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October 2012 Manufacturing ISM *Report On Business*[®]

PMI at 51.7%

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 October 2012.

New Orders, Production and Employment Growing Supplier Deliveries Faster Inventories Unchanged

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in October for the second consecutive month following three months of slight contraction, and the **overall economy** grew for the 41st consecutive month, say the nation's supply executives in the latest **Manufacturing ISM *Report On Business***[®].

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 51.7 percent, an increase of 0.2 percentage point from September's reading of 51.5 percent, indicating growth in manufacturing at a slightly faster rate. The New Orders Index registered 54.2 percent, an increase of 1.9 percentage points from September, indicating growth in new orders for the second consecutive month. The Production Index registered 52.4 percent, an increase of 2.9 percentage points, indicating growth in production following two months of contraction. The Employment Index

registered 52.1 percent, a decrease of 2.6 percentage points, and the Prices Index registered 55 percent, reflecting a decrease of 3 percentage points. Comments from the panel this month reflect continued concern over a fragile global economy and soft orders across several manufacturing sectors."

PERFORMANCE BY INDUSTRY

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

WHAT RESPONDENTS ARE SAYING ...

- "Market is still very soft." (Paper Products)
- "Business is picking up." (Furniture & Related Products)
- "[Our] 4th quarters usually begin to show a slowdown in demand, and this year is no different; prices are also dropping." (Wood Products)
- "Demand down slightly due to customers pre-buying ahead of announced material price increases." (Plastics & Rubber Products)
- "The slowing of capital expenditure in Europe and China has lowered our backlog for Q4." (Computer & Electronic Products)
- "We see a general softening in the steel and automotive markets in the fourth quarter." (Fabricated Metal Products)
- "Cuts in healthcare reimbursement rates continue to negatively affect top-line revenue." (Miscellaneous Manufacturing)
- "Business conditions stable to slightly improving." (Transportation Equipment)
- "Sales and order intake have slowed." (Primary Metals)
- "Europe is still very much a concern. Global recovery is still fragile." (Chemical Products)

**MANUFACTURING AT A GLANCE
OCTOBER 2012**

Index	Series Index Oct	Series Index Sep	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI™	51.7	51.5	+0.2	Growing	Faster	2
New Orders	54.2	52.3	+1.9	Growing	Faster	2
Production	52.4	49.5	+2.9	Growing	From Contracting	1
Employment	52.1	54.7	-2.6	Growing	Slower	37
Supplier Deliveries	49.6	50.3	-0.7	Faster	From Slowing	1
Inventories	50.0	50.5	-0.5	Unchanged	From Growing	1
Customers' Inventories	49.0	49.5	-0.5	Too Low	Faster	11
Prices	55.0	58.0	-3.0	Increasing	Slower	3
Backlog of Orders	41.5	44.0	-2.5	Contracting	Faster	7
Exports	48.0	48.5	-0.5	Contracting	Faster	5
Imports	47.5	49.5	-2.0	Contracting	Faster	3
OVERALL ECONOMY				Growing	Faster	41
Manufacturing Sector				Growing	Faster	2

*Number of months moving in current direction.

COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY

Commodities Up in Price

Aluminum; Aluminum Products; Caustic Soda (3); Corrugated Boxes/Packaging (3); Fuel (3); Gasoline (2); Linerboard; and Stainless Steel.

Commodities Down in Price

Polypropylene Resins; Steel (8); Steel — Hot Rolled; Steel — Scrap; and Steel Products (2).

Commodities in Short Supply

No commodities are reported in short supply.

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

OCTOBER 2012 MANUFACTURING INDEX SUMMARIES

PMI™

Manufacturing expanded in October as the PMI™ registered 51.7 percent, an increase of 0.2 percentage point when compared to September's reading of 51.5 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 October PMI™ indicates growth for the 41st consecutive month in the overall economy, and indicates growth in the manufacturing sector for the second consecutive month following three consecutive months of slight contraction. Holcomb stated, "The past relationship between the PMI™ and the overall economy indicates that the average PMI™ for January through October (52 percent) corresponds to a 3.2 percent increase in real gross domestic product (GDP). In addition, if the PMI™ for October (51.7 percent) is annualized, it corresponds to a 3.1 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI™</i>	<i>Month</i>	<i>PMI™</i>
Oct 2012	51.7	Apr 2012	54.8
Sep 2012	51.5	Mar 2012	53.4
Aug 2012	49.6	Feb 2012	52.4
Jul 2012	49.8	Jan 2012	54.1
Jun 2012	49.7	Dec 2011	53.1
May 2012	53.5	Nov 2011	52.2
Average for 12 months – 52.2 High – 54.8 Low – 49.6			

New Orders

ISM's New Orders Index registered 54.2 percent in October, which is an increase of 1.9 percentage points when compared to the September reading of 52.3 percent. This represents the second consecutive month of growth in new orders following three consecutive months of contraction. 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 five industries reporting growth in new orders in October are: Furniture & Related Products; Food, Beverage & Tobacco Products; Paper Products; Computer & Electronic Products; and Miscellaneous Manufacturing. The eight industries reporting a decrease in new orders during October — listed in order — are: Primary Metals; Wood Products; Machinery; Electrical Equipment, Appliances & Components; Transportation Equipment; Chemical Products; Nonmetallic Mineral Products; and Apparel, Leather & Allied Products.

