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

PMI[®] at 55.5%

DO NOT CONFUSE THIS NATIONAL REPORT with the various regional purchasing reports released across the country. The national report's information reflects the entire United States, while the regional reports contain primarily regional data from their local vicinities. Also, the information in the regional reports is not used in calculating the results of the national report. The information compiled in this report is for the month of December 2014.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in December for the 19th consecutive month, and the **overall economy** grew for the 67th 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 December PMI[®] registered 55.5 percent, a decrease of 3.2 percentage points from November's reading of 58.7 percent. The New Orders Index registered 57.3 percent, a decrease of 8.7 percentage points from the reading of 66 percent in November. The Production Index registered 58.8 percent, 5.6 percentage points below the November reading of 64.4 percent. The Employment Index registered 56.8 percent, an increase of 1.9 percentage points above the November reading of 54.9 percent. Inventories of raw materials registered 45.5 percent, a decrease of 6 percentage points from the November reading of 51.5 percent. The Prices Index registered 38.5 percent, down 6 percentage points from the November reading of 44.5 percent, indicating lower raw materials prices in December relative to November. Comments from the panel are mixed, with

some indicating that falling oil prices have an upside while others indicate a downside. Other comments mention the negative impact on imported materials shipment due to the West Coast dock slowdown."

Of the 18 manufacturing industries, 11 are reporting growth in December in the following order: Printing & Related Support Activities; Fabricated Metal Products; Primary Metals; Furniture & Related Products; Food, Beverage & Tobacco Products; Petroleum & Coal Products; Textile Mills; Paper Products; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; and Transportation Equipment. The six industries reporting contraction in December — listed in order — are: Plastics & Rubber Products; Wood Products; Machinery; Nonmetallic Mineral Products; Chemical Products; and Computer & Electronic Products.

WHAT RESPONDENTS ARE SAYING ...

- "Retail sales this holiday season are shaping up to be much improved over last year." (Food, Beverage & Tobacco Products)
- "West Coast port issues have greatly impacted our incoming materials. We are air freighting many parts from Japan and Asia to support production while parts sit at the dock." (Fabricated Metal Products)
- "Class 8 trucks and RV business is very strong." (Transportation Equipment)
- "Most commodities feeling downward price pressure from crude. Rain in California driving demand for repair products through the roof." (Petroleum & Coal Products)
- "Business has not slowed as of yet, but outlook is that business should start slowing, energy market related." (Computer & Electronic Products)
- "Collapse of oil prices is supporting negotiations for significantly lower petrochemical related material prices. Sales are slowing down as buyers reduce inventory in anticipation of lower prices." (Chemical Products)
- "West Coast ports are creating delays for imported goods." (Textile Mills)
- "Energy prices falling are a blessing and a curse for us. We will experience downside as projects are canceled by energy companies, but suspect manufacturing in the US will improve driving upside in that space." (Apparel, Leather & Allied Products)
- "The West Coast ports slow-down is really affecting deliveries of our Asian purchases." (Machinery)
- "Currently in slow season until new year." (Primary Metals)

DECEMBER 2014						
Index	Series Index Dec	Series Index Nov	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	55.5	58.7	-3.2	Growing	Slower	19
New Orders	57.3	66.0	-8.7	Growing	Slower	19
Production	58.8	64.4	-5.6	Growing	Slower	10
Employment	56.8	54.9	+1.9	Growing	Faster	18
Supplier Deliveries	59.3	56.8	+2.5	Slowing	Faster	19
Inventories	45.5	51.5	-6.0	Contracting	From Growing	1
Customers' Inventories	44.5	50.0	-5.5	Too Low	From About Right	1
Prices	38.5	44.5	-6.0	Decreasing	Faster	2
Backlog of Orders	52.5	55.0	-2.5	Growing	Slower	3
Exports	52.0	55.0	-3.0	Growing	Slower	25
Imports	55.0	56.0	-1.0	Growing	Slower	23
OVERALL ECONOMY				Growing	Slower	67
Manufacturing Sector				Growing	Slower	19

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* (11); Electric Components; Natural Gas; and Stainless Steel* (10).

Commodities Down in Price

Aluminum*; Brass; Cardboard; Copper (5); Crude Oil (2); Diesel (3); Gasoline (3); HDPE Resin; Oil; Oil Based Products (2); PET Resin (2); Plastic Resin; Polypropylene Resin; Scrap Steel; Stainless Steel* (2); Steel; and Steel — Hot Rolled (2).

Commodities in Short Supply

No commodities were reported in short supply.

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

*Reported as both up and down in price.

