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July 2012 Manufacturing ISM Report On Business®

PMI at 49.8%

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 July 2012.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** contracted in July for the second time since July 2009; however, the **overall economy** grew for the 38th 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 49.8 percent, an increase of 0.1 percentage point from June's reading of 49.7 percent, indicating contraction in the manufacturing sector for the second consecutive month, following 34 consecutive months of expansion. The New Orders Index registered 48 percent, an increase of 0.2 percentage point from June and indicating contraction in new orders for the second consecutive month, but at a slightly slower rate. Both the Production Index and the Employment Index remained in growth territory, registering 51.3 percent and 52 percent, respectively. The Prices Index for raw materials registered 39.5 percent, an increase of 2.5 percentage points from the June reading of 37 percent, indicating lower prices on average for the third consecutive month. A growing number of comments from the panel this month reflect a slowdown in their businesses and general concern over increasing economic uncertainty."

PERFORMANCE BY INDUSTRY

Of the 18 manufacturing industries, seven are reporting growth in July in the following order: Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Primary Metals; Petroleum & Coal Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; and Furniture & Related Products. The 11 industries reporting contraction in July — listed in order — are: Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Wood

Products; Textile Mills; Miscellaneous Manufacturing; Chemical Products; Transportation Equipment; Printing & Related Support Activities; Paper Products; Machinery; and Computer & Electronic Products.

WHAT RESPONDENTS ARE SAYING ...

- "Business has been up for the last seven consecutive months — strong customer orders coming in." (Machinery)
- "Automotive demand remains strong." (Fabricated Metal Products)
- "Resin pricing has bottomed out so customer orders have increased; it was pent-up demand." (Plastics & Rubber Products)
- "We have noticed a marked slowing in business overall. [We] have confirmed this with other companies in our industry as well." (Wood Products)
- "Forecasts remain high, but actual bookings remain flat." (Computer & Electronic Products)
- "Taking a conservative approach to spending including hiring, travel and inventory. U.S. economy seems stuck — at best — with little to no growth." (Apparel, Leather & Allied Products)
- "Business remains surprisingly strong." (Primary Metals)
- "Continued slowdown in government military sector spending in advance of the presidential elections has seriously impacted business performance." (Transportation Equipment)
- "Business is softening, requiring some down production days." (Furniture & Related Products)
- "General state of business this month is flat, with increasing economic uncertainty." (Chemical Products)

MANUFACTURING AT A GLANCE JULY 2012						
Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	49.8	49.7	+0.1	Contracting	Slower	2
New Orders	48.0	47.8	+0.2	Contracting	Slower	2
Production	51.3	51.0	+0.3	Growing	Faster	38
Employment	52.0	56.6	-4.6	Growing	Slower	34
Supplier Deliveries	48.7	48.9	-0.2	Faster	Faster	6
Inventories	49.0	44.0	+5.0	Contracting	Slower	4
Customers' Inventories	49.5	48.5	+1.0	Too Low	Slower	8
Prices	39.5	37.0	+2.5	Decreasing	Slower	3
Backlog of Orders	43.0	44.5	-1.5	Contracting	Faster	4
Exports	46.5	47.5	-1.0	Contracting	Faster	2
Imports	50.5	53.5	-3.0	Growing	Slower	8
OVERALL ECONOMY				Growing	Faster	38
Manufacturing Sector				Contracting	Slower	2

*Number of months moving in current direction.

COMMODITIES REPORTED UP/DOWN IN PRICE and IN SHORT SUPPLY

Commodities Up in Price

Corn; Dairy Products; Natural Gas (3); Soybean Oil; Steel*; Steel — Carbon Sheet* (2); Steel — Hot Rolled; and Wheat.

Commodities Down in Price

Copper (2); Fuel Oil; HDPE (2); Oils (2); Plastic Products (3); Polyethylene Resin; Polypropylene Resin (2); Rubber; Stainless Steel; Steel* (5); Steel — Carbon Sheet* (2); Steel — Cold Rolled (2); and Steel Products.

Commodities in Short Supply

Guar (2) is the only commodity 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.

