

Marquette ISM® Report on Manufacturing July 2020- Early Release

Contact: Manoj Babu
Director, Center for Supply Chain Management
Marquette University
(414) 288-6587
manoj.babu@marquette.edu

Released: July 31st, 2020

*The Marquette-ISM Report on Manufacturing was prepared by **Katie Ozanich**, a graduate student in Applied Economics at Marquette University, and distributed by **Kelly Wesolowski**, Associate Director of the Center for Supply Chain Management.*

Please direct data questions and requests for media commentary to Manoj Babu.

This report should not be confused with the Report On Business®, PMI®, NMI®, published by the Institute of Supply Management® (ISM®). 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 2020	June 2020	May 2020
Seasonally adjusted	44.90	43.49	43.72

(Milwaukee, Wisconsin) – July’s Index registered at 44.90, an increase from 43.49 in June. July’s index indicates negative territory.

What respondents are saying in July 2020:

- Automotive industry is starting to pick up
- Continue to suffer from the effects of a damaged supply chain due to COVID-19 shutdowns
- Steel production and demand are still on a downward trend
- Many scheduled shutdowns have been extended
- Aiming to capitalize on some COVID-19 related products
- Indications that third quarter will be worse than second quarter and then some recovery to begin in the fourth quarter

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

MANUFACTURING AT A GLANCE: July 2020*				
Index	Series	Series	Percentage Point Change	Direction
	Index	Index		
	July-20	June-20		
PMI	44.90	43.49	1.4	declining
New Orders	46.11	35.58	10.5	declining
Production	42.00	48.18	-6.2	declining
Employment	36.69	30.85	5.8	declining
Supplier Deliveries	62.25	71.59	-9.3	slower
Inventories	37.46	31.25	6.2	declining
Customers' Inventories *	45.45	42.31	3.1	declining
Prices *	54.17	53.13	1.0	growing
Backlog of Orders *	27.27	30.00	-2.7	declining
Exports *	42.86	37.50	5.4	declining
Imports *	42.86	25.00	17.9	declining

(*) 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 2020:

- In relation to supplier deliveries, there has been a decrease in airfreight capacities
- Europe is continuing to try to meet customer demand
- India continues to have issues related to COVID-19 lockdowns
- Continued COVID-19 shutdowns have begun to create large backorders
- Due to issues with overseas supplier relations, trying to source more supplies domestically

Blue and White-Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **July 2020**, **June 2020**, and **May 2020**.

	Diffusion Index Jul-20	Diffusion Index Jun-20	Diffusion Index May-20	Direction	Comments
Blue Collar	40.8	30.8	37.0	declining	-
White Collar	40.8	33.9	33.9	declining	-

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

What respondents are saying in July 2020:

- Returned to normal work hours
- Began to retain adequate assembly staffing
- Suppliers continue to have a lack of qualified help to keep up with demand

Buying Policy

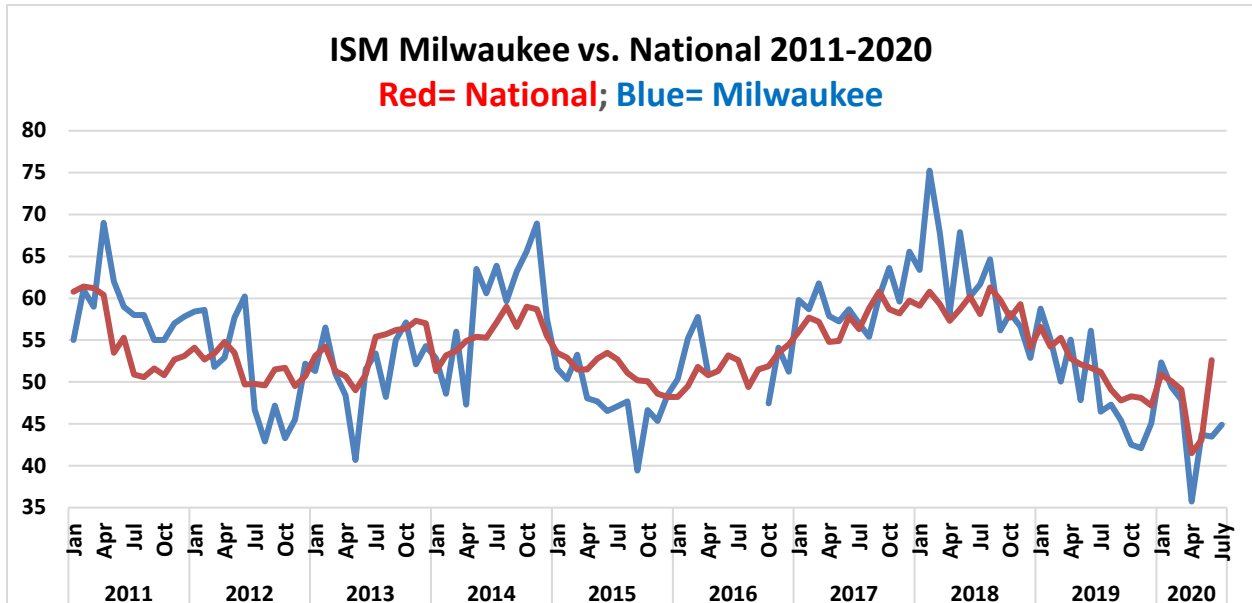
Average commitment lead-time for Capital Expenditures increased from 83 to 104 days. Average lead-time for Production Materials decreased from 57 to 53 days. Average lead-time for Maintenance, Repair and Operating (MRO) Supplies decreased from 21 to 18 days.

