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## **February 2012 Manufacturing ISM *Report On Business*<sup>®</sup>**

**PMI at 52.4%**

DO NOT CONFUSE THIS NATIONAL REPORT with the various regional purchasing reports released across the country. The national report's information reflects the entire United States, while the regional reports contain primarily regional data from their local vicinities. Also, the information in the regional reports is not used in calculating the results of the national report. The information compiled in this report is for the month of February 2012.

**New Orders, Production and Employment Growing  
Supplier Deliveries Faster  
Inventories Contracting**

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in February for the 31st consecutive month, and the **overall economy** grew for the 33rd consecutive month, say the nation's supply executives in the latest **Manufacturing ISM *Report On Business*<sup>®</sup>**.

The report was issued today by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The PMI registered 52.4 percent, a decrease of 1.7 percentage points from January's reading of 54.1 percent, indicating expansion in the manufacturing sector for the 31st consecutive month. The New Orders Index registered 54.9 percent, a decrease of 2.7 percentage points from January's reading of 57.6 percent, reflecting the 34th consecutive month of growth in new orders. Prices of raw materials increased for the second consecutive month, with the Prices Index registering 61.5 percent. As was the case in January, new orders, production and employment all grew in February — although at somewhat slower rates than in January. Comments from the panel continue to reflect a generally positive outlook for the next few months."

**PERFORMANCE BY INDUSTRY**

Of the 18 manufacturing industries, 11 are reporting growth in February, in the following order: Apparel, Leather & Allied Products; Machinery; Primary Metals; Transportation Equipment; Petroleum & Coal Products; Fabricated Metal Products; Paper Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; and Chemical Products. The four industries reporting contraction in February are: Furniture & Related Products; Nonmetallic Mineral Products; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components.

**WHAT RESPONDENTS ARE SAYING ...**

- "Business is holding steady. Concern over commodity prices ongoing." (Chemical Products)
- "Still somewhat cautious about recovery. Expecting a good year, but not seeing orders yet." (Machinery)
- "Demand remains consistent to strong on all levels." (Paper Products)
- "Demand from auto makers is getting stronger." (Fabricated Metal Products)
- "Manufacturing is busy. Spending money on new equipment to accommodate customer demands. Material prices are staying in check." (Food, Beverage & Tobacco Products)
- "There seems to be a much more positive outlook for the economy. Customers are ordering material for stock rather than just working hand-to-mouth." (Fabricated Metal Products)
- "Global GDP softening and beginning to impact the demand chain." (Computer & Electronic Products)
- "Production is busy — several new large projects." (Primary Metals)
- "Customers [are] lowering inventory levels, anticipating price decrease due to third-party published reports on materials." (Plastics & Metal Products)
- "We are optimistic about the U.S. market this year, a little hesitant about what may happen in Europe and unsure about China." (Transportation Equipment)
- "Shipments are increasing over last year. Waiting to see if the trend continues." (Wood Products)

MANUFACTURING AT A GLANCE FEBRUARY 2012						
	Series	Series	Percentage		Rate	

<b>Index</b>	<b>Index Feb</b>	<b>Index Jan</b>	<b>Point Change</b>	<b>Direction</b>	<b>of Change</b>	<b>Trend* (Months)</b>
<b>PMI</b>	52.4	54.1	-1.7	Growing	Slower	31
<b>New Orders</b>	54.9	57.6	-2.7	Growing	Slower	34
<b>Production</b>	55.3	55.7	-0.4	Growing	Slower	33
<b>Employment</b>	53.2	54.3	-1.1	Growing	Slower	29
<b>Supplier Deliveries</b>	49.0	53.6	-4.6	Faster	From Slowing	1
<b>Inventories</b>	49.5	49.5	0.0	Contracting	Same	5
<b>Customers' Inventories</b>	46.0	47.5	-1.5	Too Low	Faster	3
<b>Prices</b>	61.5	55.5	+6.0	Increasing	Faster	2
<b>Backlog of Orders</b>	52.0	52.5	-0.5	Growing	Slower	2
<b>Exports</b>	59.5	55.0	+4.5	Growing	Faster	4
<b>Imports</b>	54.0	52.5	+1.5	Growing	Faster	3
<b>OVERALL ECONOMY</b>				Growing	Slower	33
<b>Manufacturing Sector</b>				Growing	Slower	31

\*Number of months moving in current direction.

