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June 2012 Manufacturing ISM Report On Business[®]

PMI at 49.7%

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 June 2012.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** contracted in June for the first time since July 2009; however, the **overall economy** grew for the 37th 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 49.7 percent, a decrease of 3.8 percentage points from May's reading of 53.5 percent, indicating contraction in the manufacturing sector for the first time since July 2009, when the PMI registered 49.2 percent. The New Orders Index dropped 12.3 percentage points in June, registering 47.8 percent and indicating contraction in new orders for the first time since April 2009, when the New Orders Index registered 46.8 percent. The Production Index registered 51 percent, and the Employment Index registered 56.6 percent. The Prices Index for raw materials decreased significantly for the second consecutive month, registering 37 percent, which is 10.5 percentage points lower than the 47.5 percent reported in May. Comments from the panel range from continued optimism to concern that demand may be softening due to uncertainties in the economies in Europe and China."

PERFORMANCE BY INDUSTRY

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

WHAT RESPONDENTS ARE SAYING ...

- "Business is still strong, with some nagging question whether it will be sustained." (Machinery)
- "The economy and general business seem to be getting better even though recent data say otherwise." (Fabricated Metal Products)
- "Significant raw materials price correction underway." (Plastics & Rubber Products)
- "Local labor market shows no signs of slowing down. Competition for technical services/skilled craft remains tight." (Petroleum & Coal Products)
- "Overall demand signals from sales forecast are trending down in all regions." (Computer & Electronic Products)
- "Although our shipments are up year over year and from prior month, we can feel some head winds, especially from Europe. We are watching our expenses very tightly and being cautious." (Apparel, Leather & Allied Products)
- "Business continues to exceed forecast in all markets." (Primary Metals)
- "Economy seems to be slowing slightly due to concerns in Europe; however, production has not changed a great deal." (Transportation Equipment)
- "Business has started to show signs of slowing." (Furniture & Related Products)
- "Slowing world economies, particularly China, are reducing 3Q and later orders and drastically dropping some raw material prices." (Chemical Products)

**MANUFACTURING AT A GLANCE
JUNE 2012**

Index	Series Index Jun	Series Index May	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	49.7	53.5	-3.8	Contracting	From Growing	1
New Orders	47.8	60.1	-12.3	Contracting	From Growing	1
Production	51.0	55.6	-4.6	Growing	Slower	37
Employment	56.6	56.9	-0.3	Growing	Slower	33
Supplier Deliveries	48.9	48.7	+0.2	Faster	Slower	5
Inventories	44.0	46.0	-2.0	Contracting	Faster	3
Customers' Inventories	48.5	43.5	+5.0	Too Low	Slower	7
Prices	37.0	47.5	-10.5	Decreasing	Faster	2
Backlog of Orders	44.5	47.0	-2.5	Contracting	Faster	3
Exports	47.5	53.5	-6.0	Contracting	From Growing	1
Imports	53.5	53.5	0.0	Growing	Same	7
OVERALL ECONOMY				Growing	Slower	37
Manufacturing Sector				Contracting	From Growing	1

*Number of months moving in current direction.

COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY

Commodities Up in Price

Guar (2); and Natural Gas (2).

Commodities Down in Price

Aluminum; Aluminum Products; Brass Products; Copper; Corn; HDPE; Oils; PET Resin; Plastic Products (2); Polypropylene Resin; Propylene; Soybean Oil; Steel (4); Steel — Carbon Sheet; Steel — Cold Rolled; and Steel — Hot Rolled.

Commodities in Short Supply

Guar is the only commodity reported in short supply.

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

JUNE 2012 MANUFACTURING INDEX SUMMARIES

PMI

Manufacturing contracted in June as the PMI registered 49.7 percent, a decrease of 3.8 percentage points when compared to May's reading of 53.5 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 June PMI indicates growth for the 37th consecutive month in the overall economy, but indicates contraction in the manufacturing sector for the first time since July 2009, when the PMI registered 49.2 percent. Holcomb stated, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through June (53 percent) corresponds to a 3.5 percent increase in real gross domestic product (GDP). In addition, if the PMI for June (49.7 percent) is annualized, it corresponds to a 2.4 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI</i>	<i>Month</i>	<i>PMI</i>
Jun 2012	49.7	Dec 2011	53.1
May 2012	53.5	Nov 2011	52.2
Apr 2012	54.8	Oct 2011	51.8
Mar 2012	53.4	Sep 2011	52.5
Feb 2012	52.4	Aug 2011	52.5
Jan 2012	54.1	Jul 2011	51.4
Average for 12 months – 52.6 High – 54.8 Low – 49.7			

New Orders

ISM's New Orders Index registered 47.8 percent in June, which is a decrease of 12.3 percentage points when compared to the May reading of 60.1 percent. This represents a contraction in new orders for the first time since April 2009, when the New Orders Index registered 46.8 percent. 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 seven industries reporting growth in new orders in June — listed in order — are: Printing & Related Support Activities; Furniture & Related Products; Miscellaneous Manufacturing; Fabricated Metal Products; Primary Metals; Electrical Equipment, Appliances & Components; and Paper Products. The 10 industries reporting a decrease in new orders during June — listed in order — are: Nonmetallic Mineral Products; Wood Products; Plastics & Rubber Products; Petroleum & Coal Products; Chemical Products; Food, Beverage & Tobacco Products; Transportation Equipment; Computer & Electronic Products; Machinery; and Apparel, Leather & Allied Products.

