

Purchasing Managers Index of Puerto Rico Manufacturing

SEPTEMBER 2012

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<http://www.estadisticas.gobierno.pr/iepr/Publicaciones/Encuestas/ManufacturaPMI.aspx>

PUERTO RICO MANUFACTURING PMI FELL TO 47.9 IN SEPTEMBER

On a Non-Seasonally Adjusted (NSA) basis, the Purchasing Managers Index (PMI) for Puerto Rico's manufacturing sector dropped below the threshold to 47.9 in September, after twelve consecutive months above. A reading below the threshold value of 50 suggests a contraction in the manufacturing sector with respect to previous month. The New Orders, Production, Employment, and Own Inventories sub-indexes decreased, with the first three falling below the threshold. The Own Inventories sub-index edged down, but remained above the threshold for the fifth consecutive month. Only the Supplier Deliveries sub-index rose above the threshold, indicating suppliers' deliveries were slower than in August, a signal of higher demand for intermediate goods. The Puerto Rico Manufacturing-Purchasing Managers Index (PRM-PMI) has been above the threshold value in 23 of the 29 months since the survey was first undertaken. The PRM-PMI is currently available only on a Non-Seasonally Adjusted (NSA) basis which means that seasonal fluctuations can affect its performance.

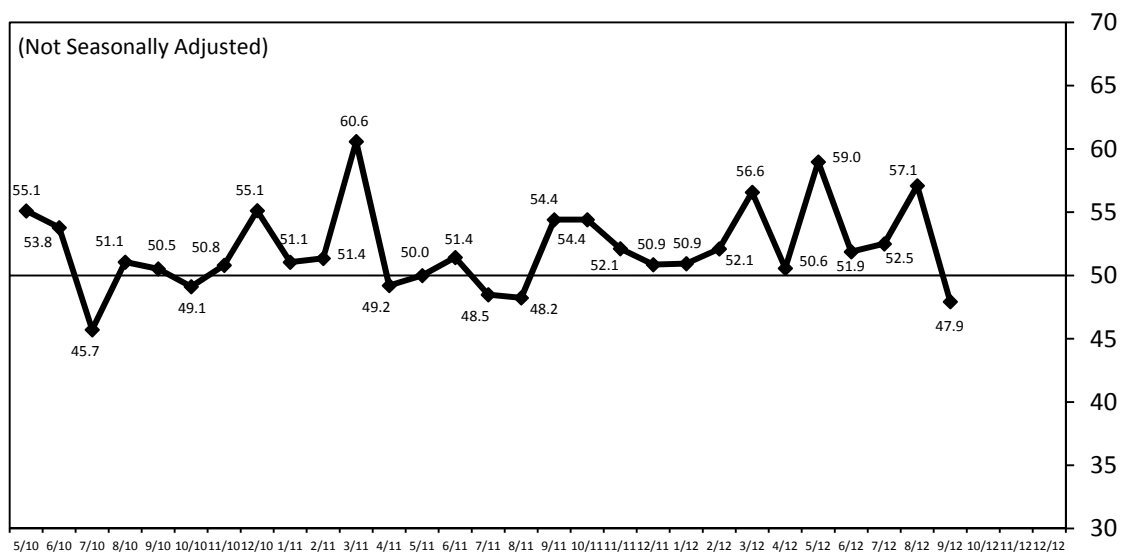


Table 1. Puerto Rico Manufacturing – Purchasing Managers' Index (NSA): September 2012

	Better	Same	Worse	PMI		
Órdenes nuevas	17.2	51.7	31	43.1	Lower	New orders
Producción	17.2	48.3	34.5	41.4	Lower	Production
Empleo	10.3	69	20.7	44.8	Lower	Employment
Entregas de suplidores	10.3	86.2	3.4	53.4	Slower	Supplier deliveries
Inventarios de su empresa	31	51.7	17.2	56.9	Higher	Own inventories