JULY 2012 MANUFACTURING INDEX SUMMARIES

PMI

Manufacturing contracted in July as the PMI registered 49.8 percent, an increase of 0.1 percentage point when compared to June's reading of 49.7 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 July PMI indicates growth for the 38th consecutive month in the overall economy, but indicates contraction in the manufacturing sector for the second 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 July (52.5 percent) corresponds to a 3.3 percent increase in real gross domestic product (GDP). In addition, if the PMI for July (49.8 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>
Jul 2012	49.8	Jan 2012	54.1
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
Average for 12 months – 52.5 High – 54.8 Low – 49.7			

New Orders

ISM's New Orders Index registered 48 percent in July, which is an increase of 0.2 percentage point when compared to the June reading of 47.8 percent. This represents a contraction in new orders for the second 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 three industries reporting growth in new orders in July are: Plastics & Rubber Products; Food, Beverage & Tobacco Products; and Primary Metals. The 13 industries reporting a decrease in new orders during July — listed in order — are: Nonmetallic Mineral Products; Apparel, Leather & Allied Products; Wood Products; Textile Mills; Machinery; Petroleum & Coal Products; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Chemical Products; Paper Products; Transportation Equipment; Computer & Electronic Products; and Fabricated Metal Products.

New Orders	% Better	% Same	% Worse	Net	Index
Jul 2012	20	51	29	-9	48.0
Jun 2012	24	53	23	+1	47.8
May 2012	37	49	14	+23	60.1
Apr 2012	41	48	11	+30	58.2

Production

ISM's Production Index registered 51.3 percent in July, which is an increase of 0.3 percentage point when compared to the 51 percent reported in June. This indicates growth for the 38th 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 four industries reporting growth in production during the month of July are: Plastics & Rubber Products; Fabricated Metal Products; Primary Metals; and Food, Beverage & Tobacco Products. The 10 industries reporting a decrease in production in July — listed in order — are: Nonmetallic Mineral Products; Wood Products; Textile Mills; Furniture & Related Products; Apparel, Leather & Allied Products; Petroleum & Coal Products; Miscellaneous Manufacturing; Chemical Products; Machinery; and Transportation Equipment.

Production	% Better	% Same	% Worse	Net	Index
Jul 2012	19	58	23	-4	51.3
Jun 2012	24	60	16	+8	51.0
May 2012	34	51	15	+19	55.6
Apr 2012	44	47	9	+35	61.0

Employment

ISM's Employment Index registered 52 percent in July, which is 4.6 percentage points lower than the 56.6 percent reported in June. This is the 34th consecutive month of growth in the Employment Index. An Employment Index above 50.5 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) data on manufacturing employment.

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

Employment	% Higher	% Same	% Lower	Net	Index
Jul 2012	20	65	15	+5	52.0
Jun 2012	29	57	14	+15	56.6
May 2012	30	59	11	+19	56.9
Apr 2012	34	54	12	+22	57.3

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in July as the Supplier Deliveries Index registered 48.7 percent, which is 0.2 percentage point lower than the 48.9 percent reported in June. This is the sixth 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 five industries reporting slower supplier deliveries in July are: Electrical Equipment, Appliances & Components; Paper Products; Primary Metals; Transportation Equipment; and Miscellaneous Manufacturing. The six industries

reporting faster supplier deliveries in July — listed in order — are: Plastics & Rubber Products; Computer & Electronic Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Machinery; and Chemical Products. Seven industries reported no change in supplier deliveries in July compared to June.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Jul 2012	9	84	7	+2	48.7
Jun 2012	8	85	7	+1	48.9
May 2012	10	82	8	+2	48.7
Apr 2012	9	82	9	0	49.2

Inventories*

The Inventories Index registered 49 percent in July, which is 5 percentage points higher than the 44 percent reported in June. This month's reading indicates that respondents are reporting inventories are still contracting, which has been the case in nine of the last 10 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 seven industries reporting higher inventories in July — listed in order — are: Petroleum & Coal Products; Machinery; Furniture & Related Products; Paper Products; Computer & Electronic Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components. The eight industries reporting decreases in inventories in July — listed in order — are: Nonmetallic Mineral Products; Primary Metals; Apparel, Leather & Allied Products; Miscellaneous Manufacturing; Transportation Equipment; Printing & Related Support Activities; Chemical Products; and Food, Beverage & Tobacco Products.