## **COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY**

### **Commodities Up in Price**

Aluminum Products; Caustic Soda (2); Copper Products; Ethylene; Forgings; #2 Fuel Oil; HDPE Products; Plastic Resins; Polypropylene; Propylene; Stainless Steel (2); Steel (3); Steel Bar; Steel — Cold Rolled (2); Steel — Hot Rolled; Scrap Metal; and Titanium Dioxide (2).

**Commodities Down in Price**

Natural Gas (7) is the only commodity reported down in price.

**Commodities in Short Supply**

Hard Drives (3) is the only commodity reported in short supply.

Note: The number of consecutive months the commodity is listed is indicated after each item.

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**FEBRUARY 2012 MANUFACTURING INDEX SUMMARIES**

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**PMI**

Manufacturing continued its growth in February as the PMI registered 52.4 percent, a decrease of 1.7 percentage points when compared to January's reading of 54.1 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

A PMI in excess of 42.6 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the PMI indicates growth for the 33rd consecutive month in the overall economy, as well as expansion in the manufacturing sector for the 31st consecutive month. Holcomb stated, "The past relationship between the PMI and the overall economy indicates that the average PMI for January and February (53.3 percent) corresponds to a 3.6 percent increase in real gross domestic product (GDP). In addition, if the PMI for February (52.4 percent) is annualized, it corresponds to a 3.3 percent increase in real GDP annually."

**THE LAST 12 MONTHS**

<i>Month</i>	<i>PMI</i>	<i>Month</i>	<i>PMI</i>
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Feb 2012	52.4	Aug 2011	52.5
Jan 2012	54.1	Jul 2011	51.4
Dec 2011	53.1	Jun 2011	55.8
Nov 2011	52.2	May 2011	54.2
Oct 2011	51.8	Apr 2011	59.7
Sep 2011	52.5	Mar 2011	59.7
Average for 12 months – 54.1 High – 59.7 Low – 51.4			

### **New Orders**

ISM's New Orders Index registered 54.9 percent in February, which is a decrease of 2.7 percentage points when compared to the January reading of 57.6 percent. This represents a continuation of growth for the 34th consecutive month. A New Orders Index above 52.3 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars).

The 10 industries reporting growth in new orders in February — listed in order — are: Primary Metals; Apparel, Leather & Allied Products; Petroleum & Coal Products; Machinery; Fabricated Metal Products; Transportation Equipment; Food, Beverage & Tobacco Products; Chemical Products; Paper Products; and Computer & Electronic Products. The four industries reporting decreases in new orders in February are: Nonmetallic Mineral Products; Furniture & Related Products; Printing & Related Support Activities; and Plastics & Rubber Products.

<b>New Orders</b>	<b>% Better</b>	<b>% Same</b>	<b>% Worse</b>	<b>Net</b>	<b>Index</b>
Feb 2012	37	45	18	+19	54.9
Jan 2012	35	45	20	+15	57.6
Dec 2011	29	44	27	+2	54.8
Nov 2011	23	55	22	+1	55.0

### **Production**

ISM's Production Index registered 55.3 percent in February, which is a decrease of 0.4 percentage point when compared to the 55.7 percent reported in January. This indicates growth for the 33rd

consecutive month. An index above 51.2 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

The 10 industries reporting growth in production during the month of February — listed in order — are: Apparel, Leather & Allied Products; Petroleum & Coal Products; Transportation Equipment; Machinery; Paper Products; Primary Metals; Fabricated Metal Products; Chemical Products; Miscellaneous Manufacturing; and Computer & Electronic Products. The three industries reporting a decrease in production in February are: Furniture & Related Products; Nonmetallic Mineral Products; and Food, Beverage & Tobacco Products.

