

FOR RELEASE: January 2, 2013

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December 2012 Manufacturing ISM Report On Business[®]

PMI at 50.7%

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 December 2012.

New Orders, Production and Employment Growing Inventories Contracting Supplier Deliveries Slowing

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in December, following one month of contraction, and the **overall economy** grew for the 43rd 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 50.7 percent, an increase of 1.2 percentage points from November's reading of 49.5 percent, indicating expansion in manufacturing for only the third time in the last seven months. This month's PMI[™] reading moved manufacturing off its low point for 2012 in November. The New Orders Index remained at 50.3 percent, the same rate as in November, indicating growth in new orders for the fourth consecutive month. The Production Index registered 52.6 percent, a decrease of 1.1 percentage points, indicating growth in production for the third consecutive month. The Employment Index registered 52.7 percent, an increase of 4.3 percentage points, indicating a resumption of growth in employment following only one month of contraction since September 2009. Both the Exports and Imports Indexes registered 51.5 percent, returning both indexes to growth territory following consecutive periods of contraction of six and four months, respectively. Comments from the panel this month are mixed, with some indicating a strengthening of demand and others

indicating a continuing softness in demand. Additionally, many respondents express uncertainty about government regulations, taxes and global economics in general as we approach 2013."

PERFORMANCE BY INDUSTRY

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

WHAT RESPONDENTS ARE SAYING ...

- "Many Chinese sources are coming to us with cost reductions to maintain their current business volumes." (Machinery)
- "Saw some stronger than expected demand in October and November, but December demand is weak comparatively." (Food, Beverage & Tobacco Products)
- "We are seeing stabilization of orders and costs as well as production capacity for the first time in months." (Miscellaneous Manufacturing)
- "We are experiencing a mix of results — domestic up year over year for industrial business, down in retail and down in LATAM, EU and Asia. Next year is anyone's guess — has never been so unpredictable." (Apparel, Leather & Allied Products)
- "Black Friday was good, but forward economic visibility is foggy." (Computer & Electronic Products)
- "The election is over; unemployment is dropping; consumer confidence is increasing as are home sales prices. We seem to be turning the corner. New car sales are increasing, which affects our customers." (Fabricated Metal Products)
- "Business conditions have flattened out since last month. Overall production has leveled off from their previous reduction last month." (Transportation Equipment)
- "Business is strengthening." (Furniture & Related Products)
- "Prices and orders are staying stronger than normal for December — a pleasant surprise." (Wood Products)
- "Uncertainty in additional government regulations and tax climate seems to be slowing orders." (Chemical Products)

**MANUFACTURING AT A GLANCE
DECEMBER 2012**

Index	Series Index Dec	Series Index Nov	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI™	50.7	49.5	+1.2	Growing	From Contracting	1
New Orders	50.3	50.3	0.0	Growing	Same	4
Production	52.6	53.7	-1.1	Growing	Slower	3
Employment	52.7	48.4	+4.3	Growing	From Contracting	1
Supplier Deliveries	54.7	50.3	+4.4	Slowing	Faster	2
Inventories	43.0	45.0	-2.0	Contracting	Faster	2
Customers' Inventories	47.0	42.5	+4.5	Too Low	Slower	13
Prices	55.5	52.5	+3.0	Increasing	Faster	5
Backlog of Orders	48.5	41.0	+7.5	Contracting	Slower	9
Exports	51.5	47.0	+4.5	Growing	From Contracting	1
Imports	51.5	48.0	+3.5	Growing	From Contracting	1
OVERALL ECONOMY				Growing	Faster	43
Manufacturing Sector				Growing	From Contracting	1

*Number of months moving in current direction.

COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY

Commodities Up in Price

Aluminum Products (3); Benzene; Caustic Soda (5); Corn Based Products; Corrugated Boxes/Packaging (5); Plastics; Plastic Components/Products; Polypropylene (2); Stainless Steel; Steel* (2); and Steel – Hot Rolled (2).

Commodities Down in Price

Eggs; Steel* (10); Sugar; and Titanium Dioxide.

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.

*Reported as both up and down in price.

