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## **May 2014 Manufacturing ISM<sup>®</sup> *Report On Business*<sup>®</sup>**

**PMI<sup>®</sup> at 53.2%**

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 May 2014.

### **New Orders, Employment and Production Growing Inventories Growing Supplier Deliveries Slowing**

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in May for the 12th consecutive month, and the **overall economy** grew for the 60th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM<sup>®</sup> *Report On Business*<sup>®</sup>**.

The report was issued today by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management<sup>®</sup> (ISM<sup>®</sup>) Manufacturing Business Survey Committee. "The May PMI<sup>®</sup> registered 53.2 percent, a decrease of 1.7 percentage points from April's reading of 54.9 percent, indicating expansion in manufacturing for the 12th consecutive month. The New Orders Index registered 53.3 percent, a decrease of 1.8 percentage points from the 55.1 percent reading in April, indicating growth in new orders for the 12th consecutive month. The Production Index registered 55.2 percent, 0.5 percentage point below the April reading of 55.7 percent. Employment grew for the 11th consecutive month, registering 51.9 percent, a decrease of 2.8 percentage points below April's reading of 54.7

percent. Comments from the panel reflect generally steady growth, but note some areas of concern regarding raw materials pricing and supply tightness and shortages."

Of the 18 manufacturing industries, 17 are reporting growth in May in the following order: Furniture & Related Products; Electrical Equipment, Appliances & Components; Primary Metals; Fabricated Metal Products; Nonmetallic Mineral Products; Machinery; Transportation Equipment; Chemical Products; Paper Products; Computer & Electronic Products; Petroleum & Coal Products; Apparel, Leather & Allied Products; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Wood Products; Miscellaneous Manufacturing; and Plastics & Rubber Products. No industry reported contraction in May.

### **WHAT RESPONDENTS ARE SAYING ...**

- "Increasing demand for product is creating supply and sourcing challenges." (Food, Beverage & Tobacco Products)
- "Steel bars required for automotive applications are in high demand. Supply is very tight and prices are increasing." (Fabricated Metal Products)
- "Aviation is recovering and outlook is optimistic." (Transportation Equipment)
- "The improving gas prices are positively impacting our short term drilling plans." (Petroleum & Coal Products)
- "Political issues in Russia are not yet impacting our supply of raw materials from Russian suppliers." (Computer & Electronic Products)
- "Volumes picking up in some sectors, but profitability still elusive. Suppliers indicate similar difficulties in getting price increases." (Chemical Products)
- "Business has remained steady. However, this month has a more subdued disposition by comparison. Price escalation has leveled off with even a few decreases on selected items." (Wood Products)
- "Semiconductor, oil & gas are very busy." (Electrical Equipment, Appliances & Components)
- "Business slightly up as anticipated; holding." (Machinery)
- "Defense industry contracts are shrinking, customer is exercising minimum options, or less than minimum." (Miscellaneous Manufacturing)

<b>MANUFACTURING AT A GLANCE MAY 2014</b>						
<b>Index</b>	<b>Series Index May</b>	<b>Series Index Apr</b>	<b>Percentage Point Change</b>	<b>Direction</b>	<b>Rate of Change</b>	<b>Trend* (Months)</b>
<b>PMI®</b>	53.2	54.9	-1.7	Growing	Slower	12
<b>New Orders</b>	53.3	55.1	-1.8	Growing	Slower	12
<b>Production</b>	55.2	55.7	-0.5	Growing	Slower	3
<b>Employment</b>	51.9	54.7	-2.8	Growing	Slower	11
<b>Supplier Deliveries</b>	52.5	55.9	-3.4	Slowing	Slower	12
<b>Inventories</b>	53.0	53.0	0.0	Growing	Same	4
<b>Customers' Inventories</b>	46.5	42.0	+4.5	Too Low	Slower	30
<b>Prices</b>	60.0	56.5	+3.5	Increasing	Faster	10
<b>Backlog of Orders</b>	52.5	55.5	-3.0	Growing	Slower	4
<b>Exports</b>	56.5	57.0	-0.5	Growing	Slower	18
<b>Imports</b>	54.5	58.0	-3.5	Growing	Slower	16
<b>OVERALL ECONOMY</b>				Growing	Slower	60
<b>Manufacturing Sector</b>				Growing	Slower	12

**Manufacturing ISM® Report On Business®** data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries indexes.

\*Number of months moving in current direction.