<b>Production</b>	<b>% Better</b>	<b>% Same</b>	<b>% Worse</b>	<b>Net</b>	<b>Index</b>
Feb 2012	35	50	15	+20	55.3
Jan 2012	27	53	20	+7	55.7
Dec 2011	27	54	19	+8	58.9
Nov 2011	24	55	21	+3	55.7

### **Employment**

ISM's Employment Index registered 53.2 percent in February, which is 1.1 percentage points lower than the 54.3 percent reported in January. This is the 29th consecutive month of growth in the Employment Index. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) data on manufacturing employment.

Of the 18 manufacturing industries, nine reported growth in employment in February in the following order: Apparel, Leather & Allied Products; Paper Products; Primary Metals; Machinery; Transportation Equipment; Petroleum & Coal Products; Miscellaneous Manufacturing; Fabricated Metal Products; and Computer & Electronic Products. The five industries reporting a decrease in employment in February are: Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Chemical Products; Food, Beverage & Tobacco Products; and Nonmetallic Mineral Products.

<b>Employment</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Feb 2012	26	58	16	+10	53.2

Jan 2012	23	59	18	+5	54.3
Dec 2011	23	58	19	+4	54.8
Nov 2011	22	57	21	+1	52.4

### Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in February as the Supplier Deliveries Index registered 49 percent, which is 4.6 percentage points lower than the 53.6 percent reported in January. This is the first month supplier deliveries have been faster than the previous month, following 31 consecutive months in which supplier deliveries slowed. A reading above 50 percent indicates slower deliveries.

The four industries reporting slower supplier deliveries in February are: Electrical Equipment, Appliances & Components; Transportation Equipment; Fabricated Metal Products; and Machinery. The six industries reporting faster deliveries in February — listed in order — are: Primary Metals; Plastics & Rubber Products; Petroleum & Coal Products; Chemical Products; Paper Products; and Miscellaneous Manufacturing. Eight industries reported no change in supplier deliveries in February compared to January.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Feb 2012	7	82	11	-4	49.0
Jan 2012	9	84	7	+2	53.6
Dec 2011	8	79	13	-5	51.5
Nov 2011	9	79	12	-3	51.3

### Inventories\*

The Inventories Index registered 49.5 percent in February, which is the same percentage reported for January. An Inventories Index greater than 42.8 percent, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories (in chained 2000 dollars).

The eight industries reporting higher inventories in February — listed in order — are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Primary Metals; Machinery; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Transportation Equipment; and Computer & Electronic Products. The six industries reporting decreases in inventories in February — listed in order — are: Paper Products; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Furniture & Related Products; Fabricated Metal Products; and Miscellaneous Manufacturing.

<b>Inventories</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Feb 2012	20	59	21	-1	49.5
Jan 2012	21	57	22	-1	49.5
Dec 2011	21	49	30	-9	45.5
Nov 2011	16	61	23	-7	46.5

#### **Customers' Inventories\***

The ISM Customers' Inventories Index registered 46 percent in February, which is 1.5 percentage points lower than in January when the index registered 47.5 percent. Customers' inventories have registered at or below 50 percent for 35 consecutive months. A reading below 50 percent indicates customers' inventories are considered too low.

The five manufacturing industries reporting customers' inventories as being too high during February are: Apparel, Leather & Allied Products; Primary Metals; Chemical Products; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products. The seven industries reporting customers' inventories as too low during February — listed in order — are: Nonmetallic Mineral Products; Plastics & Rubber Products; Transportation Equipment; Paper Products; Computer & Electronic Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

<b>Customers' Inventories</b>	<b>% Reporting</b>	<b>% Too High</b>	<b>% About Right</b>	<b>% Too Low</b>	<b>Net</b>	<b>Index</b>
Feb 2012	65	15	62	23	-8	46.0
Jan 2012	64	17	61	22	-5	47.5
Dec 2011	73	10	65	25	-15	42.5
Nov 2011	65	19	62	19	0	50.0

#### **Prices\***

The ISM Prices Index registered 61.5 percent in February, 6 percentage points higher than the 55.5 percent reported in January. This is the second consecutive month this index has reflected an increase in the price of raw materials since September 2011, when the index registered 56 percent. In February, 31 percent of respondents reported paying higher prices, 8 percent reported paying lower prices and 61 percent of supply executives reported paying the same prices as in January. A Prices Index above 49.4 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Index of Manufacturers Prices.



