

**Marquette-ISM Report on Manufacturing
July 2018- Final Release**

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

Released: July 31st, 2018

*The Marquette-ISM Report on Manufacturing was prepared by **Gwendolyn Davis**, a graduate student in Applied Economics at Marquette University, and distributed by **Melanie Roepke**, 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	July 2018	June 2018	May 2018
Seasonally adjusted	61.66	60.18	67.90

(Milwaukee, Wisconsin) – July’s Index registered at 61.66, an increase from 60.18 in June. July’s Index continues to indicate positive territory.

What respondents are saying in July 2018:

- Continued inflationary pricing increase, opportunistic increases and tariffs impacting costs and difficult to recover from customers.
- Capacity constraints in some categories are growing globally.
- Business is still very good. However, our supply chain is facing numerous issues including inflationary conditions, parts shortages, freight (truck driver) shortages, and poor service.
- Concern remains regarding the uncertainty of section 232 and 301 tariff impact on our business, and the possibility of outright global trade war.
- Global supply constraints of electronic components, purchase order deferrals, and lead time extensions. Tariffs being imposed on product shipping from China.

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

(*) 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 July 2018:

- Manufacturers are struggling to meet demands.
- Parts shortages are affecting business
- Freight shortages are becoming prevalent.
- Businesses are experiencing electric component constraints, purchase order deferrals, and extended lead times.
- Uncertainty of tariff & raw material costs compared to global competitors

MANUFACTURING AT A GLANCE: July 2018*				
Index	Series	Series	Percentage Point Change	Direction
	Index	Index		
	Jul-18	Jun-18		
PMI	61.66	60.18	-7.7	growing
New Orders	56.63	61.25	-6.6	growing
Production	56.17	59.33	-11.7	growing
Employment	62.57	60.79	2.7	growing
Supplier Deliveries	80.15	77.86	-1.3	slower
Inventories	52.78	41.67	-21.7	growing
Customers' Inventories *	28.57	36.67	-5.0	declining
Prices *	91.67	88.89	-1.1	growing
Backlog of Orders *	63.33	62.50	-4.2	growing
Exports *	46.15	50.00	-4.5	declining
Imports *	62.50	66.67	1.7	growing

Blue and White-Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **May 2018, June 2018, and July 2018.**

	Diffusion Index May-18	Diffusion Index June-18	Diffusion Index Jul-17	Direction	Comments
Blue Collar	61.3	56.0	49.0	declining	-
White Collar	61.3	58.1	57.1	growing	-

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

What respondents are saying in July 2018:

- Experiencing difficulties finding labor.
- Would increase (blue collar) if we could find people.

Buying Policy

Average commitment lead-time for Capital Expenditures increased from 124 days to 139 days. Average lead-time for Production Materials increased from 47 days to 57 days. Average lead-time for Maintenance, Repair and Operating (MRO) Supplies decreased from 31 days to 28 days.

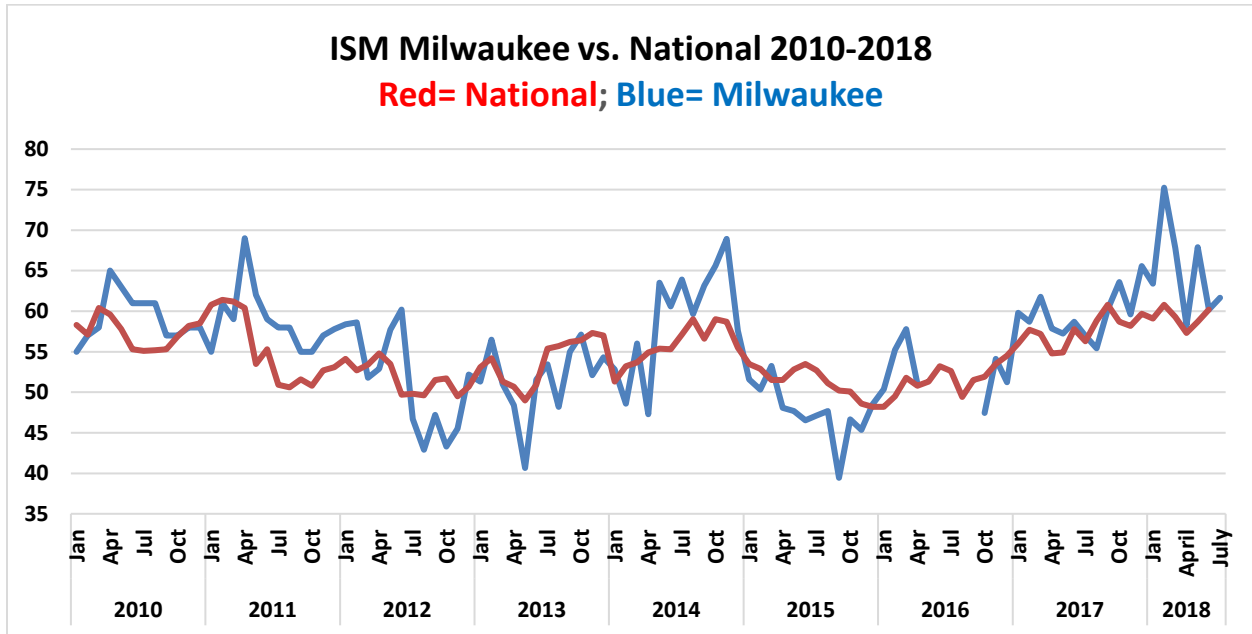
Six- Month Outlook on Business Conditions