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

### **Commodities Up in Price**

Aluminum (4); Aluminum Products; Ammonia; Beef; Butter (2); Copper\*; Electronic Components; Foam; Integrated Circuits; Lumber (3); MRO Supplies; Natural Gas; Nickel (3); Packaging Materials; Plastic Resins (6); Rice; Stainless Steel (3); Steel (6); Steel — Cold Rolled (2); Steel — Hot Rolled (2); Sulfuric Acid; and Wood Pallets (2).

## **Commodities Down in Price**

Copper (3)\*; Methanol; PET; and Transportation Costs.

## **Commodities in Short Supply**

Helium; Hydraulic Components; Transportation; and Wood Pallets.

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

\*Reported as both up and down in price.

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## **MAY 2014 MANUFACTURING INDEX SUMMARIES**

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### **PMI<sup>®</sup>**

Manufacturing expanded in May as the PMI<sup>®</sup> registered 53.2 percent, a decrease of 1.7 percentage points when compared to April's reading of 54.9 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<sup>®</sup> in excess of 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the May PMI<sup>®</sup> indicates growth for the 60th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 12th consecutive month. Holcomb stated, "The past relationship between the PMI<sup>®</sup> and the overall economy indicates that the average PMI<sup>®</sup> for January through May (53.3 percent) corresponds to a 3.3 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI<sup>®</sup> for May (53.2 percent) is annualized, it corresponds to a 3.3 percent increase in real GDP annually."

## THE LAST 12 MONTHS

<i>Month</i>	<i>PMI<sup>®</sup></i>	<i>Month</i>	<i>PMI<sup>®</sup></i>
May 2014	53.2	Nov 2013	57.0
Apr 2014	54.9	Oct 2013	56.6
Mar 2014	53.7	Sep 2013	56.0
Feb 2014	53.2	Aug 2013	56.3
Jan 2014	51.3	Jul 2013	54.9
Dec 2013	56.5	Jun 2013	52.5
Average for 12 months – 54.7 High – 57.0 Low – 51.3			

## New Orders

ISM<sup>®</sup>'s New Orders Index registered 53.3 percent in May, a decrease of 1.8 percentage points when compared to the 55.1 percent reported in April, indicating growth in new orders for the 12th consecutive month. A New Orders Index above 52.1 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars).

The 14 industries reporting growth in new orders in May — listed in order — are: Electrical Equipment, Appliances & Components; Machinery; Wood Products; Furniture & Related Products; Paper Products; Primary Metals; Fabricated Metal Products; Chemical Products; Transportation Equipment; Plastics & Rubber Products; Nonmetallic Mineral Products; Food, Beverage & Tobacco Products; Petroleum & Coal Products; and Miscellaneous Manufacturing. The only industry reporting a decrease in new orders during May is Computer & Electronic Products.

<b>New Orders</b>	<b>% Better</b>	<b>% Same</b>	<b>% Worse</b>	<b>Net</b>	<b>Index</b>
May 2014	35	51	14	+21	53.3
Apr 2014	37	51	12	+25	55.1
Mar 2014	35	52	13	+22	55.1
Feb 2014	35	49	16	+19	54.5

## Production

ISM®'s Production Index registered 55.2 percent in May, which is a decrease of 0.5 percentage point when compared to the 55.7 percent reported in April, indicating growth in production for the third consecutive month. An index above 51.1 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

The 15 industries reporting growth in production during the month of May — listed in order — are: Primary Metals; Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Paper Products; Electrical Equipment, Appliances & Components; Machinery; Wood Products; Furniture & Related Products; Chemical Products; Petroleum & Coal Products; Transportation Equipment; Fabricated Metal Products; Computer & Electronic Products; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products. The only industry reporting a decrease in production during May is Textile Mills.