DECEMBER 2012 MANUFACTURING INDEX SUMMARIES

PMI™

Manufacturing expanded in December as the PMI™ registered 50.7 percent, an increase of 1.2 percentage points when compared to November's reading of 49.5 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 December PMI™ indicates growth for the 43rd consecutive month in the overall economy, and indicates expansion in the manufacturing sector. Over the last six months of 2012, manufacturing registered expansion in three months and contraction in three months, moving back and forth across the 50 percent mark. Holcomb stated, "The past relationship between the PMI™ and the overall economy indicates that the average PMI™ for January through December (51.7 percent) corresponds to a 3.1 percent increase in real gross domestic product (GDP). In addition, if the PMI™ for December (50.7 percent) is annualized, it corresponds to a 2.7 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI™</i>	<i>Month</i>	<i>PMI™</i>
Dec 2012	50.7	Jun 2012	49.7
Nov 2012	49.5	May 2012	53.5
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
Average for 12 months – 51.7 High – 54.8 Low – 49.5			

New Orders

ISM's New Orders Index registered 50.3 percent in December, the same rate as reported in November. This represents the fourth 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 December are: Apparel, Leather & Allied Products; Primary Metals; Furniture & Related Products; Paper Products; and Computer & Electronic Products. The 10 industries reporting a decrease in new orders during December — listed in order — are: Nonmetallic Mineral Products; Printing & Related Support Activities; Plastics & Rubber Products; Chemical Products; Electrical Equipment, Appliances & Components; Machinery; Fabricated Metal Products; Transportation Equipment; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products.

New Orders	% Better	% Same	% Worse	Net	Index
Dec 2012	24	45	31	-7	50.3
Nov 2012	26	43	31	-5	50.3
Oct 2012	24	47	29	-5	54.2
Sep 2012	27	48	25	+2	52.3

Production

ISM's Production Index registered 52.6 percent in December, which is a decrease of 1.1 percentage points when compared to the 53.7 percent reported in November. This indicates growth in production for the third month 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 five industries reporting growth in production during the month of December are: Furniture & Related Products; Petroleum & Coal Products; Paper Products; Primary Metals; and Computer & Electronic Products. The seven industries reporting a decrease in production in December — listed in order — are: Nonmetallic Mineral Products; Chemical Products; Machinery; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Fabricated Metal Products; and Apparel, Leather & Allied Products.

Production	% Better	% Same	% Worse	Net	Index
Dec 2012	21	54	25	-4	52.6
Nov 2012	23	53	24	-1	53.7
Oct 2012	23	52	25	-2	52.4
Sep 2012	24	50	26	-2	49.5

Employment

ISM's Employment Index registered 52.7 percent in December, which is 4.3 percentage points higher than the 48.4 percent reported in November, and indicates a resumption of growth in employment following just one month of contraction in the past 39 months. 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 December in the following order: Petroleum & Coal Products; Wood Products; Printing & Related Support Activities; Paper Products; Food, Beverage & Tobacco Products; Furniture & Related Products; Chemical Products; Computer & Electronic Products; and Electrical Equipment, Appliances & Components. The seven industries reporting a decrease in employment in December — listed in order — are: Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Transportation Equipment; Plastics & Rubber Products; Machinery; Miscellaneous Manufacturing; and Fabricated Metal Products.

Employment	% Higher	% Same	% Lower	Net	Index
Dec 2012	19	62	19	0	52.7
Nov 2012	15	63	22	-7	48.4
Oct 2012	24	55	21	+3	52.1
Sep 2012	23	59	18	+5	54.7

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was slower in December as the Supplier Deliveries Index registered 54.7 percent, which is 4.4 percentage points higher than the 50.3 percent reported in November. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The six industries reporting slower supplier deliveries in December — listed in order — are: Petroleum & Coal Products; Plastics & Rubber Products; Transportation Equipment; Food, Beverage & Tobacco Products; Primary Metals; and Electrical Equipment, Appliances & Components. The four industries reporting faster supplier deliveries in December are: Machinery; Chemical Products; Fabricated Metal Products; and Computer & Electronic Products. Eight industries reported no change in supplier deliveries in December compared to November.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Dec 2012	9	83	8	+1	54.7
Nov 2012	7	81	12	-5	50.3
Oct 2012	6	84	10	-4	49.6
Sep 2012	8	86	6	+2	50.3

Inventories*

The Inventories Index registered 43 percent in December, which is 2 percentage points lower than the 45 percent reported in November. This month's reading indicates that respondents are reporting inventories are contracting in December, and at a faster rate than in November. The Inventories Index is at its lowest point since December 2009, when the index registered 41.5 percent. 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 four industries reporting higher inventories in December are: Nonmetallic Mineral Products; Machinery; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The nine industries reporting decreases in inventories in December — listed in order — are: Primary Metals; Petroleum & Coal Products; Apparel, Leather & Allied Products; Paper Products; Transportation Equipment; Miscellaneous Manufacturing; Chemical Products; Plastics & Rubber Products; and Fabricated Metal Products.