New Orders	% Better	% Same	% Worse	Net	Index
Jun 2012	24	53	23	+1	47.8
May 2012	37	49	14	+23	60.1
Apr 2012	41	48	11	+30	58.2
Mar 2012	34	53	13	+21	54.5

Production

ISM's Production Index registered 51 percent in June, which is a decrease of 4.6 percentage points when compared to the 55.6 percent reported in May. This indicates growth for the 37th 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 eight industries reporting growth in production during the month of June — listed in order — are: Fabricated Metal Products; Furniture & Related Products; Miscellaneous Manufacturing; Machinery; Printing & Related Support Activities; Electrical Equipment, Appliances & Components; Transportation Equipment; and Computer & Electronic Products. The four industries reporting a decrease in production in June are: Paper Products; Chemical Products; Food, Beverage & Tobacco Products; and Apparel, Leather & Allied Products. Six industries reported no change in production in June compared to May.

Production	% Better	% Same	% Worse	Net	Index
Jun 2012	24	60	16	+8	51.0
May 2012	34	51	15	+19	55.6
Apr 2012	44	47	9	+35	61.0
Mar 2012	35	51	14	+21	58.3

Employment

ISM's Employment Index registered 56.6 percent in June, which is 0.3 percentage point lower than the 56.9 percent reported in May. This is the 33rd 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, 11 reported growth in employment in June in the following order: Fabricated Metal Products; Furniture & Related Products; Machinery; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Petroleum & Coal Products; Primary Metals; Chemical Products; Food, Beverage & Tobacco Products; and Transportation Equipment. The four industries reporting a decrease in employment in June are: Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Paper Products; and Computer & Electronic Products.

Employment	% Higher	% Same	% Lower	Net	Index
Jun 2012	29	57	14	+15	56.6
May 2012	30	59	11	+19	56.9
Apr 2012	34	54	12	+22	57.3
Mar 2012	25	63	12	+13	56.1

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in June as the Supplier Deliveries Index registered 48.9 percent, which is 0.2 percentage point higher than the 48.7 percent reported in May. This is the fifth consecutive 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 seven industries reporting slower supplier deliveries in June — listed in order — are: Petroleum & Coal Products; Chemical Products; Primary Metals; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The four industries reporting faster supplier deliveries in June are: Plastics & Rubber Products; Machinery; Transportation Equipment; and Fabricated Metal Products. Seven industries reported no change in supplier deliveries in June compared to May.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Jun 2012	8	85	7	+1	48.9
May 2012	10	82	8	+2	48.7
Apr 2012	9	82	9	0	49.2
Mar 2012	9	83	8	+1	48.0

Inventories*

The Inventories Index registered 44 percent in June, which is 2 percentage points lower than the 46 percent reported in May. This month's reading indicates that respondents are reporting inventories are contracting, which has been the case in eight of the last nine months. 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 five industries reporting higher inventories in June are: Wood Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Machinery; and Food, Beverage & Tobacco Products. The 10 industries reporting decreases in inventories in June — listed in order — are: Primary Metals; Nonmetallic Mineral Products; Petroleum & Coal Products; Chemical Products; Apparel, Leather & Allied Products; Paper Products; Miscellaneous Manufacturing; Computer & Electronic Products; Transportation Equipment; and Fabricated Metal Products.

Inventories	% Higher	% Same	% Lower	Net	Index
Jun 2012	13	62	25	-12	44.0
May 2012	14	64	22	-8	46.0
Apr 2012	17	63	20	-3	48.5
Mar 2012	20	60	20	0	50.0

Customers' Inventories*

The ISM Customers' Inventories Index registered 48.5 percent in June, which is 5 percentage points higher than in May when the index registered 43.5 percent. Customers' inventories have registered at or below 50 percent for 39 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 June are: Apparel, Leather & Allied Products; Fabricated Metal Products; Primary Metals; Chemical Products; and Food, Beverage & Tobacco Products. The six industries reporting customers' inventories as too low during June — listed in order — are: Wood Products; Machinery; Transportation Equipment; Miscellaneous Manufacturing; Plastics & Rubber Products; and Computer & Electronic Products. Six industries reported no change in customer inventories in June compared to May.

