

FOR RELEASE: September 2, 2014

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August 2014 Manufacturing ISM[®] Report On Business[®]

PMI[®] at 59%

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 August 2014.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in August for the 15th consecutive month, and the **overall economy** grew for the 63rd 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[®] (ISM[®]) Manufacturing Business Survey Committee. "The August PMI[®] registered 59 percent, an increase of 1.9 percentage points from July's reading of 57.1 percent, indicating continued expansion in manufacturing. This month's PMI[®] reflects the highest reading since March 2011 when the index registered 59.1 percent. The New Orders Index registered 66.7 percent, an increase of 3.3 percentage points from the 63.4 percent reading in July, indicating growth in new orders for the 15th consecutive month. The Production Index registered 64.5 percent, 3.3 percentage points above the July reading of 61.2 percent. The Employment Index grew for the 14th consecutive month, registering 58.1 percent, a slight decrease of 0.1 percentage point below the July reading of 58.2 percent. Inventories of raw materials registered 52 percent, an increase of 3.5 percentage points from the July reading of 48.5 percent, indicating growth in inventories following one month of contraction. The August PMI[®] is led by the highest recorded

New Orders Index since April 2004 when it registered 67.1 percent. At the same time, comments from the panel reflect a positive outlook mixed with caution over global geopolitical unrest."

Of the 18 manufacturing industries, 17 are reporting growth in August in the following order: Plastics & Rubber Products; Furniture & Related Products; Fabricated Metal Products; Apparel, Leather & Allied Products; Wood Products; Printing & Related Support Activities; Miscellaneous Manufacturing; Paper Products; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Chemical Products; Primary Metals; Transportation Equipment; Computer & Electronic Products; Machinery; and Electrical Equipment, Appliances & Components. The only industry reporting contraction in August is Textile Mills.

WHAT RESPONDENTS ARE SAYING ...

- "Business is looking good for food manufacturing. Packaging materials prices are staying in check, minimum wage is up a bit, but manageable." (Food, Beverage & Tobacco Products)
- "The commercial building business is good, our business is up." (Fabricated Metal Products)
- "Overall business conditions are flat. World issues taking a toll on business. Consumers are cutting back on spending." (Transportation Equipment)
- "Overall business is improving. Order backlog is increasing. Quotes are increasing. Much more positive outlook in our sector." (Electrical Equipment, Appliances & Components)
- "Business in the energy sector continues to remain very robust with no signs of backing off in the near future." (Computer & Electronic Products)
- "Demand in the United States is consistent and geopolitics remain a concern." (Chemical Products)
- "International markets are slower due to Euro holidays, political unrest and slowing Chinese markets. North American business off slightly." (Wood Products)
- "Business is strong. Labor is becoming a difficult issue." (Furniture & Related Products)
- "Demand is strong. Numbers are up over last year." (Machinery)
- "Strongest month in years. Business is solid...Awesome!" (Primary Metals)

MANUFACTURING AT A GLANCE AUGUST 2014						
Index	Series Index Aug	Series Index Jul	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	59.0	57.1	+1.9	Growing	Faster	15
New Orders	66.7	63.4	+3.3	Growing	Faster	15
Production	64.5	61.2	+3.3	Growing	Faster	6
Employment	58.1	58.2	-0.1	Growing	Slower	14
Supplier Deliveries	53.9	54.1	-0.2	Slowing	Slower	15
Inventories	52.0	48.5	+3.5	Growing	From Contracting	1
Customers' Inventories	49.0	43.5	+5.5	Too Low	Slower	33
Prices	58.0	59.5	-1.5	Increasing	Slower	13
Backlog of Orders	52.5	49.5	+3.0	Growing	From Contracting	1
Exports	55.0	53.0	+2.0	Growing	Faster	21
Imports	56.0	52.0	+4.0	Growing	Faster	19
OVERALL ECONOMY				Growing	Faster	63
Manufacturing Sector				Growing	Faster	15

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 (7); Aluminum Products; Electronic Components; Hydrochloric Acid; PET Resin; Plastic Resin; Polypropylene (2); Propylene; Stainless Steel (6); Stainless Steel Products; Steel (9); and Steel — Hot Rolled.