Inventories	% Higher	% Same	% Lower	Net	Index
Dec 2012	14	58	28	-14	43.0
Nov 2012	18	54	28	-10	45.0
Oct 2012	21	58	21	0	50.0
Sep 2012	20	61	19	+1	50.5

Customers' Inventories*

The ISM Customers' Inventories Index registered 47 percent in December, which is 4.5 percentage points higher than in November when the index registered 42.5 percent. This month's reading indicates that customers' inventories are considered too low, but not as low as reported in November. Customers' inventories have registered at or below 50 percent for 45 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 the month of December are: Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Chemical Products; Paper Products; and Fabricated Metal Products. The seven industries reporting customers' inventories as too low during December — listed in order — are: Textile Mills; Transportation Equipment; Furniture & Related Products; Primary Metals; Plastics & Rubber Products; Computer & Electronic Products; and Machinery. Six industries reported no change in customers' inventories in December compared to November.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Dec 2012	64	19	56	25	-6	47.0
Nov 2012	66	14	57	29	-15	42.5
Oct 2012	68	18	62	20	-2	49.0
Sep 2012	68	21	57	22	-1	49.5

Prices*

The ISM Prices Index registered 55.5 percent in December, which is an increase of 3 percentage points compared to the November reading of 52.5 percent. In December, 18 percent of respondents reported paying higher prices, 7 percent reported paying lower prices, and 75 percent of supply executives reported paying the same prices as in November. 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, 11 reported paying increased prices during the month of December in the following order: Textile Mills; Wood Products; Paper Products; Chemical Products; Food, Beverage & Tobacco Products; Primary Metals; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Machinery; Fabricated Metal Products; and Transportation Equipment. The two industries reporting paying lower prices during December are: Petroleum & Coal Products; and Nonmetallic Mineral Products.

Prices	% Higher	% Same	% Lower	Net	Index
Dec 2012	18	75	7	+11	55.5
Nov 2012	18	69	13	+5	52.5
Oct 2012	23	64	13	+10	55.0
Sep 2012	27	62	11	+16	58.0

Backlog of Orders*

ISM's Backlog of Orders Index registered 48.5 percent in December, which is 7.5 percentage points higher than the 41 percent reported in November. This is the ninth consecutive month of contraction in order backlogs. Of the 86 percent of respondents who reported their backlog of orders, 22 percent reported greater backlogs, 25 percent reported smaller backlogs, and 53 percent reported no change from November.

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

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Dec 2012	86	22	53	25	-3	48.5
Nov 2012	86	14	54	32	-18	41.0
Oct 2012	86	14	55	31	-17	41.5
Sep 2012	83	14	60	26	-12	44.0

New Export Orders*

ISM's New Export Orders Index registered 51.5 percent in December, which is 4.5 percentage points higher than the 47 percent reported in November. This month's reading represents the first month of growth in the index since May 2012, when the index registered 53.5 percent.

The seven industries reporting growth in new export orders in December — listed in order — are: Petroleum & Coal Products; Food, Beverage & Tobacco Products; Primary Metals; Fabricated Metal Products; Paper Products; Computer & Electronic Products; and Miscellaneous Manufacturing. The five industries reporting a decrease in new export orders during December are: Chemical Products; Electrical Equipment, Appliances & Components; Machinery; Transportation Equipment; and Apparel, Leather & Allied Products.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Dec 2012	74	16	71	13	+3	51.5
Nov 2012	77	11	72	17	-6	47.0
Oct 2012	73	14	68	18	-4	48.0
Sep 2012	77	15	67	18	-3	48.5

Imports*

ISM's Imports Index registered 51.5 percent in December, which is 3.5 percentage points higher than the 48 percent reported in November. This month's reading represents the first month of growth in the index since July 2012, when the index registered 50.5 percent.

The seven industries reporting growth in imports during the month of December — listed in order — are: Apparel, Leather & Allied Products; Furniture & Related Products; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Chemical Products; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The three industries reporting a decrease in imports during December are: Primary Metals; Transportation Equipment;

and Machinery. Seven industries reported no change in imports for the month of December when compared to November.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Dec 2012	77	16	71	13	+3	51.5
Nov 2012	79	10	76	14	-4	48.0
Oct 2012	78	11	73	16	-5	47.5
Sep 2012	77	11	77	12	-1	49.5

* 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 116 days. Average lead time for Production Materials decreased 1 day to 54 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies remained unchanged at 25 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2012	25	9	13	16	24	13	116
Nov 2012	25	6	14	17	26	12	117
Oct 2012	23	9	13	17	23	15	122
Sep 2012	25	5	14	18	23	15	123
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2012	16	40	22	17	3	2	54
Nov 2012	16	36	26	17	3	2	55
Oct 2012	16	36	25	17	4	2	56
Sep 2012	18	38	22	16	4	2	54

MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2012	46	39	10	4	1	0	25
Nov 2012	46	40	10	3	1	0	25
Oct 2012	43	38	15	3	1	0	27
Sep 2012	44	36	16	3	1	0	27

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 January 2013 data will be released at 10:00 a.m. (ET) on Friday, February 1, 2013.