

# Purchasing Managers Index of Puerto Rico Manufacturing

## JUNE 2012

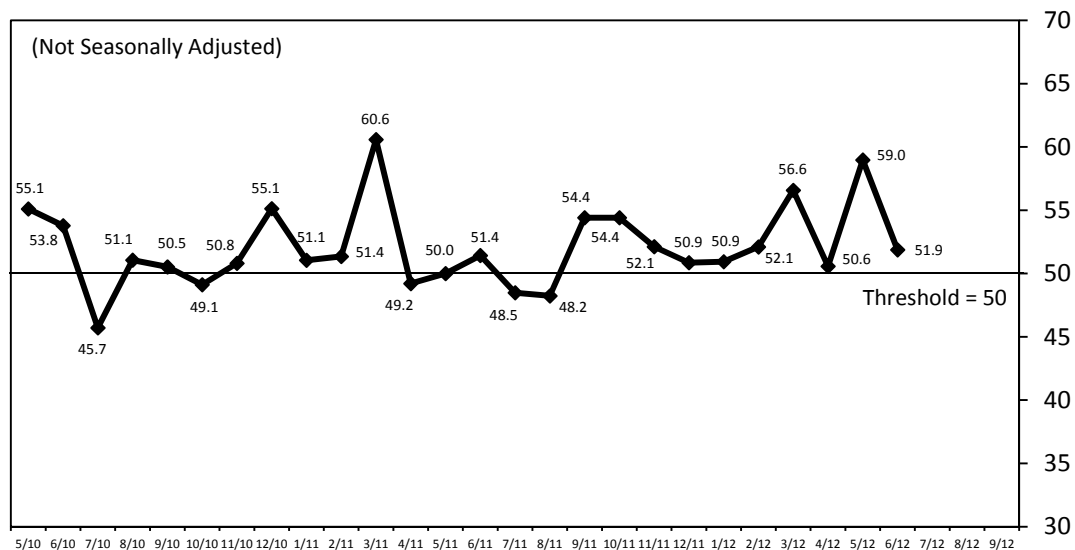
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<http://www.estadisticas.gobierno.pr/iepr/Estadisticas/Encuestas/ManufaturaPMI.aspx>

### PUERTO RICO MANUFACTURING PMI DECREASED TO 51.9 IN JUNE

On a Non-Seasonally Adjusted (NSA) basis, the Purchasing Managers Index (PMI) for Puerto Rico's manufacturing sector fell to 51.9 in June, remaining just above the threshold for the tenth consecutive month. A reading above the threshold value of 50 suggests an expansion in the manufacturing sector with respect to the previous month. The New Orders, Production and Employment sub-indexes fell, with Employment falling below the threshold value of 50. The Suppliers Deliveries and Own Inventories sub-indexes edged up further above the threshold, with the Suppliers Deliveries sub-index remaining above the threshold for the seventh consecutive month. The Puerto Rico Manufacturing-Purchasing Managers Index (PRM-PMI) has been at or above the threshold value in 21 of the 26 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): June 2012**

	Better	Same	Worse	PMI		
Órdenes nuevas	24.2	51.5	24.2	50	Same	New orders
Producción	28.1	46.9	25	51.6	Higher	Production
Empleo	6.2	81.2	12.5	46.9	Lower	Employment
Entregas de suplidores	9.4	84.4	6.2	51.6	Slower	Supplier deliveries
Inventarios de su empresa	28.1	62.5	9.4	59.4	Higher	Own inventories