Commodities Down in Price

Copper; Corn (2); Methanol (2); Natural Gas; and Soybean Oil (2).

Commodities in Short Supply

Stainless Steel; and Wood Pallets (4).

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

AUGUST 2014 MANUFACTURING INDEX SUMMARIES

PMI®

Manufacturing expanded in August as the PMI® registered 59 percent, an increase of 1.9 percentage points when compared to July's reading of 57.1 percent. August's PMI® reading of 59 percent is the highest reading since March 2011 when the PMI® registered 59.1 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 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the August PMI® indicates growth for the 63rd consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 15th consecutive month. Holcomb stated, "The past relationship between the PMI® and the overall economy indicates that the average PMI® for January through August (55 percent) corresponds to a 3.9 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI® for August (59 percent) is annualized, it corresponds to a 5.2 percent increase in real GDP annually."

THE LAST 12 MONTHS

Month	PMI®	Month	PMI®
Aug 2014	59.0	Feb 2014	53.2
Jul 2014	57.1	Jan 2014	51.3
Jun 2014	55.3	Dec 2013	56.5
May 2014	55.4	Nov 2013	57.0
Apr 2014	54.9	Oct 2013	56.6
Mar 2014	53.7	Sep 2013	56.0
Average for 12 months – 55.5 High – 59.0 Low – 51.3			

New Orders

ISM®'s New Orders Index registered 66.7 percent in August, an increase of 3.3 percentage points when compared to the 63.4 percent reported in July, indicating growth in new orders for the 15th consecutive month. This is the highest reading since April 2004 when the New Orders Index registered 67.1 percent. 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 August — listed in order — are: Plastics & Rubber Products; Printing & Related Support Activities; Nonmetallic Mineral Products; Petroleum & Coal Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Furniture & Related Products; Paper Products; Miscellaneous Manufacturing; Transportation Equipment; Chemical Products; Computer & Electronic Products; Primary Metals; and Machinery. The two industries reporting a decrease in new orders during August are: Wood Products; and Textile Mills.

New Orders	% Better	% Same	% Worse	Net	Index
Aug 2014	38	48	14	+24	66.7
Jul 2014	29	57	14	+15	63.4
Jun 2014	30	55	15	+15	58.9
May 2014	35	51	14	+21	56.9

Production

ISM®'s Production Index registered 64.5 percent in August, which is an increase of 3.3 percentage points when compared to the 61.2 percent reported in July, indicating growth in production for the sixth consecutive month, and is the highest reading since May 2010 when the Production Index registered 64.6 percent. 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 August — listed in order — are: Wood Products; Plastics & Rubber Products; Primary Metals; Apparel, Leather & Allied Products; Paper Products; Fabricated Metal Products; Petroleum & Coal Products; Miscellaneous Manufacturing; Furniture & Related Products; Nonmetallic Mineral Products; Chemical Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Transportation Equipment; and Machinery. The two industries reporting a decrease in production during August are: Textile Mills; and Electrical Equipment, Appliances & Components.

Production	% Better	% Same	% Worse	Net	Index
Aug 2014	35	53	12	+23	64.5
Jul 2014	31	54	15	+16	61.2
Jun 2014	32	55	13	+19	60.0
May 2014	36	54	10	+26	61.0

Employment

ISM®'s Employment Index registered 58.1 percent in August, which is a slight decrease of 0.1 percentage point when compared to the 58.2 percent reported in July, and represents the 14th 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, 14 reported growth in employment in August in the following order: Wood Products; Printing & Related Support Activities; Fabricated Metal Products; Textile Mills; Furniture & Related Products; Nonmetallic Mineral Products; Food, Beverage & Tobacco Products; Plastics & Rubber Products; Petroleum & Coal Products; Chemical Products; Computer & Electronic Products; Transportation Equipment; Miscellaneous Manufacturing; and Machinery. The three industries reporting a decrease in employment in August are: Electrical Equipment, Appliances & Components; Paper Products; and Primary Metals.

