

Marquette ISM® Report on Manufacturing
October 2020- Early Release

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The Marquette-ISM Report on Manufacturing was prepared by Owen Liebelt, 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	October 2020	September 2020	August 2020
Seasonally adjusted	59.42	54.49	51.37

(Milwaukee, Wisconsin) – Octobers Index registered at 59.42, an increase from 54.49 in September. October's index indicates positive territory.

What respondents are saying in October 2020:

- We are looking for a solid fourth quarter with sales on par with first quarter
- Virus issues impacting head count and productivity. International traffic lane lead time increases due to strong import demand creating delivery issues. Raw material lead time increases due to strong industry demand
- Market strengthening continues but mixed signals from various customers
- Biggest issue is that the customers are in Europe and are going through another 4 week shutdown.
- Manufacturing suppliers are citing lost weeks due to employee's sick on Monday, taking Covid test on Tuesday and not getting results until Friday

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

MANUFACTURING AT A GLANCE: October 2020*				
Index	Series	Series	Percentage Point Change	Direction
	Index	Index		
	Oct-20	Sep-20		
PMI	59.42	54.49	4.9	growing
New Orders	59.84	63.28	-3.4	growing
Production	57.84	51.02	6.8	growing
Employment	50.51	44.79	5.7	growing
Supplier Deliveries	78.26	73.24	5.0	declining
Inventories	50.66	40.10	10.6	growing
Customers' Inventories *	39.29	43.75	-4.5	declining
Prices *	75.00	61.76	13.2	growing
Backlog of Orders *	54.17	53.33	0.8	growing
Exports *	37.50	50.00	-12.5	declining
Imports *	56.25	54.55	1.7	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 October 2020:

- Freight capacities continue to be an issue
- PPE is become more and more limited, harder to find, and more expensive
- The overall supply chain continues to be hampered by the virus, lead times are still difficult to anticipate

Blue and White-Collar Employment:

We have collected input on Blue and White Collar Employment. The indices are below for **October 2020, September 2020, and August 2020.**

	Diffusion Index Oct-20	Diffusion Index Sept-20	Diffusion Index Aug-20	Direction	Comments
Blue Collar	54.1	53.7	49.7	growing	-
White Collar	43.1	50.8	45.1	declining	-

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

What respondents are saying in October 2020:

- No stimulus package means we are starting to lay off white collar workers who were not previously affected
- Experiencing high turnover. We would like to increase blue collar employment. Hard to find good manufacturing individuals.

Buying Policy

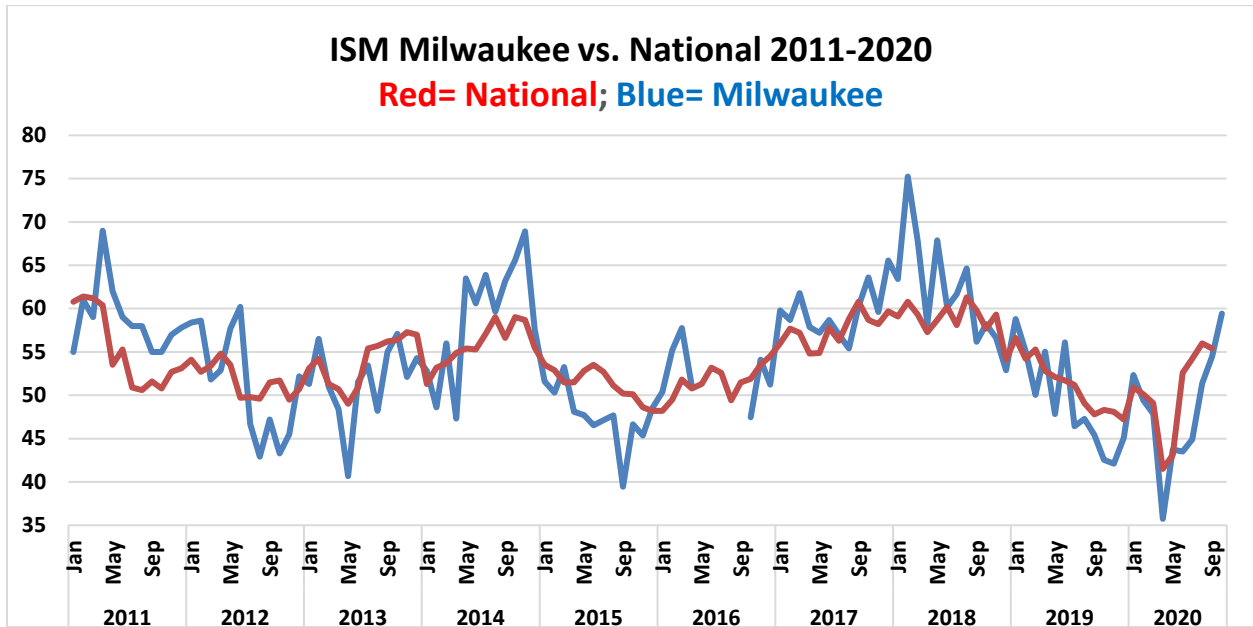
Average commitment lead-time for Capital Expenditures decreased from 131 to 93 days. Average lead-time for Production Materials decreased from 57 to 50 days. Average lead-time for Maintenance, Repair and Operating (MRO) Supplies decreased from 31 to 17 days.