**Puerto Rico Manufacturing – Purchasing Managers Index (NSA) 51.9      Expansion**

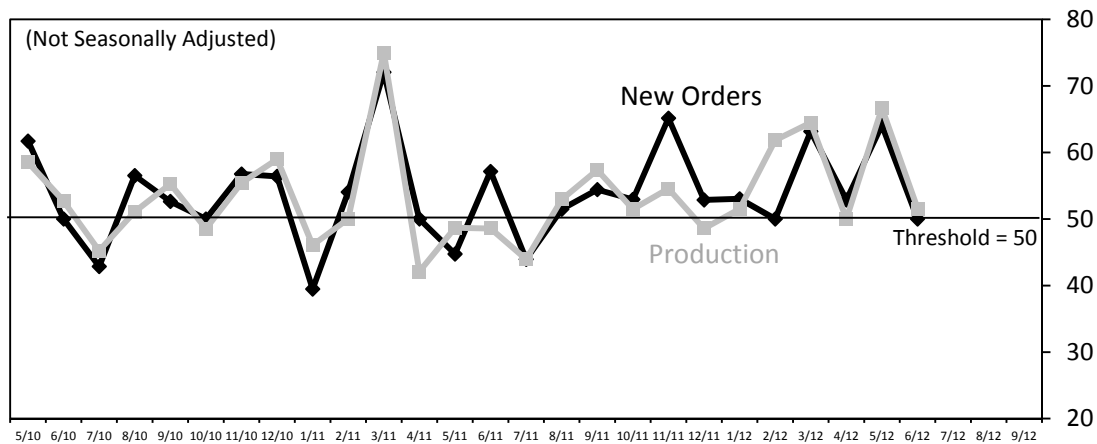
Note: Not Seasonally Adjusted (NSA)

## New Orders

In June, the New Orders PMI (NSA) plunged to the threshold value of 50, remaining at or above the threshold for the eleventh consecutive month. A reading of 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, new orders at manufacturing establishments in June were the same as in May.

## Production

The Production PMI (NSA) dropped to 51.6 in June, remaining at or above the threshold for the sixth consecutive month. A reading above 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, manufacturing production in June was higher than in May.

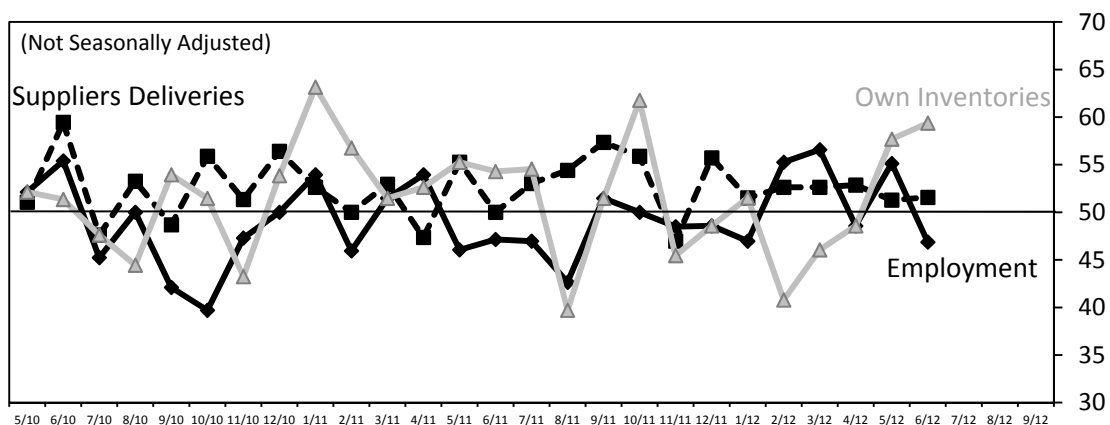


## Employment

In June, the Employment PMI (NSA) dove below the threshold value to 46.9, after being above the threshold last month. A reading below 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, manufacturing employment in June was lower than in May.

## Supplier Deliveries

The Supplier Deliveries PMI (NSA) inched up to 51.6 in June, its seventh consecutive month above the threshold. A reading above 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, the speed of supply deliveries in June was lower than in May, suggesting a higher demand for intermediate goods.



## Own Inventories

In June, the Own Inventories PMI (NSA) rose further above the threshold to 59.4, its second consecutive month above the threshold. A reading above 50 indicates that on a Non-Seasonally Adjusted (NSA) basis, inventories in manufacturing establishments in June were higher than in May.

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### 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/Estadisticas/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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### To obtain a copy of this report

(1) visit <http://www.estadisticas.gobierno.pr/iepr/Estadisticas/Encuestas/ManufacturaPMI.aspx>, (2) email your request to [preguntas@estadisticas.gobierno.pr](mailto:preguntas@estadisticas.gobierno.pr), (3) call (787) 993-3336, (4) fax your request to (787) 993-3346, (5) mail your request to the Puerto Rico Institute of Statistics, P.O. Box 195484, San Juan, PR 00919, or (6) visit the offices of the Puerto Rico Institute of Statistics at 57 Quisqueya St., Suite 2000, San Juan, PR 00917, between the hours of 8:00 a.m. and 5:30 p.m. The report is available on paper and in the following electronic formats: pdf and Microsoft Excel. The report is free.