Employment	% Higher	% Same	% Lower	Net	Index
Aug 2014	25	63	12	+13	58.1
Jul 2014	23	68	9	+14	58.2
Jun 2014	23	63	14	+9	52.8
May 2014	24	64	12	+12	52.8

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations slowed in August at a slightly slower rate relative to July as the Supplier Deliveries Index registered 53.9 percent. This month's reading is 0.2 percentage points lower than the 54.1 percent reported in July. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The 11 industries reporting slower supplier deliveries in August — listed in order — are: Electrical Equipment, Appliances & Components; Furniture & Related Products; Plastics & Rubber Products; Fabricated Metal Products; Petroleum & Coal Products; Primary Metals; Transportation Equipment; Miscellaneous Manufacturing; Machinery; Chemical Products; and Computer & Electronic Products. The only industry reporting faster supplier deliveries during August is Textile Mills. Six industries reported no change in supplier deliveries in August compared to July.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Aug 2014	13	82	5	+8	53.9
Jul 2014	16	79	5	+11	54.1
Jun 2014	11	83	6	+5	51.9
May 2014	13	82	5	+8	53.2

Inventories*

The Inventories Index registered 52 percent in August, which is 3.5 percentage points higher than the 48.5 percent registered in July, and indicates raw materials inventories are growing following one month of contraction. 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 10 industries reporting higher inventories in August — listed in order — are: Apparel, Leather & Allied Products; Paper Products; Plastics & Rubber Products; Miscellaneous Manufacturing; Chemical Products; Furniture & Related

Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The six industries reporting lower inventories in August — listed in order — are: Textile Mills; Petroleum & Coal Products; Nonmetallic Mineral Products; Fabricated Metal Products; Machinery; and Primary Metals.

Inventories	% Higher	% Same	% Lower	Net	Index
Aug 2014	19	66	15	+4	52.0
Jul 2014	17	63	20	-3	48.5
Jun 2014	22	62	16	+6	53.0
May 2014	23	60	17	+6	53.0

Customers' Inventories*

ISM®'s Customers' Inventories Index registered 49 percent in August, an increase of 5.5 percentage points from July when customer inventories registered 43.5 percent. This indicates that customers' inventories are considered too low. Customers' inventories have been too low for 33 consecutive months, as 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 August are: Paper Products; Petroleum & Coal Products; Computer & Electronic Products; and Transportation Equipment. The seven industries reporting customers' inventories as too low during August — listed in order — are: Apparel, Leather & Allied Products; Textile Mills; Primary Metals; Plastics & Rubber Products; Fabricated Metal Products; Machinery; and Chemical Products. Seven industries reported no change in customer inventories in August compared to July.

Customers' Inventories	% Reporting	% Too High	% About Right	% Too Low	Net	Index
Aug 2014	63	13	72	15	-2	49.0
Jul 2014	64	11	65	24	-13	43.5
Jun 2014	65	9	75	16	-7	46.5
May 2014	67	11	71	18	-7	46.5

Prices*

The ISM® Prices Index registered 58 percent in August, which is a decrease of 1.5 percentage points compared to the July reading of 59.5 percent. In August, 24 percent of respondents reported paying higher prices, 8 percent reported paying lower prices, and 68 percent of supply executives reported paying the same prices as in July. 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, nine reported paying increased prices during the month of August in the following order: Plastics & Rubber Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliances & Components; Chemical Products; Food, Beverage & Tobacco Products; Transportation Equipment; Miscellaneous Manufacturing; and Furniture & Related Products. The four industries reporting paying lower prices during the month of August are: Wood Products; Textile Mills; Petroleum & Coal Products; and Computer & Electronic Products.