In this outlook, there is a downward shift in positive expectations compared with June in terms of market conditions. Approximately 33% of respondents expect positive conditions, 38% expect conditions to remain the same and 28% of the respondents expect conditions to worsen within the next six months.

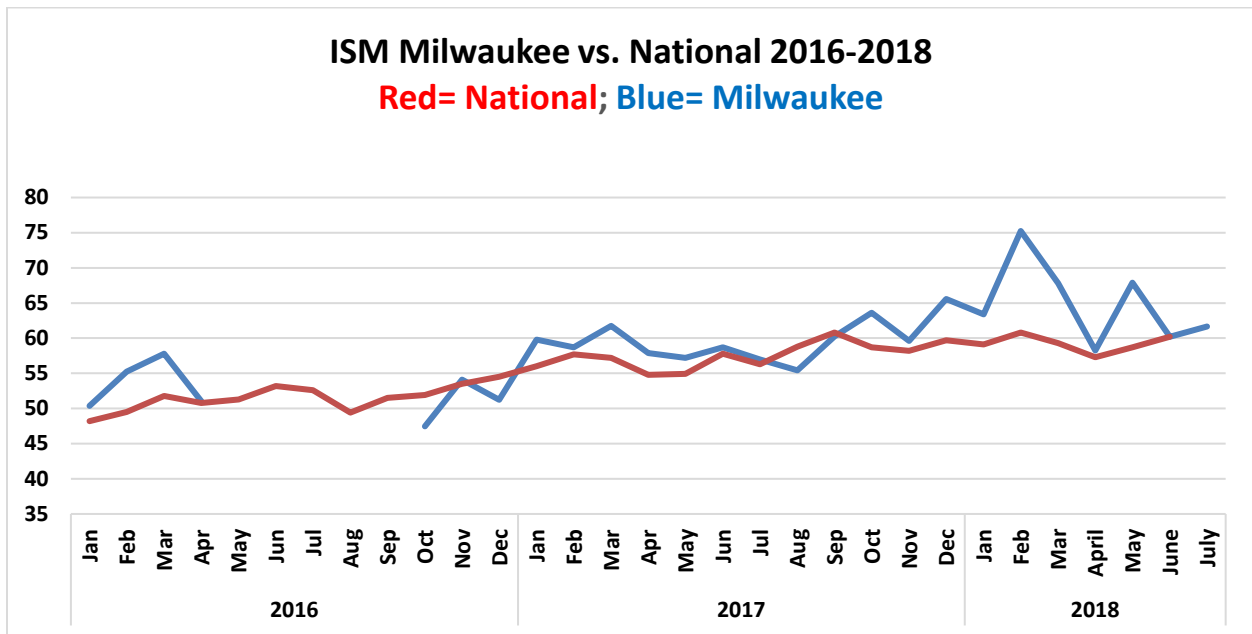
	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jul-18	33.33%	38.89%	27.78%	52.78%
Jun-18	41.18%	29.41%	29.41%	55.88%
May-18	57.14%	35.71%	7.14%	75.00%

Milwaukee versus the Nation –

January 2010 – July 2018 Graph



January 2016- July 2018 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>)