### 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

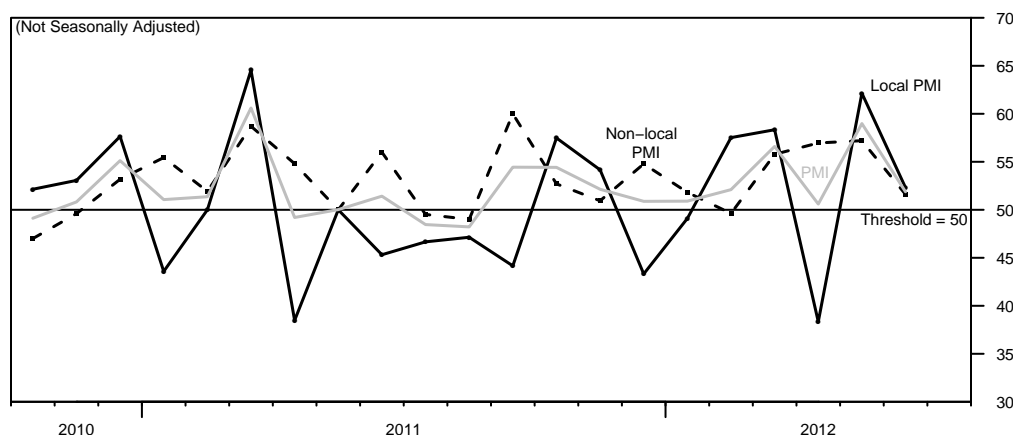
Reference month	Publication date
May 2012	July 2, 2012
Jun 2012	August 1, 2012
Jul 2012	September 4, 2012
Aug 2012	October 1, 2012
Sep 2012	November 1, 2012
Oct 2012	December 3, 2012

### Business Conditions appear more volatile in Locally-Owned Manufacturing Establishments

The PRM-PMI includes establishments that are owned by residents of Puerto Rico, as well as establishments that are owned by non-residents of Puerto Rico. As a result, one question that naturally rises is whether the business conditions of locally-owned manufacturing establishments behave differently than the business conditions of non-locally-owned establishments. In this supplement, we explore this question. In specific, the sample of manufacturing establishments with more than 50 employees was classified into two groups (locally-owned establishments and non-locally-owned establishments), using the standard regulatory definition of the Puerto Rico Industrial Development Company.<sup>1</sup> About 37 percent of sampled manufacturing establishments, as well as 37 percent of responding establishments, were classified as locally-owned. Subsequently, a PMI index was estimated for each subsample, using the same methodology as the PRM-PMI.

The Chart below presents the behavior of the PRM-PMI for locally-owned manufacturing establishments (or “Local PRM-PMI” for short) and the PRM-PMI of non-locally owned manufacturing establishments (or “Non-local PRM-PMI”). The Local PRM-PMI exhibits relatively more fluctuations and volatility than the Non-local PRM-PMI. In specific, the standard deviation of the Local PRM-PMI is more than double the standard deviation of the overall PRM-PMI. There may be methodological reasons for this observation: the group of locally-owned manufacturing establishments is smaller than the group of non-locally-owned establishments. On the other hand, this observation may reflect real underlying economic phenomena. For example, the business conditions of non-locally-owned manufacturing establishments may be less volatile because of their relatively greater access to external capital. Also, locally-owned manufacturing establishments tend to be more concentrated in the food and beverage manufacturing industry which largely depends on orders from within Puerto Rico. By their very nature, the business conditions of food and beverage manufacturers can face significant seasonal volatility depending on how the volume of consumer purchases evolves throughout the different peaks and troughs that regularly occur in any given year.

The Local PRM-PMI has been at or above the threshold value in just 12 out of the last 22 months, whereas the Non-local PRM-PMI has been at or above the threshold in 16 of the last 22 months. In June 2012, Local-PMI went down to 52.3 remaining above the threshold.



<sup>1</sup> In specific, the majority of shareholders of a locally-owned manufacturing establishment must be residents of Puerto Rico by birth, or by residing in Puerto Rico for at least two (five) consecutive years for U.S. citizens (for non-U.S. citizens). All others are classified as non-locally-owned.