Puerto Rico Manufacturing – Purchasing Managers Index (NSA) 47.9 Contraction

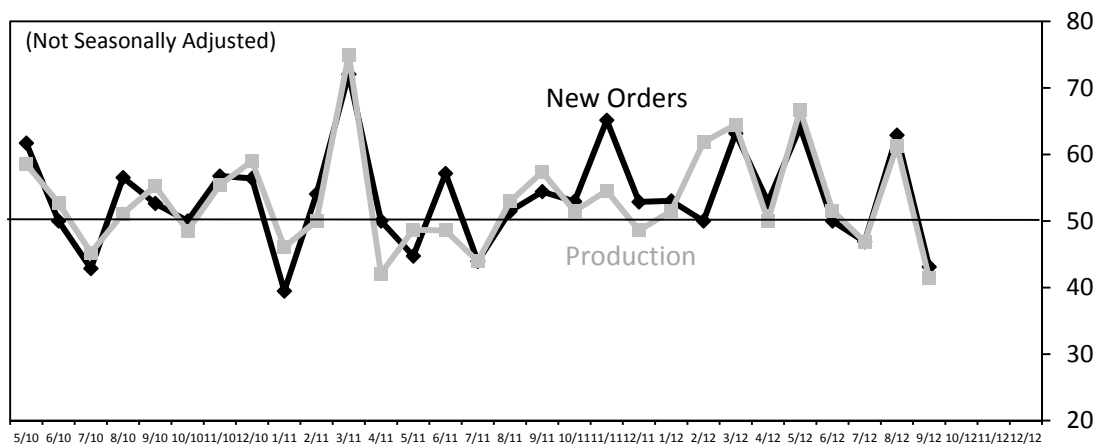
Note: Not Seasonally Adjusted (NSA)

New Orders

In September, the New Orders PMI (NSA) fell below the threshold to 43.1, following a single month above. A reading below 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, new orders at manufacturing establishments in September were lower than in August.

Production

The Production PMI (NSA) dropped below the threshold to 41.4 in September, after being above the threshold last month. A reading below 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, manufacturing production in September was lower than in August.

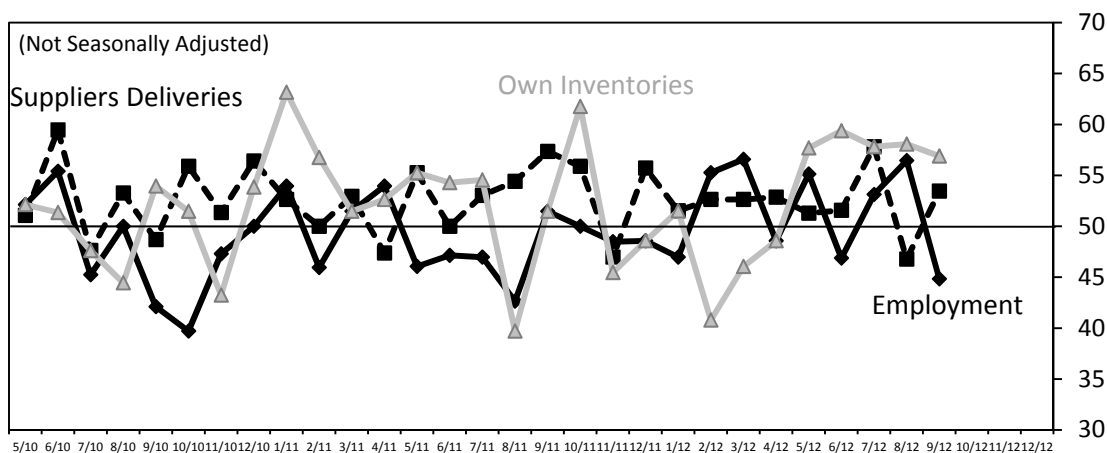


Employment

In September, the Employment PMI (NSA) declined below the threshold to 44.8, after two consecutive months above the threshold. A reading below 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, manufacturing employment in September was lower than in August.

Supplier Deliveries

The Supplier Deliveries PMI (NSA) jumped up above the threshold to 53.4 in September, after being below the threshold in August. A reading above 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, the speed of supply deliveries in September was slower than in August, suggesting a higher demand for intermediate goods.



Own Inventories

In September, the Own Inventories PMI (NSA) edged down to 56.9, but remained above the threshold for the fifth consecutive month. A reading above 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, inventories in manufacturing establishments in September were higher than in August.

Methodological note

The Puerto Rico Manufacturing-Purchasing Managers Index (PRM-PMI) is the result of a collaborative project between the Puerto Rico Manufacturers Association, Scotiabank, and the Puerto Rico Institute of Statistics. The PRM-PMI measures short-run business conditions in Puerto Rico's manufacturing sector, and provides a broad-based metric for the productive side of Puerto Rico's economy. It is currently in a testing phase to ensure a reliable methodology. The methodology is similar to PMI surveys conducted elsewhere. The survey questionnaire is available at <http://www.estadisticas.gobierno.pr/iepr/Publicaciones/Encuestas/ManufacturaPMI.aspx>. The participants include manufacturing establishments with 50 or more employees with membership in the Puerto Rico Manufacturers Association. Currently, results are presented on a Non-Seasonally Adjusted (NSA) basis. In the future, with sufficient data points, a seasonally adjusted version of the PRM-PMI will be prepared, which will smooth away the influence of seasonal fluctuations.