Production	% Better	% Same	% Worse	Net	Index
May 2014	36	54	10	+26	55.2
Apr 2014	36	55	9	+27	55.7
Mar 2014	31	60	9	+22	55.9
Feb 2014	27	54	19	+8	48.2

## Employment

ISM®'s Employment Index registered 51.9 percent in May, which is a decrease of 2.8 percentage points when compared to April's reading of 54.7 percent, and represents the 11th consecutive month of growth in employment. An Employment Index above 50.6 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, 11 reported growth in employment in May in the following order: Printing & Related Support Activities; Fabricated Metal Products; Petroleum & Coal Products; Primary Metals; Transportation Equipment; Nonmetallic Mineral Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Machinery; Miscellaneous Manufacturing; and Computer & Electronic Products. The four industries reporting a decrease in employment in May are: Wood Products; Electrical Equipment, Appliances & Components; Paper Products; and Chemical Products.

Employment	% Higher	% Same	% Lower	Net	Index
May 2014	24	64	12	+12	51.9
Apr 2014	29	60	11	+18	54.7
Mar 2014	21	64	15	+6	51.1
Feb 2014	20	67	13	+7	52.3

### Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations slowed in May at a slower rate relative to April as the Supplier Deliveries Index registered 52.5 percent. This month's reading is 3.4 percentage points lower than the 55.9 percent reported in April. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The seven industries reporting slower supplier deliveries in May — listed in order — are: Fabricated Metal Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Machinery; Chemical Products; and Computer & Electronic Products. The only industry reporting faster supplier deliveries during May is Textile Mills. Ten industries reported no change in supplier deliveries in May compared to April.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
May 2014	13	82	5	+8	52.5
Apr 2014	17	81	2	+15	55.9
Mar 2014	16	79	5	+11	54.0
Feb 2014	17	82	1	+16	58.5

### Inventories\*

The Inventories Index registered 53 percent in May, the same percentage as reported in April, and indicates raw materials inventories are growing for the fourth consecutive month. 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 six industries reporting higher inventories in May — listed in order — are: Textile Mills; Furniture & Related Products; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Paper Products; and

Chemical Products. The five industries reporting decreases in inventories in May are: Petroleum & Coal Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Primary Metals; and Wood Products. Seven industries reported no change in inventories in May compared to April.

Inventories	% Higher	% Same	% Lower	Net	Index
May 2014	23	60	17	+6	53.0
Apr 2014	20	66	14	+6	53.0
Mar 2014	20	65	15	+5	52.5
Feb 2014	24	57	19	+5	52.5

### Customers' Inventories\*

ISM®'s Customers' Inventories Index registered 46.5 percent in May, an increase of 4.5 percentage points when compared to the 42 percent reported in April, indicating that customers' inventories are considered too low. Customers' inventories have registered at or below 50 percent for 62 consecutive months. A reading below 50 percent indicates customers' inventories are considered too low.

The four manufacturing industries reporting customers' inventories as being too high during the month of May are: Printing & Related Support Activities; Miscellaneous Manufacturing; Fabricated Metal Products; and Primary Metals. The eight industries reporting customers' inventories as too low during May — listed in order — are: Plastics & Rubber Products; Textile Mills; Paper Products; Transportation Equipment; Computer & Electronic Products; Machinery; Chemical Products; and Food, Beverage & Tobacco Products. Six industries reported no change in customers' inventories in May compared to April.

Customers' Inventories	% Reporting	% Too High	% About Right	% Too Low	Net	Index
May 2014	67	11	71	18	-7	46.5
Apr 2014	62	5	74	21	-16	42.0
Mar 2014	60	8	68	24	-16	42.0
Feb 2014	61	16	61	23	-7	46.5

### Prices\*

The ISM® Prices Index registered 60 percent in May, which is an increase of 3.5 percentage points compared to the April reading of 56.5 percent. In May, 31 percent of respondents reported paying higher prices, 11 percent reported



paying lower prices, and 58 percent of supply executives reported paying the same prices as in April. A Prices Index above 49.7 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 May in the following order: Furniture & Related Products; Fabricated Metal Products; Plastics & Rubber Products; Petroleum & Coal Products; Primary Metals; Miscellaneous Manufacturing; Machinery; Textile Mills; Transportation Equipment; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The two industries reporting paying lower prices during the month of May are: Paper Products; and Chemical Products.

Prices	% Higher	% Same	% Lower	Net	Index
May 2014	31	58	11	+20	60.0
Apr 2014	25	63	12	+13	56.5
Mar 2014	28	62	10	+18	59.0
Feb 2014	27	66	7	+20	60.0

### Backlog of Orders\*

ISM®'s Backlog of Orders Index registered 52.5 percent in May, which is 3 percentage points lower than the 55.5 percent reported in April, indicating growth in order backlogs for the fourth consecutive month. Of the 85 percent of respondents who reported their backlog of orders, 21 percent reported greater backlogs, 16 percent reported smaller backlogs, and 63 percent reported no change from April.