Inventories	% Higher	% Same	% Lower	Net	Index
Jul 2012	21	56	23	-2	49.0
Jun 2012	13	62	25	-12	44.0
May 2012	14	64	22	-8	46.0
Apr 2012	17	63	20	-3	48.5

Customers' Inventories*

The ISM Customers' Inventories Index registered 49.5 percent in July, which is 1 percentage point higher than in June when the index registered 48.5 percent. Customers' inventories have registered at or below 50 percent for 40 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 July — listed in order — are: Apparel, Leather & Allied Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Primary Metals; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The seven industries reporting customers' inventories as too low during July — listed in order — are: Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Paper Products; Transportation Equipment; Machinery; and Chemical Products.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Jul 2012	69	17	65	18	-1	49.5
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

Prices*

The ISM Prices Index registered 39.5 percent in July, which is an increase of 2.5 percentage points compared to the June reading of 37 percent. This is the third consecutive month the index has reflected a decrease in the price of raw materials since December 2011. In July, 11 percent of respondents reported paying higher prices, 32 percent reported paying lower prices, and 57 percent of supply executives reported paying the same prices as in June. 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, four reported paying increased prices during the month of July: Printing & Related Support Activities; Furniture & Related Products; Primary Metals; and Food, Beverage & Tobacco Products. The 11 industries reporting paying lower prices during July — listed in order — are: Plastics & Rubber Products; Petroleum & Coal Products; Textile Mills; Fabricated Metal Products; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Machinery; Computer & Electronic Products; Chemical Products; Transportation Equipment; and Paper Products.

Prices	% Higher	% Same	% Lower	Net	Index
Jul 2012	11	57	32	-21	39.5
Jun 2012	7	60	33	-26	37.0
May 2012	14	67	19	-5	47.5
Apr 2012	33	56	11	+22	61.0

Backlog of Orders*

ISM's Backlog of Orders Index registered 43 percent in July, which is 1.5 percentage points lower than the 44.5 percent reported in June. Of the 84 percent of respondents who reported their backlog of orders, 13 percent reported greater backlogs, 27 percent reported smaller backlogs, and 60 percent reported no change from June.

The three industries reporting increased order backlogs in July are: Primary Metals; Electrical Equipment, Appliances & Components; and Chemical Products. The 11 industries reporting decreases in order backlogs during July — listed in order — are: Nonmetallic Mineral Products; Wood Products; Miscellaneous Manufacturing; Furniture & Related Products; Transportation Equipment; Computer & Electronic Products; Paper Products; Machinery; Fabricated Metal Products; Food, Beverage & Tobacco Products; and Apparel, Leather & Allied Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Jul 2012	84	13	60	27	-14	43.0
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

New Export Orders*

ISM's New Export Orders Index registered 46.5 percent in July, which is 1 percentage point lower than the 47.5 percent reported in June, and represents the second month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this current two-month period of contraction, the New Export Orders Index had registered 50 percent or above for the past 35 consecutive months.

The four industries reporting growth in new export orders in July are: Fabricated Metal Products; Electrical Equipment, Appliances & Components; Chemical Products; and Computer & Electronic Products. The eight industries reporting a decrease in new export orders during July — listed in order — are: Textile Mills; Furniture & Related

Products; Paper Products; Miscellaneous Manufacturing; Machinery; Transportation Equipment; Primary Metals; and Apparel, Leather & Allied Products. Six industries reported no change in export orders in July compared to June.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Jul 2012	77	10	73	17	-7	46.5
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

Imports*

ISM's Imports Index registered 50.5 percent in July, which is 3 percentage points lower than the 53.5 percent reported in June. This month's reading reflects eight months of growth following only two months of contraction in the past 34 months.

The five industries reporting growth in imports during the month of July are: Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Fabricated Metal Products; Transportation Equipment; and Chemical Products. The six industries reporting a decrease in imports during July — listed in order — are: Paper Products; Apparel, Leather & Allied Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Primary Metals; and Machinery. Seven industries reported no change in import orders in July compared to June.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Jul 2012	80	13	75	12	+1	50.5
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

* 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 9 days to 109 days. Average lead time for Production Materials decreased 3 days to 54 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased 5 days to 26 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jul 2012	29	7	13	18	21	12	109
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
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jul 2012	17	37	24	17	3	2	54
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
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Jul 2012	47	36	11	5	1	0	26
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

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 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 August 2012 data will be released at 10:00 a.m. (ET) on Tuesday, September 4, 2012.