The PRM-PMI is calculated as the simple average of 5 sub-indexes, representing different business conditions in manufacturing establishments: New Orders PMI, Production PMI, Employment PMI, Supplier Deliveries PMI, Own Inventories PMI. The sub-indexes are computed using a diffusion index methodology. In specific, for any given month with respect to the previous month, participants are asked to answer whether the business condition of the establishment: (1) improved, (2) remained the same, or (3) deteriorated. Diffusion indexes are calculated as the percentage of responses that indicate the business condition improved plus half of the percentage of responses that indicate the business condition remained the same. The survey also includes questions on other business conditions. The diffusion indexes that correspond to these questions are currently under evaluation.

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Publication calendar

The monthly PRM-PMI report is published at 10:00 a.m. on the first business day of the month. In specific, the table below shows the expected publication dates of the PRM-PMI report during calendar year 2012:

Reference month	Publication date
Nov 2011	January 3, 2012
Dec 2011	February 1, 2012
Jan 2012	March 1, 2012
Feb 2012	April 2, 2012
Mar 2012	May 1, 2012
Apr 2012	June 1, 2012

Reference month	Publication date
May 2012	July 2, 2012
Jun 2012	August 1, 2012
Jul 2012	September 4, 2012
Aug 2012	October 1, 2012
Sep 2012	November 1, 2012
Oct 2012	December 3, 2012

Increases in Input Prices Appear to Wind Down

PRM-PMI survey participants also respond to five additional questions on business conditions relating to Prices Paid, Customers' Inventories, Backlogs, and New Export Orders. In this Supplement, we present the results of Question 8 related to Prices Paid.

This question asks whether the average level of prices on net (weighted by their proportion) paid by manufacturers in Puerto Rico for inputs rose, fell, or stayed the same with respect to the previous month.

This allows for the calculation of the Prices Paid diffusion index. A reading of this index above the threshold value of 50 suggests an increase in the inputs prices paid by manufacturing establishments in Puerto Rico with respect to the previous month.

Since May 2010, the Prices Paid index has been consistently above the threshold level indicating that most participants paid more for their inputs every month for 29 months consecutively (See graph below *Prices Paid Diffusion Index*).

As this index is not seasonally adjusted, seasonal behavior is not only expected, but actually visible from the chart, with peaks in March and April, and troughs in October and November.

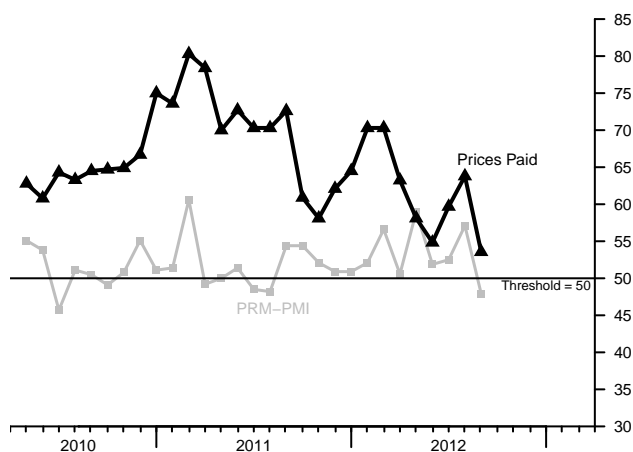
To gauge the comparability of the Prices Paid diffusion index with other similar indexes, we examined data from the US-PMI survey of the Institute for Supply Management, as well as data from two Federal Reserve Districts: Empire State Manufacturing Survey (New York) and the Business Outlook

Survey (Philadelphia).

The four indexes show a similar pattern. Both Federal Reserve districts' Prices Paid diffusion indexes have been above the threshold value since May 2010. Only the Prices Paid diffusion index of the Institute for Supply Management dipped below in just 6 of the 29 months. Moreover, the Puerto Rico Prices Paid diffusion index has been above the corresponding index from the US-PMI survey from June 2011 to August 2012. (See graph *Prices Paid – other areas*).

The four time series also exhibit a similar seasonal pattern. Even when the data exhibit seasonal behavior, there appears to be a slight downward trend in the value of the Prices Paid diffusion indexes during the second half of 2011 and the first half of 2012.

Prices Paid Diffusion Index
(not seasonally adjusted)



Prices Paid – other areas
(not seasonally adjusted)

