


ISM Report on Business®








Annual Revenue Estimation and Tax Research Conference

Federation of Tax Administrators

Terri Tracey
October 2, 2002

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Institute for Supply Management

- 501(c)(3) educational assn:
 - Mission: The association exists to educate, develop, and advance the purchasing and supply management profession.
 - Founded in 1915
 - More than 45,000 members
 - Provide wide range of educational programs, products, and services

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 MANUFACTURING


 NON-MANUFACTURING





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- Two Reports:
 - Manufacturing – since 1931
 - Wide recognition by economic community
 - Non-Manufacturing – first issued May 1998
 - Gaining recognition

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E.V. group has Greenspan's attention

BY ED TAYLOR

On Jan. 2, the National Association of Purchasing Management released its monthly report on purchasing activity by the nation's manufacturing firms, showing they were cutting back on buying goods and services.

The Nasdaq stock market plummeted west in the week, falling a nine-year low. And the next day the Federal Reserve Board sharply cut a key interest rate to head off a possible recession.

The report that triggered that flurry of activity was generated from an office at the Arizona State University Research Park in Tempe, where the association maintains its headquarters.

The public may not care much about the association or its Purchasing Managers Index, but Fed Chairman Alan Greenspan does. It helps him determine the nation's economic policy — and that affects everyone.

The local expression of a role in triggering a 7.5 percent drop in the Nasdaq market was a surprise to Paul Novak, the association's chief executive. He's seen the report more markets before.

But the Fed action the following day was a surprise — particularly the size of the decrease.

"It's unusual for them to act ahead of regular meetings, and the half percent change was significant," he said.

The report the Fed follows the manufacturer's index so closely is that it has proven to be a good short-term indicator of where economic activity is headed.


The association began polling its purchasing manager members in 1952, asking them questions about their order plans, prices they have to pay for supplies, length of delivery times and other economic factors they are experiencing.


The survey was started at the request of officials in the Herbert Hoover administration who were searching for better information to gauge the progress of the nation in




Please see PURCHASING, Page 88

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PURCHASING: Index has Greenspan's attention

From Page B1

Each month about 400 companies report on their manufacturing and service, and the data is processed into a composite index that has become a key indicator of the nation's economic health. The Federal Reserve is highly interested in the purchasing index because it is a leading indicator of economic activity. The index is used to help predict the nation's economic growth. The purchasing index is used to help predict the nation's economic growth. The purchasing index is used to help predict the nation's economic growth.

Appeared in January 31, 2001
East Valley Tribune

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Manufacturing Sector

- Monthly Survey
- ISM's Business Survey Committee:
 - Purchasing / supply executives from over 400 industrial companies
 - Membership diversified by SIC category based on each industry's contribution to GDP
 - 20 industries

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Manufacturing Sector

- Survey responses reflect change, if any, in current mo. compared to previous mo.:
 - % reporting each response
 - Net difference between # responses in positive economic direction, negative economic direction, diffusion index
 - Diffusion index: % positive responses + _ same (considered positive)

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Manufacturing Sector

- Diffusion index seasonally adjusted:
 - Allows for effects of repetitive intra-year variations in weather conditions, various institutional arrangements, non-moveable holidays
 - Factors supplied by U.S. Department of Commerce
 - Subject to annual adjustments
 - Backlog of Orders, Customers' Inventories **NOT** seasonally adjusted

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Manufacturing Diffusion Indexes

- New Orders* (SA)
- Production* (SA)
- Employment* (SA)
- Supplier Deliveries* (SA)
- Inventories* (SA)
- Customers' Inventories
- Prices* (SA)
- Backlog of Orders
- New Export Orders* (SA)
- Imports* (SA)

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Manufacturing Sector


- PMI – composite index:
 - Based on seasonally adjusted diffusion indexes:
 - New Orders – 30%
 - Production – 25%
 - Employment – 20%
 - Supplier Deliveries – 15%
 - Inventories – 10%