Of the 18 manufacturing industries, 13 industries report paying increased prices during the month of February in the following order: Nonmetallic Mineral Products; Fabricated Metal Products; Plastics & Rubber Products; Primary Metals; Machinery; Chemical Products; Miscellaneous Manufacturing; Printing & Related Support Activities; Furniture & Related Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Computer & Electronic Products; and Food, Beverage & Tobacco Products. The only industry reporting paying lower prices on average during the month of February is Paper Products.

<b>Prices</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Feb 2012	31	61	8	+23	61.5
Jan 2012	30	51	19	+11	55.5
Dec 2011	21	53	26	-5	47.5
Nov 2011	19	52	29	-10	45.0

#### **Backlog of Orders\***

ISM's Backlog of Orders Index registered 52 percent in February, which is 0.5 percentage point lower than the 52.5 percent reported in January. Of the 84 percent of respondents who reported their backlog of orders, 25 percent reported greater backlogs, 21 percent reported smaller backlogs, and 54 percent reported no change from January.

The eight industries reporting increased order backlogs in February — listed in order — are: Petroleum & Coal Products; Primary Metals; Paper Products; Printing & Related Support Activities; Transportation Equipment; Fabricated Metal Products; Electrical Equipment, Appliances & Components; and Chemical Products. The six industries reporting decreases in order backlogs during February — listed in order — are: Nonmetallic Mineral Products; Plastics & Rubber Products; Furniture & Related Products; Computer & Electronic Products; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products.

<b>Backlog of Orders</b>	<b>% Reporting</b>	<b>% Greater</b>	<b>% Same</b>	<b>% Less</b>	<b>Net</b>	<b>Index</b>
Feb 2012	84	25	54	21	+4	52.0
Jan 2012	80	23	59	18	+5	52.5
Dec 2011	87	20	56	24	-4	48.0
Nov 2011	86	15	60	25	-10	45.0

### **New Export Orders\***

ISM's New Export Orders Index registered 59.5 percent in February, which is 4.5 percentage points higher than the 55 percent reported in January. The New Export Orders Index has registered 50 percent or above for the past 32 consecutive months.

The 12 industries reporting growth in new export orders in February — listed in order — are: Primary Metals; Miscellaneous Manufacturing; Apparel, Leather & Allied Products; Paper Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Chemical Products; Fabricated Metal Products; Computer & Electronic Products; Transportation Equipment; Machinery; and Electrical Equipment, Appliances & Components. The only industry reporting a decrease in new export orders during February is Nonmetallic Mineral Products.

<b>New Export Orders</b>	<b>% Reporting</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Feb 2012	79	26	67	7	+19	59.5
Jan 2012	74	20	70	10	+10	55.0
Dec 2011	76	18	70	12	+6	53.0
Nov 2011	75	15	74	11	+4	52.0

### **Imports\***

ISM's Imports Index registered 54 percent in February, which is 1.5 percentage points higher than the 52.5 percent reported in January. The Imports Index reflects three consecutive months of growth after two months of contraction in the past 30 months.

The seven industries reporting growth in imports during the month of February — listed in order — are: Apparel, Leather & Allied Products; Paper Products; Petroleum & Coal Products; Miscellaneous Manufacturing; Transportation Equipment; Fabricated Metal Products; and Computer & Electronic Products. The four industries reporting a decrease in imports during February are: Furniture & Related Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; and Machinery. Seven industries reported no change in imports in February compared to January.

<b>Imports</b>	<b>% Reporting</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Feb 2012	80	19	70	11	+8	54.0
Jan 2012	80	14	77	9	+5	52.5
Dec 2011	77	16	76	8	+8	54.0

Nov 2011	78	10	78	12	-2	49.0
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\* The Inventories, Customers' Inventories, Prices, Backlog of Orders, New Export Orders and Imports Indexes do not meet the accepted criteria for seasonal adjustments.

