

Marquette-ISM Report on Manufacturing September 2014- Early Release

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Released: September 30, 2014

Final Version (includes ISM National Results for September, 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	September 2014	August 2014	July 2014
Seasonally adjusted	63.18	59.63	63.87

(Milwaukee, Wisconsin) – August’s Index registered 63.18, well above the 50-level indicating positive territory. This places the index above 50 for **seven of the past nine** months (2014), and **sixteen of the past twenty-one** months (since January, 2013).

What respondents are saying in September 2014:

- Demand for parts for Class 8 trucks and RV remains very strong.
- Ag market seeing big drops.
- We are hearing from our Reps that they are quoting a lot of projects.

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

MANUFACTURING AT A GLANCE: September 2014*				
Index	Series Index Sept-14	Series Index Aug-14	Percentage Point Change	Direction
PMI	63.18	59.63	3.6	growing
New Orders	75.00	67.79	7.2	growing
Production	68.18	59.31	8.9	growing
Employment	56.82	60.39	-3.6	growing
Supplier Deliveries	61.36	62.92	-1.6	slower
Inventories	54.55	47.73	6.8	growing
Customers' Inventories *	40.00	28.57	11.4	declining
Prices *	65.91	67.39	-1.5	growing
Backlog of Orders *	59.09	63.04	-4.0	growing
Exports *	60.00	56.25	3.8	growing
Imports *	61.76	59.38	2.4	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 September, 2014:

- Capacity is tightening for many suppliers - who have reduced capacity during the recession and never added it back.
- Our Backlog has been reduced due to lack of incoming orders. This is not typical of our industry at this time.
- We are hearing from our Sales Reps that there is a significant amount of order coming in very soon.
- We are unsure as to why the orders have slowed up.
- Some of our suppliers have been very busy so their lead-times have increased.
- We just started marketing more export business.
- We had a sales pick-up.
- Reluctance to build their own inventory will impact orders next 2-3 quarters.

Blue and White Collar Employment:

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

	Diffusion Index Jul-14	Diffusion Index Aug-14	Diffusion Index Sept-14	Direction	Comments
Blue Collar	56.7	60.4	56.2	growing	-
White Collar	53.9	53.7	54.0	growing	-

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

What respondents are saying in August, 2014:

- Finding good employees remains a challenge.
- We will need to have some layoffs for a short time.
- Trying to hire welders & assemblers.
- We're short a few people.
- There is a shortage of welders.

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 **July 2014, and August 2014, and September 2014**

Category	July 2014 Diffusion index	August 2014 Diffusion index	September 2014 Diffusion index	change in percentage point
Aluminum	61.1	90.9	86.4	-4.5
Brass	62.5	62.5	33.3	-29.2
Caustic Soda	0.0	50.0	50.0	0.0
Chemicals	66.7	70.0	75.0	5.0
Copper	50.0	50.0	40.0	-10.0
Copper Based Products	37.5	62.5	62.5	0.0
Cocoa Powder	-	-	-	-
Corn	0.0	0.0	16.7	16.7
Corrugated Containers	56.3	50.0	50.0	0.0
Diesel	20.0	28.6	41.7	13.1
Electronic Components	50.0	50.0	50.0	0.0
Gasoline	8.3	12.5	22.2	9.7
High Density Polyethylene	50.0	50.0	50.0	0.0
Natural Gas	37.5	50.0	31.3	-18.8
Nickel	25.0	40.0	91.7	51.7
PET	-	33.3	50.0	16.7

Plastic Resins	62.5	64.3	50.0	-14.3
Polyester	50.0	50.0	50.0	0.0
Polyethylene	50.0	70.0	75.0	5.0
Resins	50.0	-	75.0	-
Soybean Oil	0.0	0.0	0.0	0.0
Stainless Steel	87.5	77.8	66.7	-11.1
Starch	-	-	-	-
Steel	62.5	54.5	54.5	0.0
Steel Products	64.3	64.3	50.0	-14.3
Sulfur	-	-	-	-
Tin Plate	50.0	50.0	50.0	0.0
Titanium Dioxide	0.0	50.0	50.0	0.0
Wheat	-	-	-	-
Beef/Pork	100.0	100.0	100.0	0.0

Buying Policy

Average commitment lead time for Capital Expenditures increased by 9 days to 94 days. Average lead time for Production Materials decreased by 4 days at 36 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased by 4 days to 17 days.

Six- Month Outlook on Business Conditions

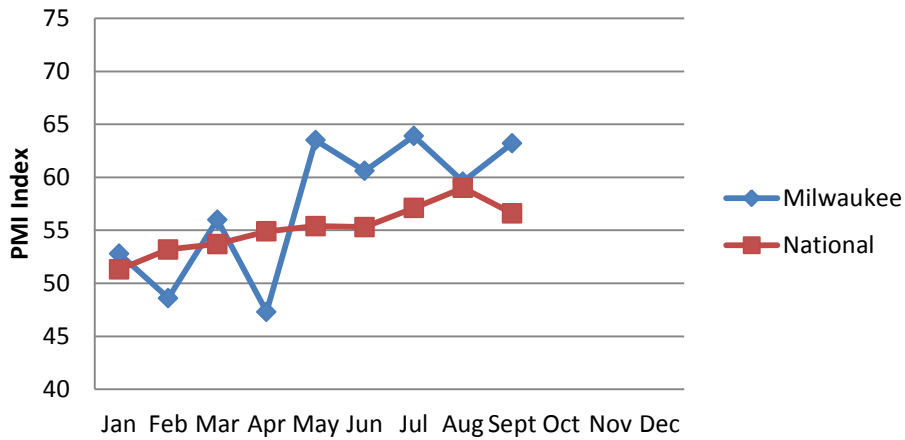
In this outlook, there is an upward shift in positive expectations compared with June in terms of market conditions. Approximately 60% of respondents expect positive conditions, 40% expect conditions to remain the same and none expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Sept-14	60.0%	40.0%	0.0%	80.0%
Aug-14	45.0%	50.0%	5.0%	70.0%
Jul-14	37.5%	56.3%	6.3%	65.6%

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

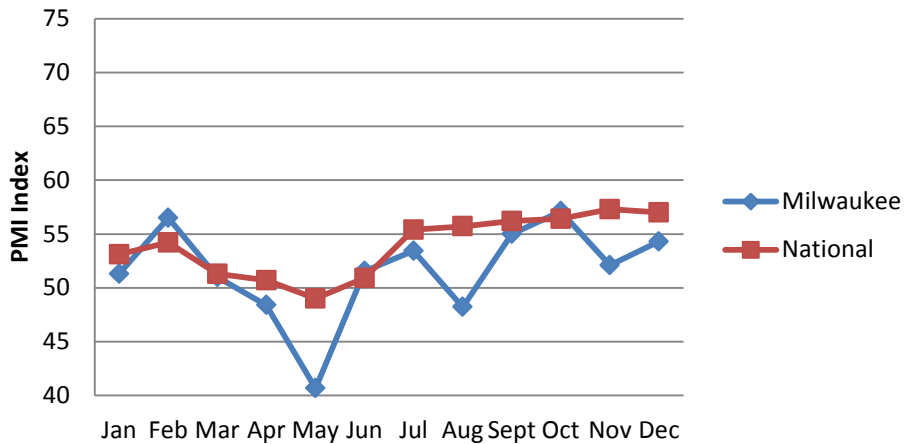
ISM - National versus Milwaukee 2014

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>