Customers' Inventories	% Reporting	% Too High	% About Right	% Too Low	Net	Index
Jun 2012	70	13	71	16	-3	48.5
May 2012	70	9	69	22	-13	43.5
Apr 2012	71	11	69	20	-9	45.5
Mar 2012	72	14	61	25	-11	44.5

Prices*

The ISM Prices Index registered 37 percent in June, which is a decrease of 10.5 percentage points compared to the May reading of 47.5 percent. This is the second consecutive month the index has reflected a decrease in the price of raw materials since December 2011, and reflects a combined two-month decrease of 24 percentage points in the Prices Index. This is also the lowest reading since April 2009, when the index registered 32 percent. In June, 7 percent of respondents reported paying higher prices, 33 percent reported paying lower prices, and 60 percent of supply executives reported paying the same prices as in May. 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, three reported paying increased prices during the month of June: Furniture & Related Products; Printing & Related Support Activities; and Primary Metals. The 11 industries reporting paying lower prices during June — listed in order — are: Petroleum & Coal Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Chemical Products; Machinery; Paper Products; Transportation Equipment; Miscellaneous Manufacturing; and Computer & Electronic Products.

Prices	% Higher	% Same	% Lower	Net	Index
Jun 2012	7	60	33	-26	37.0
May 2012	14	67	19	-5	47.5
Apr 2012	33	56	11	+22	61.0
Mar 2012	36	50	14	+22	61.0

Backlog of Orders*

ISM's Backlog of Orders Index registered 44.5 percent in June, which is 2.5 percentage points lower than the 47 percent reported in May. Of the 86 percent of respondents who reported their backlog of orders, 16 percent reported greater backlogs, 27 percent reported smaller backlogs, and 57 percent reported no change from May.

The five industries reporting increased order backlogs in June are: Furniture & Related Products; Primary Metals; Printing & Related Support Activities; Chemical Products; and Miscellaneous Manufacturing. The 10 industries reporting decreases in order backlogs during June — listed in order — are: Nonmetallic Mineral Products; Petroleum & Coal Products; Wood Products; Computer & Electronic Products; Apparel, Leather & Allied Products; Plastics & Rubber Products; Paper Products; Food, Beverage & Tobacco Products; Machinery; and Transportation Equipment.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Jun 2012	86	16	57	27	-11	44.5
May 2012	84	16	62	22	-6	47.0
Apr 2012	81	22	55	23	-1	49.5
Mar 2012	84	26	53	21	+5	52.5

New Export Orders*

ISM's New Export Orders Index registered 47.5 percent in June, which is 6 percentage points lower than the 53.5 percent reported in May, and represents the first month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this month, the New Export Orders Index had registered 50 percent or above for the past 35 consecutive months.

The six industries reporting growth in new export orders in June — listed in order — are: Textile Mills; Wood Products; Furniture & Related Products; Fabricated Metal Products; Miscellaneous

Manufacturing; and Electrical Equipment, Appliances & Components. The seven industries reporting a decrease in new export orders during June — listed in order — are: Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Paper Products; Machinery; Chemical Products; Computer & Electronic Products; and Transportation Equipment.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Jun 2012	78	15	65	20	-5	47.5
May 2012	80	17	73	10	+7	53.5
Apr 2012	79	26	66	8	+18	59.0
Mar 2012	80	18	72	10	+8	54.0

Imports*

ISM's Imports Index registered 53.5 percent in June, the same percentage rate as reported for four consecutive months. The Imports Index reflects seven months of growth following only two months of contraction in the past 34 months.

The six industries reporting growth in imports during the month of June — listed in order — are: Furniture & Related Products; Fabricated Metal Products; Paper Products; Machinery; Transportation Equipment; and Primary Metals. The five industries reporting a decrease in imports during June are: Nonmetallic Mineral Products; Petroleum & Coal Products; Apparel, Leather & Allied Products; Computer & Electronic Products; and Chemical Products. Seven industries reported no change in import orders in June compared to May.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Jun 2012	78	18	71	11	+7	53.5
May 2012	81	16	75	9	+7	53.5
Apr 2012	79	18	71	11	+7	53.5
Mar 2012	81	15	77	8	+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 decreased 3 days to 118 days. Average lead time for Production Materials increased 1 day to 57 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased 1 day to 31 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jun 2012	26	10	9	20	20	15	118
May 2012	30	8	8	17	20	17	121
Apr 2012	29	7	11	14	24	15	120
Mar 2012	26	7	12	17	25	13	118
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jun 2012	15	40	21	17	5	2	57
May 2012	13	40	26	15	4	2	56
Apr 2012	13	43	23	15	4	2	55
Mar 2012	14	43	24	11	6	2	56
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jun 2012	43	40	11	3	2	1	31
May 2012	44	38	12	4	1	1	30
Apr 2012	46	38	11	4	1	0	26
Mar 2012	44	39	11	4	1	1	30

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 Institute for Supply Management[™], 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**[®] is posted on ISM's Web site 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 July 2012 data will be released at 10:00 a.m. (ET) on Wednesday, August 1, 2012.