Prices	% Higher	% Same	% Lower	Net	Index
Aug 2014	24	68	8	+16	58.0
Jul 2014	26	67	7	+19	59.5
Jun 2014	23	70	7	+16	58.0
May 2014	31	58	11	+20	60.0

Backlog of Orders*

ISM®'s Backlog of Orders Index registered 52.5 percent in August, which is 3 percentage points higher than the 49.5 percent reported in July, indicating growth in order backlogs following two months of contraction. Of the 87 percent of respondents who reported their backlog of orders, 25 percent reported greater backlogs, 20 percent reported smaller backlogs, and 55 percent reported no change from July.

The 11 industries reporting increased order backlogs in August — listed in order — are: Printing & Related Support Activities; Plastics & Rubber Products; Nonmetallic Mineral Products; Paper Products; Petroleum & Coal Products; Furniture & Related Products; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Food, Beverage & Tobacco Products; and Computer & Electronic Products. The six industries reporting a decrease in order backlogs during August — listed in order — are: Wood Products; Textile Mills; Miscellaneous Manufacturing; Machinery; Primary Metals; and Chemical Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Aug 2014	87	25	55	20	+5	52.5
Jul 2014	86	21	57	22	-1	49.5
Jun 2014	83	18	60	22	-4	48.0
May 2014	85	21	63	16	+5	52.5

New Export Orders*

ISM®'s New Export Orders Index registered 55 percent in August, which is 2 percentage points higher than the 53 percent reported in July. August's reading reflects growth in the level of exports for the 21st consecutive month.

The 11 industries reporting growth in new export orders in August — listed in order — are: Printing & Related Support Activities; Apparel, Leather & Allied Products; Petroleum & Coal Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Fabricated Metal Products; Transportation Equipment; Miscellaneous Manufacturing; Chemical Products; Food, Beverage & Tobacco Products; and Paper Products. The four industries reporting a decrease in new export orders during August are: Wood Products; Primary Metals; Computer & Electronic Products; and Machinery.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Aug 2014	76	18	74	8	+10	55.0
Jul 2014	77	14	78	8	+6	53.0
Jun 2014	74	16	77	7	+9	54.5
May 2014	75	21	71	8	+13	56.5

Imports*

ISM®'s Imports Index registered 56 percent in August, which is 4 percentage points higher than the 52 percent reported in July. This month's reading represents 19 consecutive months of growth in imports.

The 12 industries reporting growth in imports during the month of August — listed in order — are: Primary Metals; Apparel, Leather & Allied Products; Plastics & Rubber Products; Petroleum & Coal Products; Computer & Electronic Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Chemical Products; Transportation Equipment; Machinery; and Fabricated Metal Products. The only industry reporting a decrease in imports during August is Paper Products.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Aug 2014	76	18	76	6	+12	56.0
Jul 2014	79	14	76	10	+4	52.0
Jun 2014	77	19	76	5	+14	57.0
May 2014	78	19	71	10	+9	54.5

* 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 6 days to 119 days. Average lead time for Production Materials increased 2 days to 62 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased 1 day to 29 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2014	27	7	12	18	21	15	119
Jul 2014	27	5	11	18	23	16	125
Jun 2014	28	7	11	15	26	13	117
May 2014	25	7	13	17	20	18	127
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2014	13	41	23	13	7	3	62
Jul 2014	15	38	22	16	7	2	60
Jun 2014	13	39	22	17	7	2	61
May 2014	16	37	22	16	7	2	59
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2014	42	38	13	6	1	0	29
Jul 2014	41	38	14	7	0	0	28
Jun 2014	45	38	12	5	0	0	25
May 2014	46	36	13	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 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 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 on the first business day of every month after 10:10 a.m. (ET).

The next **Manufacturing ISM® Report On Business®** featuring the September 2014 data will be released at 10:00 a.m. (ET) on Wednesday, October 1, 2014.