### Buying Policy

Average commitment lead time for Capital Expenditures increased by 4 days to 120 days. Average lead time for Production Materials increased 1 day to 58 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased 1 day to 26 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Feb 2012	26	6	13	17	24	14	120
Jan 2012	25	4	15	20	24	12	116
Dec 2011	26	5	16	18	24	11	111
Nov 2011	27	8	8	22	23	12	113
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Feb 2012	14	43	21	15	4	3	58
Jan 2012	14	39	27	13	5	2	57
Dec 2011	15	41	24	12	6	2	56
Nov 2011	13	39	25	17	4	2	57
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Feb 2012	45	38	12	4	1	0	26
Jan 2012	41	41	15	2	1	0	27
Dec 2011	47	37	10	5	1	0	26

Nov 2011	43	44	10	3	0	0	24
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### About this Report

The data presented herein is obtained from a survey of manufacturing supply managers based on information they have collected within their respective organizations. ISM makes no representation, other than that stated within this release, regarding the individual company data collection procedures. Use of the data is in the public domain and should be compared to all other economic data sources when used in decision-making.

### Data and Method of Presentation

The **Manufacturing ISM Report On Business**<sup>®</sup> is based on data compiled from purchasing and supply executives nationwide. Membership of the Manufacturing Business Survey Committee is diversified by NAICS, based on each industry's contribution to gross domestic product (GDP). Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Food, Beverage & Tobacco Products; Textile Mills; Apparel, Leather & Allied Products; Wood Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries) and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive).

The resulting single index number for those meeting the criteria for seasonal adjustments (PMI, New Orders, Production, Employment and Supplier Deliveries) is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements, and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. The PMI is a composite index based on the diffusion indexes of five of the indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. A PMI reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent

indicates that it is generally declining. A PMI in excess of 42.6 percent, over a period of time, indicates that the overall economy, or gross domestic product (GDP), is generally expanding; below 42.6 percent, it is generally declining. The distance from 50 percent or 42.6 percent is indicative of the strength of the expansion or decline. With some of the indicators within this report, ISM has indicated the departure point between expansion and decline of comparable government series, as determined by regression analysis.

The **Manufacturing ISM Report On Business**<sup>®</sup> surveys are sent out to Manufacturing Business Survey Committee respondents the first part of each month. Respondents are asked to ONLY report on information for the current month. ISM receives survey responses throughout most of any given month, with the majority of respondents generally waiting until late in the month to submit responses in order to give the most accurate picture of current business activity. ISM then compiles the reports for release on the first business day of the following month.

The industries reporting growth, as indicated in the **Manufacturing ISM Report On Business**<sup>®</sup> monthly reports, are listed in the order of most growth to least growth. For the industries reporting contraction or decreases, those are listed in the order of the highest level of contraction/decrease to the least level of contraction/decrease.

Responses to Buying Policy reflect the percent reporting the current month's lead time, the approximate weighted number of days ahead for which commitments are made for Production Materials; Capital Expenditures; and Maintenance, Repair and Operating (MRO) Supplies, expressed as hand-to-mouth (five days), 30 days, 60 days, 90 days, six months (180 days), a year or more (360 days), and the weighted average number of days. These responses are raw data, never revised, and not seasonally adjusted since there is no significant seasonal pattern.

The **Manufacturing ISM Report On Business**<sup>®</sup> is published monthly by the Institute for Supply Management<sup>™</sup>. The Institute for Supply Management<sup>™</sup>, established in 1915, is the largest supply management organization in the world as well as one of the most respected. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities and education. This report has been issued by the association since 1931, except for a four-year interruption during World War II.

The full text version of the **Manufacturing ISM Report On Business**<sup>®</sup> is posted on ISM's Web site at [www.ism.ws](http://www.ism.ws) on the first business day of every month after 10:10 a.m. (ET).

The next **Manufacturing ISM Report On Business**<sup>®</sup> featuring the March 2012 data will be released at 10:00 a.m. (ET) on Monday, April 2, 2012.