

Marquette-ISM Report on Manufacturing October 2014- Final Release

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

Released: October 31, 2014

Final Version (includes ISM National Results for October, 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**, 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	October 2014	September 2014	August 2014
Seasonally adjusted	65.61	63.18	59.63

(Milwaukee, Wisconsin) – October's Index registered 65.61, well above the 50-level indicating positive territory. This places the index above 50 for twelve of the past fourteen months.

What respondents are saying in October 2014:

- We are not having any major issues at this time.
- Motor pricing is up 2%.
- We are doing new business with WEMP.
- Stainless nickel surcharges are rising.

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

MANUFACTURING AT A GLANCE: <i>October 2014*</i>				
Index	Series Index Oct-14	Series Index Sept-14	Percentage Point Change	Direction
PMI	65.61	63.18	2.4	growing
New Orders	83.85	75.00	8.8	growing
Production	78.81	68.18	10.6	growing
Employment	45.77	56.82	-11.1	declining
Supplier Deliveries	66.71	61.36	5.3	slower
Inventories	52.94	54.55	-1.6	growing
Customers' Inventories *	37.50	40.00	-2.5	declining
Prices *	55.88	65.91	-10.0	growing
Backlog of Orders *	61.76	59.09	2.7	growing
Exports *	57.14	60.00	-2.9	growing
Imports *	50.00	61.76	-11.8	--

(*) 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 October, 2014:

- There are short term issues due to capacity constraints. Most suppliers are addressing issues with various process improvements and lean activities instead of investing in new equipment yet.
- Long term issues - Poor customer service, lack of stocking inventory at suppliers (distributors).
- There have been port issues.
- West Coast port issues are adding 1+ weeks.
- Export markets are weakening.
- There has been late ordering strength.

Blue and White Collar Employment:

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

Diffusion Index	Diffusion Index	Diffusion Index	Direction	Comments
-----------------	-----------------	-----------------	-----------	----------

	Aug-14	Sept-14	Oct-14		
Blue Collar	60.4	56.2	48.8	declining	-
White Collar	53.7	54.0	48.8	declining	-

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

What respondents are saying in October, 2014:

- No comments.

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 **August 2014, and September 2014, and October 2014**

Category	August 2014 Diffusion index	September 2014 Diffusion index	October 2014 Diffusion index	change in percentage point
Aluminum	90.9	86.4	63.6	-22.7
Brass	62.5	33.3	25.0	-8.3
Caustic Soda	50.0	50.0	50.0	0.0
Chemicals	70.0	75.0	62.5	-12.5
Copper	50.0	40.0	21.4	-18.6
Copper Based Products	62.5	62.5	50.0	-12.5
Cocoa Powder	-	-	-	-
Corn	0.0	16.7	0.0	-16.7
Corrugated Containers	50.0	50.0	50.0	0.0
Diesel	28.6	41.7	0.0	-41.7
Electronic Components	50.0	50.0	33.3	-16.7
Gasoline	12.5	22.2	0.0	-22.2
High Density Polyethylene	50.0	50.0	100.0	50.0
Natural Gas	50.0	31.3	30.0	-1.3
Nickel	40.0	91.7	16.7	-75.0
PET	33.3	50.0	50.0	0.0
Plastic Resins	64.3	50.0	58.3	8.3
Polyester	50.0	50.0	50.0	0.0
Polyethylene	70.0	75.0	66.7	-8.3
Resins	-	75.0	50.0	-25.0
Soybean Oil	0.0	0.0	0.0	0.0

Stainless Steel	77.8	66.7	66.7	0.0
Starch	-	-	-	-
Steel	54.5	54.5	33.3	-21.2
Steel Products	64.3	50.0	45.0	-5.0
Sulfur	-	-	-	-
Tin Plate	50.0	50.0	-	-
Titanium Dioxide	50.0	50.0	25.0	-25.0
Wheat	-	-	-	-
Beef/Pork	100.0	100.0	0.0	-100.0

Buying Policy

Average commitment lead time for Capital Expenditures decreased by 8 days to 86 days. Average lead time for Production Materials decreased by 6 days at 30 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 3 days to 20 days.

Six- Month Outlook on Business Conditions

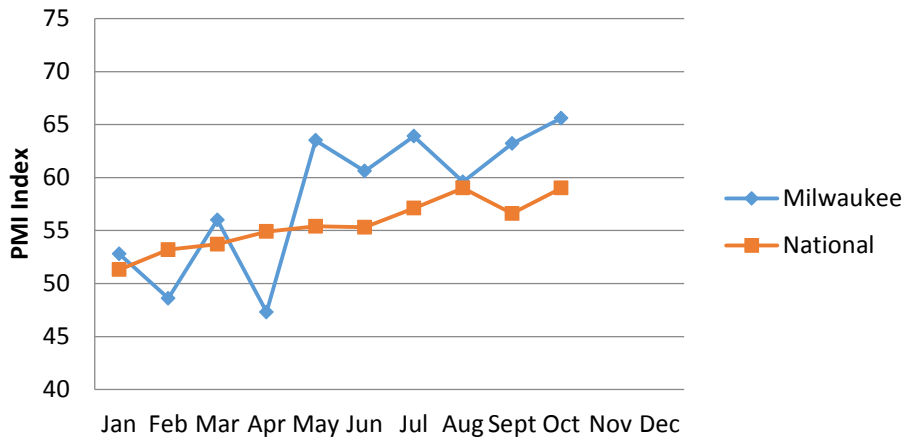
In this outlook, there is a downward shift in positive expectations compared with September in terms of market conditions. Approximately 43.8% of respondents expect positive conditions, 50% expect conditions to remain the same and 6.3% expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Oct-14	43.8%	50.0%	6.3%	68.8%
Sept-14	60.0%	40.0%	0.0%	80.0%
Aug-14	45.0%	50.0%	5.0%	70.0%

Milwaukee versus the Nation – (for graphs of 2010, 2011, and 2012, see Dec 2013's report)

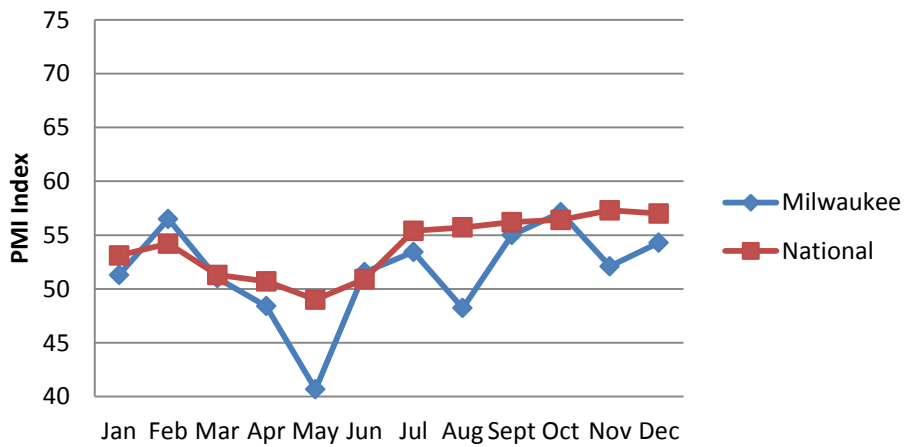
ISM - National versus Milwaukee 2014

Red = National; Blue = Milwaukee



ISM - National versus Milwaukee 2013

Red = National; Blue = Milwaukee



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>