

Manufacturing Backlogs Continue to Decrease

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 9 related to Backlogs of orders.

This question asks whether the quantity of unfilled orders on backlog for this month, rose, fell, or stayed the same with respect to the previous month.

This allows for the calculation of the Backlog diffusion index. A reading of this index above the threshold value of 50 suggests an increase in the unfilled orders at manufacturing establishments in Puerto Rico with respect to the previous month.

Backlog trends may reveal cyclical fluctuations in an

economy because in the short run, a firm cannot fill from current output more orders than its physical capacity to produce permits, but it can receive orders far in excess of that amount.

The accumulation of unfilled orders is known as the Backlog. In times of economic expansion, firms experience a high level of backlog, forcing them to invest on plant and equipment in order to grow their manufacturing capacity and reduce backlog. On the other hand, during an economic contraction, firms may operate below their physical capacity and observe decreasing unfilled orders on backlog.

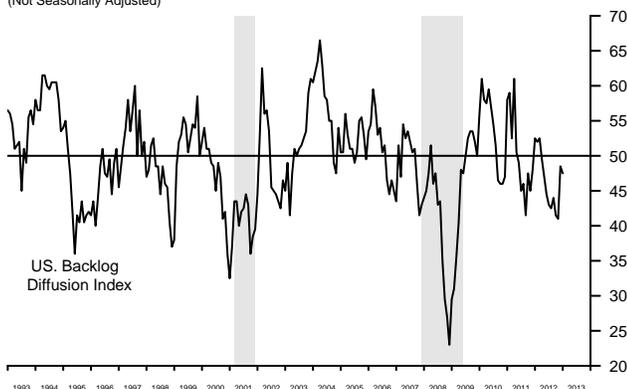
During the last two U.S. recessions (Mar 2001 – Nov 2001 and Dec 2007 – Jun 2009 as defined by the National Bureau of Economical Research), the U.S. Backlogs Diffusion Index

dipped below the threshold level of 50 (See graph *Manufacturing Backlogs and Recessions*).

The Puerto Rico Manufacturing Backlog Diffusion Index has remained below the threshold for almost every month since the survey was first undertaken, suggesting most firms have experienced consistently less unfilled orders over the past two years (See graph below *Recent Developments in Manufacturing Backlogs*). This is consistent with the economic recession that Puerto Rico has faced since 2006.

As a result, the Puerto Rico Manufacturing Backlog Diffusion Index will be a key indicator to watch going forward. In specific, if manufacturing backlogs begin to rise in Puerto Rico, this may help signal the end of the six-year long economic contraction Puerto Rico has faced.

Manufacturing Backlogs and Recessions
(Not Seasonally Adjusted)



Recent Developments in Manufacturing Backlogs
(Not Seasonally Adjusted)