Six- Month Outlook on Business Conditions

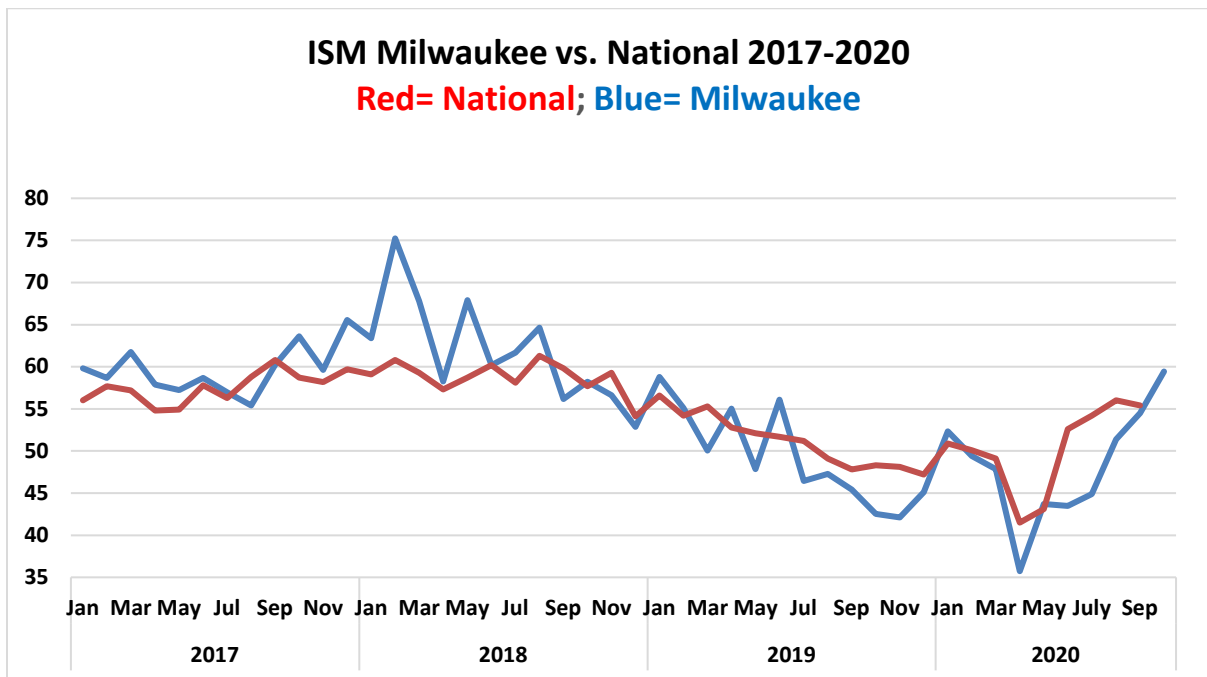
In this outlook, there is an upward shift in positive expectations compared with August and September in terms of market conditions. Approximately 50% of respondents expect positive conditions, 35% expect conditions to remain the same and 14% of the respondents expect conditions to worsen within the next six months.

	Expect Positive Conditions	Expect Same Conditions	Expect Worse Conditions	Diffusion Index
Oct-20	50.00%	35.71%	14.29%	67.86%
Sept-20	47.06%	35.29%	17.65%	64.71%
Aug-20	27.27%	54.55%	18.18%	54.55%

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



January 2017 – October 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>)