	57.14	-3.8	growing
Imports *	57.14	50.00	7.1	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 November, 2014:

- The continuing delays at the West Coast ports for imports from Asia are extending lead times and/or causing increased costs via air-shipments.
- Congestion may lessen after the Christmas holiday rush of imports for retail sales.
- The main issue at this time of the year is the holiday season and end of the year.
- Suppliers have had shut downs.
- Year-end Inventories are expected to build up.
- Year-end budget spending rise
- There have also been general price increases.
- Brazil continues (its) weakness

Blue and White Collar Employment:

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

	Diffusion Index Sept-14	Diffusion Index Oct-14	Diffusion Index Nov-14	Direction	Comments
Blue Collar	56.2	48.8	67.9	growing	-
White Collar	54.0	48.8	60.1	growing	-

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

What respondents are saying in November, 2014:

- Skilled labor is needed.
- There has been an increase in the number of new positions.

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 **September 2014, and October 2014, and November 2014**

Category	September 2014 Diffusion index	October 2014 Diffusion index	November 2014 Diffusion index	change in percentage point
Aluminum	86.36%	63.64%	72.22%	8.6
Brass	33.33%	25.00%	30.00%	5.0
Caustic Soda	50.00%	50.00%	50.00%	0.0
Chemicals	75.00%	62.50%	70.00%	7.5
Copper	40.00%	21.43%	21.43%	0.0
Copper Based Products	62.50%	50.00%	20.00%	-30.0
Cocoa Powder	-	-	-	-
Corn	16.67%	0.00%	0.00%	0.0
Corrugated Containers	50.00%	50.00%	56.25%	6.3
Diesel	41.67%	0.00%	6.25%	6.3
Electronic Components	50.00%	33.33%	100.00%	66.7
Gasoline	22.22%	0.00%	5.56%	5.6
High Density Polyethylene	50.00%	100.00%	83.33%	-16.7
Natural Gas	31.25%	30.00%	50.00%	20.0
Nickel	91.67%	16.67%	30.00%	13.3
PET	50.00%	50.00%	25.00%	-25.0
Plastic Resins	50.00%	58.33%	50.00%	-8.3
Polyester	50.00%	50.00%	50.00%	0.0

Polyethylene	75.00%	66.67%	50.00%	-16.7
Resins	75.00%	50.00%	50.00%	0.0
Soybean Oil	0.00%	0.00%	0.00%	0.0
Stainless Steel	66.67%	66.67%	57.14%	-9.5
Starch	-	-	-	-
Steel	54.55%	33.33%	44.44%	11.1
Steel Products	50.00%	45.00%	55.56%	10.6
Sulfur	-	-	-	-
Tin Plate	50.00%	-	50.00%	-
Titanium Dioxide	50.00%	25.00%	25.00%	0.0
Wheat	-	-	-	-
Beef/Pork	100.00%	0.00%	50.00%	50.0

Buying Policy

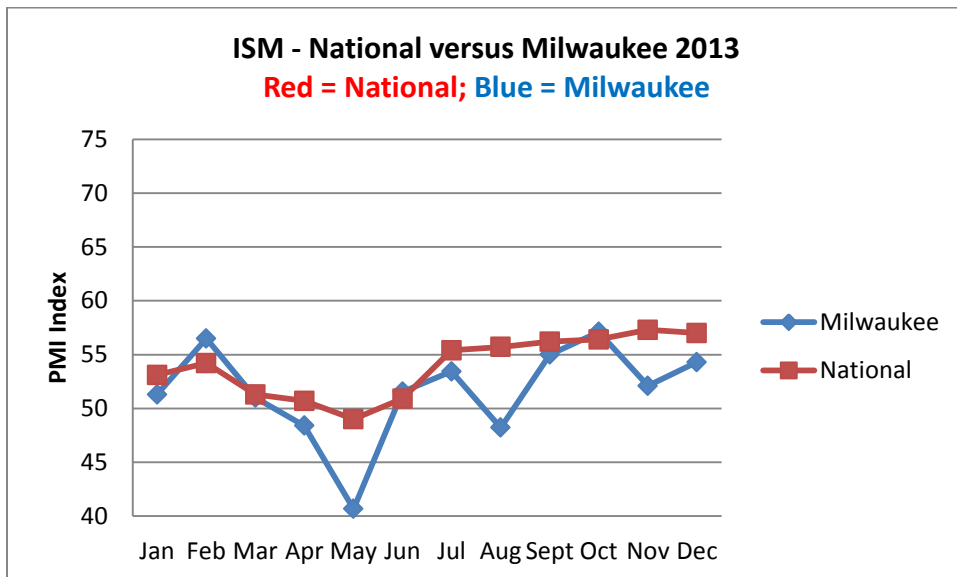
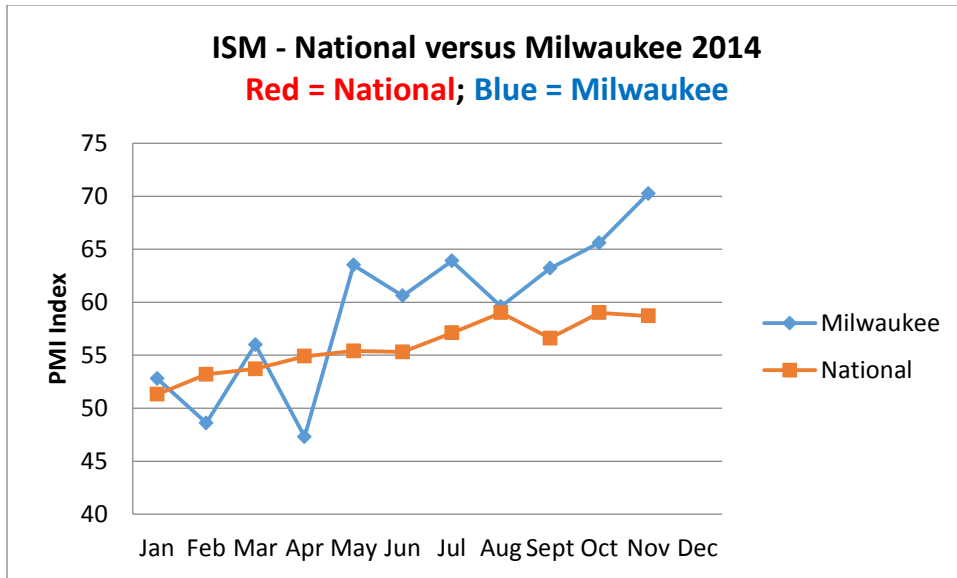
Average commitment lead time for Capital Expenditures increased by 10 days to 96 days. Average lead time for Production Materials increased by 9 days at 39 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased by 2 days to 18 days.

Six- Month Outlook on Business Conditions

In this outlook, there is an upward shift in positive expectations compared with October in terms of market conditions. Approximately 47.1% of respondents expect positive conditions, 41.2% expect conditions to remain the same and 11.8% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Nov-14	47.1%	41.2%	11.8%	67.65%
Oct-14	43.8%	50.0%	6.3%	68.8%
Sept-14	60.0%	40.0%	0.0%	80.0%

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>