New Orders	% Better	% Same	% Worse	Net	Index
Oct 2012	24	47	29	-5	54.2
Sep 2012	27	48	25	+2	52.3
Aug 2012	21	50	29	-8	47.1
Jul 2012	20	51	29	-9	48.0

Production

ISM's Production Index registered 52.4 percent in October, which is an increase of 2.9 percentage points when compared to the 49.5 percent reported in September. This indicates a return to growth in production following two consecutive months of contraction. An index above 51.2 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

The six industries reporting growth in production during the month of October — listed in order — are: Furniture & Related Products; Apparel, Leather & Allied Products; Paper Products; Petroleum & Coal Products; Computer & Electronic Products; and Miscellaneous Manufacturing. The seven industries reporting a decrease in production in October — listed in order — are: Primary Metals; Machinery; Wood Products; Plastics & Rubber Products; Transportation Equipment; Food, Beverage & Tobacco Products; and Nonmetallic Mineral Products.

Production	% Better	% Same	% Worse	Net	Index
Oct 2012	23	52	25	-2	52.4
Sep 2012	24	50	26	-2	49.5
Aug 2012	19	57	24	-5	47.2
Jul 2012	19	58	23	-4	51.3

Employment

ISM's Employment Index registered 52.1 percent in October, which is 2.6 percentage points lower than the 54.7 percent reported in September. This is the 37th 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, eight reported growth in employment in October in the following order: Apparel, Leather & Allied Products; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Paper Products; Miscellaneous Manufacturing; Chemical Products; Transportation Equipment; and Primary Metals. The six industries reporting a decrease in employment in October — listed in order — are: Nonmetallic Mineral Products; Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Computer & Electronic Products; and Wood Products.

Employment	% Higher	% Same	% Lower	Net	Index
Oct 2012	24	55	21	+3	52.1
Sep 2012	23	59	18	+5	54.7
Aug 2012	19	65	16	+3	51.6
Jul 2012	20	65	15	+5	52.0

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in October as the Supplier Deliveries Index registered 49.6 percent, which is 0.7 percentage point lower than the 50.3 percent reported in September. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The four industries reporting slower supplier deliveries in October are: Electrical Equipment, Appliances & Components; Petroleum & Coal Products; Chemical Products; and Transportation Equipment. The eight industries

reporting faster supplier deliveries in October — listed in order — are: Wood Products; Apparel, Leather & Allied Products; Machinery; Computer & Electronic Products; Primary Metals; Food, Beverage & Tobacco Products; Fabricated Metal Products; and Miscellaneous Manufacturing. Six industries reported no change in supplier deliveries in October compared to September.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Oct 2012	6	84	10	-4	49.6
Sep 2012	8	86	6	+2	50.3
Aug 2012	9	83	8	+1	49.3
Jul 2012	9	84	7	+2	48.7

Inventories*

The Inventories Index registered 50 percent in October, which is 0.5 percentage point lower than the 50.5 percent reported in September. This month's reading indicates that respondents are reporting inventories are unchanged from September. 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 seven industries reporting higher inventories in October — listed in order — are: Plastics & Rubber Products; Nonmetallic Mineral Products; Petroleum & Coal Products; Miscellaneous Manufacturing; Chemical Products; Food, Beverage & Tobacco Products; and Electrical Equipment, Appliances & Components. The five industries reporting decreases in inventories in October are: Fabricated Metal Products; Computer & Electronic Products; Primary Metals; Transportation Equipment; and Apparel, Leather & Allied Products. Six industries reported no change in inventories in October compared to September.

Inventories	% Higher	% Same	% Lower	Net	Index
Oct 2012	21	58	21	0	50.0
Sep 2012	20	61	19	+1	50.5
Aug 2012	24	58	18	+6	53.0
Jul 2012	21	56	23	-2	49.0

Customers' Inventories*

The ISM Customers' Inventories Index registered 49 percent in October, which is 0.5 percentage point lower than in September when the index registered 49.5 percent. Customers' inventories have registered at or below 50 percent for 43 consecutive months. A reading below 50 percent indicates customers' inventories are considered too low.