The eight industries reporting increased order backlogs in May — listed in order — are: Electrical Equipment, Appliances & Components; Paper Products; Primary Metals; Transportation Equipment; Petroleum & Coal Products; Machinery; Miscellaneous Manufacturing; and Furniture & Related Products. The six industries reporting a decrease in order backlogs during May — listed in order — are: Plastics & Rubber Products; Textile Mills; Food, Beverage & Tobacco Products; Computer & Electronic Products; Nonmetallic Mineral Products; and Wood Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
May 2014	85	21	63	16	+5	52.5
Apr 2014	88	26	59	15	+11	55.5
Mar 2014	86	28	59	13	+15	57.5
Feb 2014	85	22	60	18	+4	52.0

## New Export Orders\*

ISM®'s New Export Orders Index registered 56.5 percent in May, which is 0.5 percentage point lower than the 57 percent reported in April. May's reading reflects growth in the level of exports for the 18th consecutive month.

The 12 industries reporting growth in new export orders in May — listed in order — are: Wood Products; Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Machinery; Chemical Products; Petroleum & Coal Products; Paper Products; Fabricated Metal Products; Transportation Equipment; and Computer & Electronic Products. The three industries reporting a decrease in new export orders during May are: Textile Mills; Primary Metals; and Electrical Equipment, Appliances & Components.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
May 2014	75	21	71	8	+13	56.5
Apr 2014	74	19	76	5	+14	57.0
Mar 2014	75	21	69	10	+11	55.5
Feb 2014	76	16	75	9	+7	53.5

## Imports\*

ISM®'s Imports Index registered 54.5 percent in May, which is 3.5 percentage points lower than the 58 percent reported in April. This month's reading represents 16 consecutive months of growth in imports.

The 10 industries reporting growth in imports during the month of May — listed in order — are: Textile Mills; Machinery; Petroleum & Coal Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Transportation Equipment; and Chemical Products. The three industries reporting a decrease in imports during May are: Primary Metals; Nonmetallic Mineral Products; and Miscellaneous Manufacturing.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
May 2014	78	19	71	10	+9	54.5
Apr 2014	76	19	78	3	+16	58.0
Mar 2014	78	18	73	9	+9	54.5
Feb 2014	78	17	73	10	+7	53.5

\* 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 remained unchanged at 127 days. Average lead time for Production Materials increased by 3 days to 59 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased 4 days to 26 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
May 2014	25	7	13	17	20	18	127
Apr 2014	26	6	14	16	20	18	127
Mar 2014	28	5	11	18	23	15	121
Feb 2014	23	6	12	15	25	19	137
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
May 2014	16	37	22	16	7	2	59
Apr 2014	16	38	26	13	5	2	56
Mar 2014	13	39	25	15	6	2	59
Feb 2014	19	34	22	19	3	3	58
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
May 2014	46	36	13	4	1	0	26
Apr 2014	43	38	14	3	1	1	30
Mar 2014	41	40	14	4	1	0	28
Feb 2014	44	38	13	4	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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup>, 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 subject annually to relatively minor changes when conditions warrant them. The PMI<sup>®</sup> 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<sup>®</sup> reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. A PMI<sup>®</sup> in excess of 43.2 percent, over a period of time, indicates that the overall economy, or gross domestic product (GDP), is

generally expanding; below 43.2 percent, it is generally declining. The distance from 50 percent or 43.2 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®** survey is 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 report 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 report, 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 Institute for Supply Management®, the first supply institute in the world. Founded in 1915, ISM®'s mission is to enhance the value and performance of procurement and supply chain management practitioners and their organizations worldwide. By executing and extending its mission through education, research, standards of excellence and information dissemination — including the renowned monthly **ISM® Report On Business®** — ISM® maintains a strong global influence among individuals and organizations. ISM® is a not-for-profit educational association that serves professionals with an interest in supply management who live and work in more than 80 countries. 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](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®** featuring the June 2014 data will be released at 10:00 a.m. (ET) on Tuesday, July 1, 2014.