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Manufacturing Sector

- PMI > 50% indicates Mfg economy generally expanding; < 50% generally declining
- PMI > 42.7%, over time, indicates overall economy / GDP is generally expanding

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October 1, 2002 Mfg Report

Indicator	Index	Direction	Rate
PMI	49.5	Contracting	From Growing
New Orders	50.2	Growing	From Contracting
Production	50.9	Growing	Slower
Employment	44.9	Contracting	Faster
Supplier Deliveries	55.7	Slowing	Faster
Inventories	43.6	Contracting	Faster
Customers' Inventories	40.5	Too Low	Faster
Prices	62.5	Increasing	Faster
Backlog Orders	44.5	Contracting	Faster
New Export Orders	51.8	Growing	Slower
Imports	54.7	Growing	Faster
Overall Economy	©ISM 2002	Growing	Slower
Manufacturing		Contracting	From Growing



Non-Manufacturing Sector

- Monthly Survey
- ISM's Business Survey Committee:
 - Over 370 Purchasing / supply executives in over 62 different industries representing 9 SIC categories
 - Membership diversified by SIC category based on each industry's contribution to GDP
 - 16 industries

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Non-Manufacturing Diffusion Indexes

- Business Activity / Production* (SA)
- New Orders* (SA)
- Employment* (SA)
- Supplier Deliveries
- Inventories
- Prices
- Backlog of Orders
- New Export Orders
- Imports* (SA)
- Inventory Sentiment

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September 5, 2002 Non-Mfg Report

Indicator	Index	Direction	Rate
Business Activity / Production	50.9	Increasing	Slower
New Orders	51.6	Increasing	Slower
Employment	47.3	Decreasing	Slower
Supplier Deliveries	53.0	Slowing	Faster
Inventories	46.0	Decreasing	From Increasing
Prices	53.5	Increasing	Slower
Backlog Orders	48.0	Decreasing	Slower
New Export Orders	46.0	Decreasing	From Increasing
Imports	48.3	Decreasing	From Increasing
Inventory Sentiment	62.0	Less feeling of "too high"	
Customers' Inventories	N/A		

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eBusiness Report

- Developed in fall 2000
- Quarterly Survey
- ISM's Business Survey Committee Respondents from both Mfg and Non-Mfg

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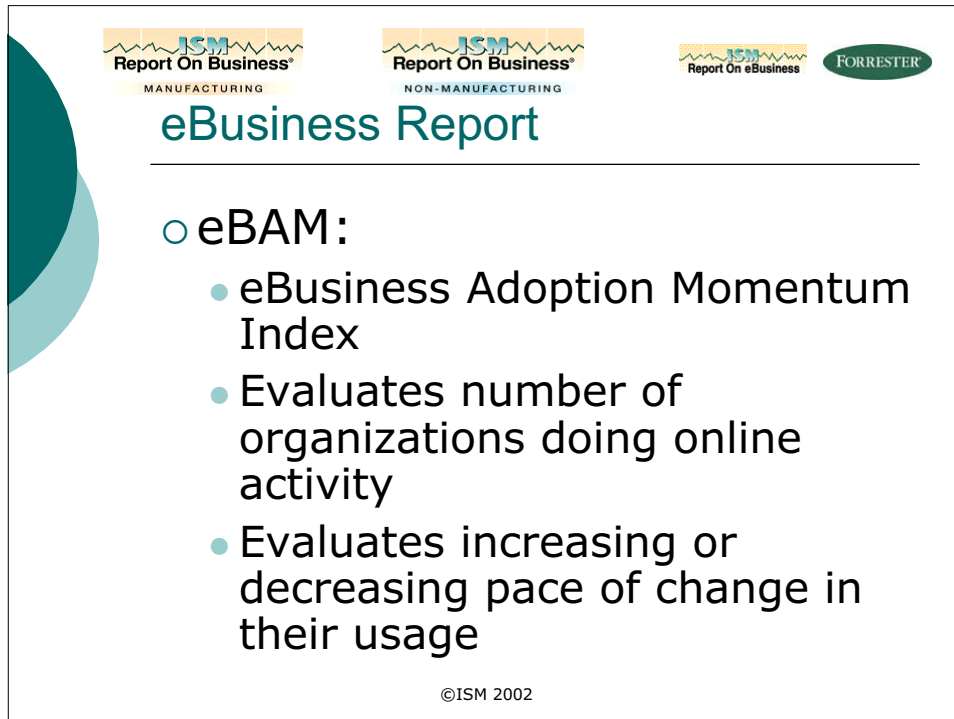
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eBusiness Report

