

Increases in New Export Orders Appear to Wind Down

PRM-PMI survey participants also respond to five additional questions on business conditions relating to Prices Paid, Business and Customers' Inventories, Backlogs, and New Export Orders. In this supplement, we present the results of Question 10 related to New Export Orders.

This question asks whether the number of new export orders (in units, not dollars) received by manufacturers in Puerto Rico rose, fell, or stayed the same with respect to the previous month.

This allows for the calculation of the New Export Orders diffusion index. A reading of this index above the threshold value of 50 suggests an increase in the number of orders received during the reference month by manufacturing establishments in Puerto Rico from clients outside of Puerto Rico with respect to the previous month.

In the United States, the New Export Orders diffusion index, prepared by the U.S. Institute for Supply Management, has helped keep track of the growth of the value of U.S. manufacturing exports.

In fact, the New Export Orders diffusion index served as a leading indicator of the previous two U.S. recessions, the 2002 dotcom burst and the 2009 financial crisis (See graph).

In Puerto Rico, on a Non-Seasonally Adjusted basis, the New Export Orders diffusion index has fluctuated around the threshold level, with about twice as much volatility as Puerto Rico's Manufacturing – Purchasing Managers' Index (PRM-PMI) and about half the volatility as the New Orders PMI sub-index.

Thus far, the month-to-month change of the New Export Orders

diffusion index has a slight, but significant positive correlation of about 40 percent with the month-to-month percent change of the value of Puerto Rico's manufacturing exports.

With manufacturing goods accounting for an even greater share of exports in Puerto Rico, the New Export Orders diffusion index may play a key role in tracking economic developments in Puerto Rico going forward.

The value of Puerto Rico's manufacturing exports has risen in recent months, reaching almost \$6 billion in May 2013. Meanwhile, the New Export Orders diffusion index has been below the threshold level for the past two months, with a reading of 43.5 in June 2013, suggesting that the value of Puerto Rico's manufacturing exports may edge down over the coming months.