Six- Month Outlook on Business Conditions

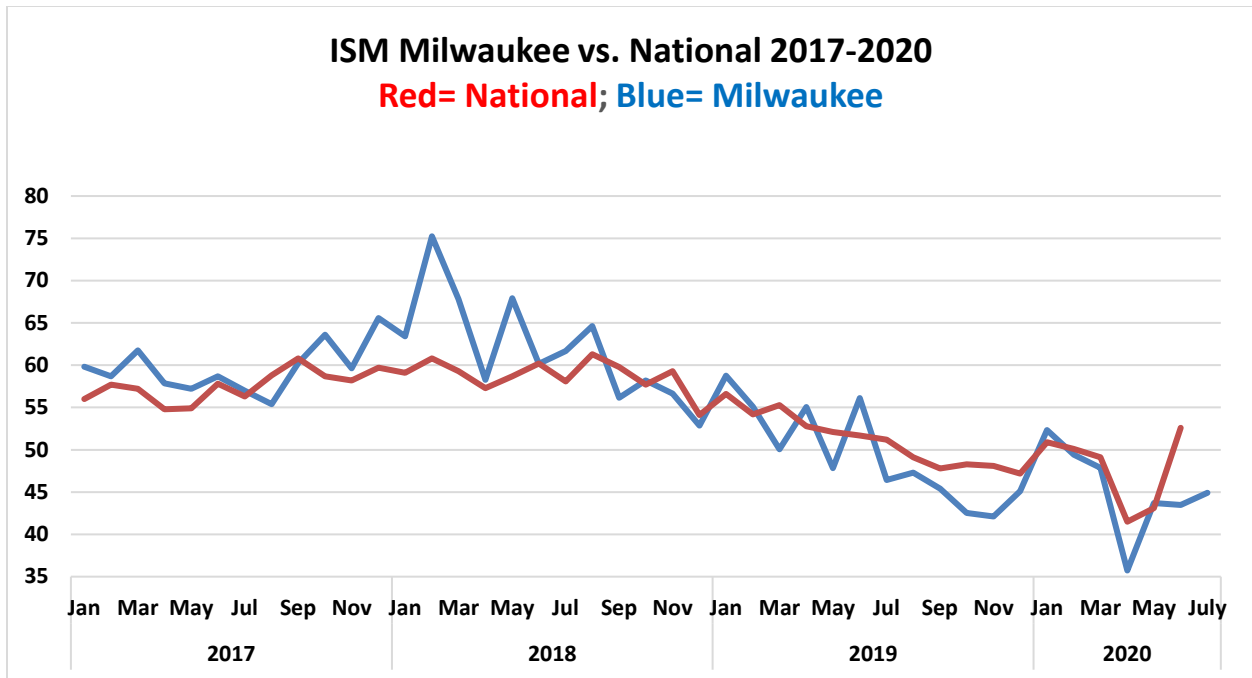
In this outlook, there is a downward shift in positive expectations compared with June in terms of market conditions. Approximately 45% of respondents expect positive conditions, 36% expect conditions to remain the same and 18% of the respondents expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Jul-20	45.45%	36.36%	18.18%	63.64%
Jun-20	50.00%	25.00%	25.00%	62.50%
May-20	35.71%	42.86%	21.43%	57.14%

**Milwaukee versus the Nation –
January 2011 – July 2020 Graph**



January 2017 – July 2020 Graph



Insights on the ISM® PMI® from Institute for Supply Management®:

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>)