DECEMBER 2014 MANUFACTURING INDEX SUMMARIES

PMI[®]

Manufacturing expanded in December as the PMI[®] registered 55.5 percent, a decrease of 3.2 percentage points when compared to November's reading of 58.7 percent, indicating growth in manufacturing for the 19th consecutive month. 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 December PMI[®] indicates growth for the 67th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 19th consecutive month. Holcomb stated, "The past relationship between the PMI[®] and the overall economy indicates that the average PMI[®] for January through December (55.8 percent) corresponds to a 4.2 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI[®] for December (55.5 percent) is annualized, it corresponds to a 4.1 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI[®]</i>	<i>Month</i>	<i>PMI[®]</i>
Dec 2014	55.5	Jun 2014	55.3
Nov 2014	58.7	May 2014	55.4
Oct 2014	59.0	Apr 2014	54.9
Sep 2014	56.6	Mar 2014	53.7
Aug 2014	59.0	Feb 2014	53.2
Jul 2014	57.1	Jan 2014	51.3
Average for 12 months – 55.8 High – 59.0 Low – 51.3			

New Orders

ISM[®]'s New Orders Index registered 57.3 percent in December, a decrease of 8.7 percentage points when compared to the 66 percent reported in November, indicating growth in new orders for the 19th 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 nine industries reporting growth in new orders in December — listed in order — are: Primary Metals; Textile Mills; Apparel, Leather & Allied Products; Fabricated Metal Products; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Furniture & Related Products; and Paper Products. The six industries reporting a decrease in new orders during December — listed in order — are: Wood Products; Plastics & Rubber Products; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Machinery; and Chemical Products.

New Orders	% Better	% Same	% Worse	Net	Index
Dec 2014	25	57	18	+7	57.3
Nov 2014	38	47	15	+23	66.0
Oct 2014	34	52	14	+20	65.8
Sep 2014	30	55	15	+15	60.0

Production

ISM®'s Production Index registered 58.8 percent in December, which is a decrease of 5.6 percentage points when compared to the 64.4 percent reported in November, indicating growth in production for the 10th 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 seven industries reporting growth in production during the month of December — listed in order — are: Printing & Related Support Activities; Fabricated Metal Products; Food, Beverage & Tobacco Products; Paper Products; Furniture & Related Products; Computer & Electronic Products; and Miscellaneous Manufacturing. The seven industries reporting a decrease in production during December — listed in order — are: Wood Products; Plastics & Rubber Products; Textile Mills; Petroleum & Coal Products; Machinery; Transportation Equipment; and Electrical Equipment, Appliances & Components.

Production	% Better	% Same	% Worse	Net	Index
Dec 2014	24	59	17	+7	58.8
Nov 2014	34	55	11	+23	64.4
Oct 2014	34	53	13	+21	64.8
Sep 2014	32	57	11	+21	64.6

Employment

ISM®'s Employment Index registered 56.8 percent in December, which is an increase of 1.9 percentage points when compared to the 54.9 percent reported in November. This is the 18th 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, in December 11 reported employment growth in the following order: Printing & Related Support Activities; Petroleum & Coal Products; Primary Metals; Chemical Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Paper Products; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; and Transportation Equipment. The two industries reporting a decrease in employment in December are: Computer & Electronic Products; and Plastics & Rubber Products.

Employment	% Higher	% Same	% Lower	Net	Index
Dec 2014	19	70	11	+8	56.8
Nov 2014	21	63	16	+5	54.9
Oct 2014	19	69	12	+7	55.5
Sep 2014	21	64	15	+6	54.6

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations slowed in December at a faster rate as the Supplier Deliveries Index registered 59.3 percent. This month's reading is 2.5 percentage points higher than the 56.8 percent reported in November, and is the highest reading since March 2011 when the Supplier Deliveries Index registered 59.9 percent. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The 10 industries reporting slower supplier deliveries in December — listed in order — are: Textile Mills; Primary Metals; Fabricated Metal Products; Plastics & Rubber Products; Machinery; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Transportation Equipment; Computer & Electronic Products; and Chemical Products. The two industries reporting faster supplier deliveries during December are: Petroleum & Coal Products; and Paper Products. Six industries reported no change in supplier deliveries in December compared to November.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Dec 2014	17	80	3	+14	59.3
Nov 2014	14	80	6	+8	56.8
Oct 2014	15	79	6	+9	56.2
Sep 2014	12	81	7	+5	52.2

Inventories*

The Inventories Index registered 45.5 percent in December, which is 6 percentage points lower than the 51.5 percent registered in November, indicating raw materials inventories are contracting following four consecutive months of growth in inventories. 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 December — listed in order — are: Wood Products; Electrical Equipment, Appliances & Components; Paper Products; Primary Metals; Fabricated Metal Products; and Furniture & Related Products. The eight industries reporting lower inventories in December — listed in order — are: Plastics & Rubber Products; Apparel, Leather & Allied Products; Chemical Products; Machinery; Nonmetallic Mineral Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Transportation Equipment.

Inventories	% Higher	% Same	% Lower	Net	Index
Dec 2014	17	57	26	-9	45.5
Nov 2014	21	61	18	+3	51.5
Oct 2014	21	63	16	+5	52.5
Sep 2014	18	67	15	+3	51.5

Customers' Inventories*

ISM[®]'s Customers' Inventories Index registered 44.5 percent in December, a decrease of 5.5 percentage points from November when customers' inventories registered 50 percent. December's reading indicates that customers' inventories are considered to be too low.