- Responses analyzed by:
 - Results of all organizations
 - Comparison of manufacturing and non-manufacturing
 - Comparison of organizations that procure >\$100m and <\$100m annually

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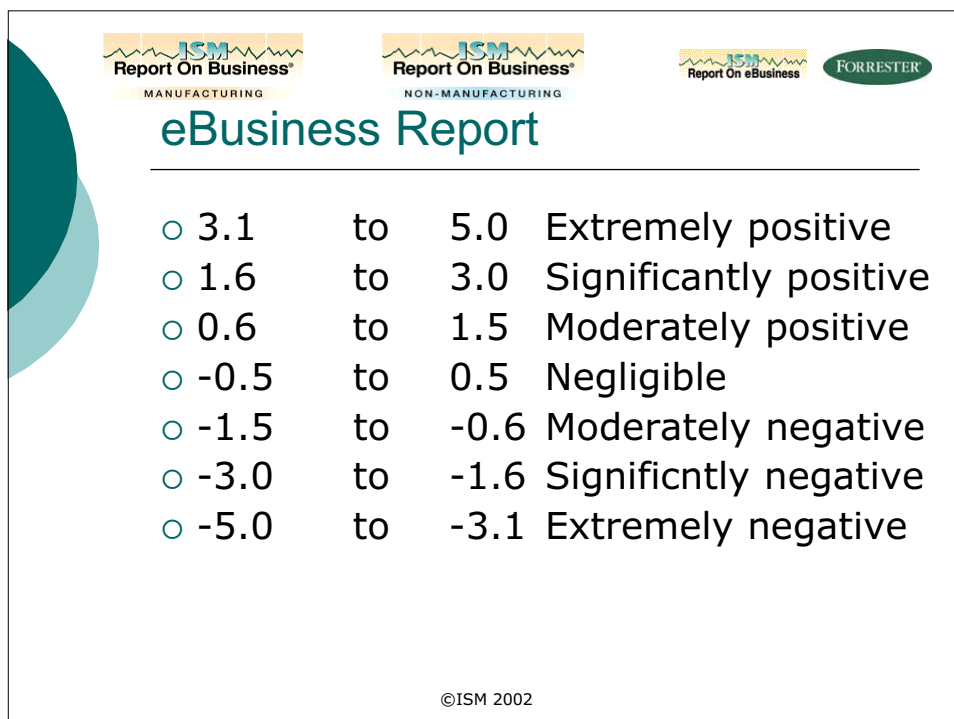











eBusiness Report

- eBAM:
 - eBusiness Adoption Momentum Index
 - Evaluates number of organizations doing online activity
 - Evaluates increasing or decreasing pace of change in their usage

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eBusiness Report

- 3.1 to 5.0 Extremely positive
- 1.6 to 3.0 Significantly positive
- 0.6 to 1.5 Moderately positive
- -0.5 to 0.5 Negligible
- -1.5 to -0.6 Moderately negative
- -3.0 to -1.6 Significantly negative
- -5.0 to -3.1 Extremely negative

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July 2002 eBusiness Report

- 64.6% purchased direct materials online, up from 53.3 in Q1
- 84.2% purchased indirect materials online, up from 78.1% in Q1
- More non-manufacturers reported significant adoption of the Internet in purchasing activities than manufacturing companies

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