The six manufacturing industries reporting customers' inventories as being too high during October — listed in order — are: Primary Metals; Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Plastics & Rubber Products; Chemical Products; and Fabricated Metal Products. The six industries reporting customers' inventories as too low during October — listed in order — are: Wood Products; Paper Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Transportation Equipment; and Machinery.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Oct 2012	68	18	62	20	-2	49.0
Sep 2012	68	21	57	22	-1	49.5
Aug 2012	70	16	66	18	-2	49.0
Jul 2012	69	17	65	18	-1	49.5

Prices*

The ISM Prices Index registered 55 percent in October, which is a decrease of 3 percentage points compared to the September reading of 58 percent. In October, 23 percent of respondents reported paying higher prices, 13 percent reported paying lower prices, and 64 percent of supply executives reported paying the same prices as in September. 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, eight reported paying increased prices during the month of October in the following order: Furniture & Related Products; Food, Beverage & Tobacco Products; Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Miscellaneous Manufacturing; Plastics & Rubber Products; Chemical Products; and Transportation Equipment. The four industries reporting paying lower prices during October are: Primary Metals; Machinery; Computer & Electronic Products; and Petroleum & Coal Products.

Prices	% Higher	% Same	% Lower	Net	Index
Oct 2012	23	64	13	+10	55.0
Sep 2012	27	62	11	+16	58.0
Aug 2012	23	62	15	+8	54.0
Jul 2012	11	57	32	-21	39.5

Backlog of Orders*

ISM's Backlog of Orders Index registered 41.5 percent in October, which is 2.5 percentage points lower than the 44 percent reported in September. This is the seventh consecutive month of contraction in order backlogs. Of the 86 percent of respondents who reported their backlog of orders, 14 percent reported greater backlogs, 31 percent reported smaller backlogs, and 55 percent reported no change from September.

The two industries reporting increased order backlogs in October are: Apparel, Leather & Allied Products; and Furniture & Related Products. The 12 industries reporting decreases in order backlogs during October — listed in order — are: Machinery; Plastics & Rubber Products; Transportation Equipment; Miscellaneous Manufacturing; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Paper Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Chemical Products; and Wood Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Oct 2012	86	14	55	31	-17	41.5
Sep 2012	83	14	60	26	-12	44.0
Aug 2012	84	16	53	31	-15	42.5
Jul 2012	84	13	60	27	-14	43.0

New Export Orders*

ISM's New Export Orders Index registered 48 percent in October, which is 0.5 percentage point lower than the 48.5 percent reported in September. This month's reading represents the fifth month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this current five-month period of contraction, the New Export Orders Index had registered 50 percent or above for the previous 35 consecutive months.

The five industries reporting growth in new export orders in October are: Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The

eight industries reporting a decrease in new export orders during October — listed in order — are: Transportation Equipment; Chemical Products; Primary Metals; Electrical Equipment, Appliances & Components; Machinery; Miscellaneous Manufacturing; Paper Products; and Apparel, Leather & Allied Products.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Oct 2012	73	14	68	18	-4	48.0
Sep 2012	77	15	67	18	-3	48.5
Aug 2012	77	13	68	19	-6	47.0
Jul 2012	77	10	73	17	-7	46.5

Imports*

ISM's Imports Index registered 47.5 percent in October, which is 2 percentage points lower than the 49.5 percent reported in September. This month's reading reflects the third consecutive month of contraction in imports since November 2011, when the Imports Index registered 49 percent.

The five industries reporting growth in imports during the month of October are: Petroleum & Coal Products; Plastics & Rubber Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Fabricated Metal Products. The eight industries reporting a decrease in imports during October — listed in order — are: Wood Products; Nonmetallic Mineral Products; Primary Metals; Paper Products; Transportation Equipment; Machinery; Chemical Products; and Apparel, Leather & Allied Products.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Oct 2012	78	11	73	16	-5	47.5
Sep 2012	77	11	77	12	-1	49.5
Aug 2012	77	13	72	15	-2	49.0
Jul 2012	80	13	75	12	+1	50.5

* 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 decreased 1 day to 122 days. Average lead time for Production Materials increased 2 days to 56 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies remained unchanged at 27 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2012	23	9	13	17	23	15	122
Sep 2012	25	5	14	18	23	15	123
Aug 2012	23	7	13	19	23	15	124
Jul 2012	29	7	13	18	21	12	109
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2012	16	36	25	17	4	2	56
Sep 2012	18	38	22	16	4	2	54
Aug 2012	16	37	26	15	4	2	55
Jul 2012	17	37	24	17	3	2	54
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2012	43	38	15	3	1	0	27
Sep 2012	44	36	16	3	1	0	27
Aug 2012	46	38	11	3	2	0	27
Jul 2012	47	36	11	5	1	0	26

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**[®] 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**[®] 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**[®] 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**[®] is published monthly by the Institute for Supply Management[™], the first supply institute in the world. Founded in 1915, ISM exists to lead and serve the supply management profession and is a highly influential and respected association in the global marketplace. 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**[®] is posted on ISM's website at www.ism.ws on the first business day of every month after 10:10 a.m. (ET).

The next **Manufacturing ISM Report On Business**[®] featuring the November 2012 data will be released at 10:00 a.m. (ET) on Monday, December 3, 2012.