The four manufacturing industries reporting customers' inventories as being too high during the month of December are: Primary Metals; Electrical Equipment, Appliances & Components; Computer & Electronic Products; and Chemical Products. The seven industries reporting customers' inventories as too low during December — listed in order — are: Machinery; Plastics & Rubber Products; Paper Products; Fabricated Metal Products; Furniture & Related Products; Transportation Equipment; and Food, Beverage & Tobacco Products. Six industries reported no change in customers' inventories in December compared to November.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Dec 2014	62	10	69	21	-11	44.5
Nov 2014	61	13	74	13	0	50.0
Oct 2014	59	10	76	14	-4	48.0
Sep 2014	59	9	71	20	-11	44.5

Prices*

The ISM® Prices Index registered 38.5 percent in December, which is a decrease of 6 percentage points compared to the November reading of 44.5 percent. In December, 12 percent of respondents reported paying higher prices, 35 percent reported paying lower prices, and 53 percent of supply executives reported paying the same prices as in November. This is the second consecutive month that raw materials prices have registered a decrease, with the Prices Index decreasing a total of 15 percentage points over these two months. A Prices Index above 49.7 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Producer Price Index for Intermediate Materials.

Of the 18 manufacturing industries, the two that reported paying increased prices during the month of December are: Nonmetallic Mineral Products; and Furniture & Related Products. The 13 industries reporting paying lower prices during the month of December — listed in order — are: Chemical Products; Primary Metals; Plastics & Rubber Products; Apparel, Leather & Allied Products; Textile Mills; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Transportation Equipment; Machinery; Paper Products; and Computer & Electronic Products.

Prices	% Higher	% Same	% Lower	Net	Index
Dec 2014	12	53	35	-23	38.5
Nov 2014	14	61	25	-11	44.5
Oct 2014	21	65	14	+7	53.5
Sep 2014	28	63	9	+19	59.5

Backlog of Orders*

ISM®'s Backlog of Orders Index registered 52.5 percent in December, which is 2.5 percentage points lower than the 55 percent reported in November, indicating growth in order backlogs for the third consecutive month. 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 November.

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

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Dec 2014	87	25	55	20	+5	52.5
Nov 2014	87	27	56	17	+10	55.0
Oct 2014	88	24	58	18	+6	53.0
Sep 2014	85	18	58	24	-6	47.0

New Export Orders*

ISM®'s New Export Orders Index registered 52 percent in December, which is 3 percentage points lower than the 55 percent reported in November. December's reading reflects growth in the level of exports for the 25th consecutive month.

The six industries reporting growth in new export orders in December — listed in order — are: Fabricated Metal Products; Furniture & Related Products; Food, Beverage & Tobacco Products; Petroleum & Coal Products; Transportation Equipment; and Machinery. The six industries reporting a decrease in new export orders during December — listed in order — are: Wood Products; Nonmetallic Mineral Products; Plastics & Rubber Products; Paper Products; Chemical Products; and Computer & Electronic Products. Six industries reported no change in new export orders in December compared to November.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Dec 2014	76	14	76	10	+4	52.0
Nov 2014	75	15	80	5	+10	55.0
Oct 2014	76	14	75	11	+3	51.5
Sep 2014	76	14	79	7	+7	53.5

Imports*

ISM®'s Imports Index registered 55 percent in December, which is 1 percentage point lower than the 56 percent reported in November. This month's reading represents 23 consecutive months of growth in imports.

The nine industries reporting growth in imports during the month of December — listed in order — are: Petroleum & Coal Products; Transportation Equipment; Nonmetallic Mineral Products; Furniture & Related Products; Machinery; Fabricated Metal Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Chemical Products. The two industries reporting a decrease in imports during December are: Plastics & Rubber Products; and Miscellaneous Manufacturing. Six industries reported no change in imports in December compared to November.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Dec 2014	78	18	74	8	+10	55.0
Nov 2014	78	16	80	4	+12	56.0
Oct 2014	77	16	77	7	+9	54.5
Sep 2014	79	15	76	9	+6	53.0

* 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 increased 3 days to 126 days. Average lead time for Production Materials increased 5 days to 63 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies remained unchanged at 27 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2014	26	6	11	17	24	16	126
Nov 2014	28	7	8	19	22	16	123
Oct 2014	29	6	11	18	21	15	118
Sep 2014	27	7	12	19	19	16	120
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2014	13	41	22	13	8	3	63
Nov 2014	18	36	23	14	7	2	58
Oct 2014	16	34	24	19	4	3	61
Sep 2014	16	37	21	16	7	3	62
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Dec 2014	47	33	14	5	1	0	27
Nov 2014	45	39	10	4	2	0	27
Oct 2014	45	39	9	6	1	0	27
Sep 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. The data 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 10:00 a.m. (ET).

The next **Manufacturing ISM[®] Report On Business[®]** featuring the January 2015 data will be released at 10:00 a.m. (ET) on Monday, February 2, 2015.