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## **August 2012 Manufacturing ISM Report On Business<sup>®</sup>**

**PMI at 49.6%**

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 2012.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** contracted in August for the third time since July 2009; however, the **overall economy** grew for the 39th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM Report On Business<sup>®</sup>**.

The report was issued today by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management<sup>™</sup> Manufacturing Business Survey Committee. "The PMI<sup>™</sup> registered 49.6 percent, a decrease of 0.2 percentage point from July's reading of 49.8 percent, indicating contraction in the manufacturing sector for the third consecutive month. This is also the lowest reading for the PMI<sup>™</sup> since July 2009. The New Orders Index registered 47.1 percent, a decrease of 0.9 percentage point from July, indicating contraction in new orders for the third consecutive month. The Production Index registered 47.2 percent, a decrease of 4.1 percentage points and indicating contraction in production for the first time since May 2009. The Employment Index remained in growth territory at 51.6 percent, but registered its lowest reading since November 2009 when the Employment Index registered 51 percent. The Prices Index increased 14.5 percentage points from its July reading to 54 percent. Comments from the panel

generally reflect a slowdown in orders and demand, with continuing concern over the uncertain state of global economies."

## **PERFORMANCE BY INDUSTRY**

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

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

- "Internal indicators and feedback from sales channels are indicating a slowdown in demand for capital equipment." (Machinery)
- "Business continues to be very solid, but there is now a slowing of incoming orders." (Fabricated Metal Products)
- "Incoming orders have slowed somewhat, but indications are that there will be a stronger fourth quarter." (Plastics & Rubber Products)
- "Business is slow right now. Companies seem to be holding onto their money." (Computer & Electronic Products)
- "We can sense, feel and see headwinds with customer orders, especially Europe related." (Apparel, Leather & Allied Products)
- "New orders and backlog remain flat." (Miscellaneous Manufacturing)
- "Auto industry slowing a bit in the second half [of the year]." (Transportation Equipment)
- "U.S. drought severely impacting raw materials prices." (Food, Beverage & Tobacco Products)
- "Lackluster demand continues in all regions of the world, and is supporting much lower raw materials prices in the second half of 2012." (Chemical Products)

**MANUFACTURING AT A GLANCE  
AUGUST 2012**

<b>Index</b>	<b>Series Index Aug</b>	<b>Series Index Jul</b>	<b>Percentage Point Change</b>	<b>Direction</b>	<b>Rate of Change</b>	<b>Trend* (Months)</b>
<b>PMI™</b>	49.6	49.8	-0.2	Contracting	Faster	3
<b>New Orders</b>	47.1	48.0	-0.9	Contracting	Faster	3
<b>Production</b>	47.2	51.3	-4.1	Contracting	From Growing	1
<b>Employment</b>	51.6	52.0	-0.4	Growing	Slower	35
<b>Supplier Deliveries</b>	49.3	48.7	+0.6	Faster	Slower	7
<b>Inventories</b>	53.0	49.0	+4.0	Growing	From Contracting	1
<b>Customers' Inventories</b>	49.0	49.5	-0.5	Too Low	Faster	9
<b>Prices</b>	54.0	39.5	+14.5	Increasing	From Decreasing	1
<b>Backlog of Orders</b>	42.5	43.0	-0.5	Contracting	Faster	5
<b>Exports</b>	47.0	46.5	+0.5	Contracting	Slower	3
<b>Imports</b>	49.0	50.5	-1.5	Contracting	From Growing	1
<b>OVERALL ECONOMY</b>				Growing	Slower	39
<b>Manufacturing Sector</b>				Contracting	Faster	3

\*Number of months moving in current direction.

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

**Commodities Up in Price**

Caustic Soda; Corn (2); Corn Products; Corrugated Boxes; Freight Rates; Fuel; Lead Batteries; Natural Gas (4); Plastic Components; Steel — Carbon Sheet (3); and Steel — Hot Rolled (2).

**Commodities Down in Price**

Aluminum; Copper (3); Nickel; PET; Polypropylene Resin (3); Stainless Steel (2); Steel (6); and Steel — Cold Rolled (3).

## Commodities in Short Supply

No items are reported in short supply.

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

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## AUGUST 2012 MANUFACTURING INDEX SUMMARIES

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### PMI™

Manufacturing contracted in August as the PMI™ registered 49.6 percent, a decrease of 0.2 percentage point when compared to July's reading of 49.8 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 August PMI™ indicates growth for the 39th consecutive month in the overall economy, but indicates contraction in the manufacturing sector for the third 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 August (52.2 percent) corresponds to a 3.2 percent increase in real gross domestic product (GDP). In addition, if the PMI™ for August (49.6 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>
Aug 2012	49.6	Feb 2012	52.4
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
Average for 12 months – 52.2 High – 54.8 Low – 49.6			

## New Orders

ISM's New Orders Index registered 47.1 percent in August, which is a decrease of 0.9 percentage point when compared to the July reading of 48 percent. This represents a contraction in new orders for the third 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 four industries reporting growth in new orders in August are: Apparel, Leather & Allied Products; Printing & Related Support Activities; Primary Metals; and Food, Beverage & Tobacco Products. The 11 industries reporting a decrease in new orders during August — listed in order — are: Textile Mills; Furniture & Related Products; Fabricated Metal Products; Petroleum & Coal Products; Transportation Equipment; Machinery; Electrical Equipment, Appliances & Components; Paper Products; Miscellaneous Manufacturing; Computer & Electronic Products; and Chemical Products.

New Orders	% Better	% Same	% Worse	Net	Index
Aug 2012	21	50	29	-8	47.1
Jul 2012	20	51	29	-9	48.0
Jun 2012	24	53	23	+1	47.8
May 2012	37	49	14	+23	60.1

## Production

ISM's Production Index registered 47.2 percent in August, which is a decrease of 4.1 percentage points when compared to the 51.3 percent reported in July. This indicates contraction in production for the first time since May 2009 when the Production Index registered 43.9 percent. 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 August are: Printing & Related Support Activities; Primary Metals; Computer & Electronic Products; and Paper Products. The seven industries reporting a decrease in production in August — listed in order — are: Textile Mills; Furniture & Related Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Machinery; Fabricated Metal Products; and Apparel, Leather & Allied Products. Seven industries reported no change in production in August compared to July.

Production	% Better	% Same	% Worse	Net	Index
Aug 2012	19	57	24	-5	47.2
Jul 2012	19	58	23	-4	51.3
Jun 2012	24	60	16	+8	51.0
May 2012	34	51	15	+19	55.6

## Employment

ISM's Employment Index registered 51.6 percent in August, which is 0.4 percentage point lower than the 52 percent reported in July. This is the 35th 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 August in the following order: Printing & Related Support Activities; Primary Metals; Petroleum & Coal Products; Food, Beverage & Tobacco Products; Paper Products; Fabricated Metal Products; Machinery; Transportation Equipment; and Miscellaneous Manufacturing. The five industries reporting a decrease in employment in August are: Electrical Equipment, Appliances & Components; Nonmetallic Mineral Products; Furniture & Related Products; Computer & Electronic Products; and Chemical Products.

Employment	% Higher	% Same	% Lower	Net	Index
Aug 2012	19	65	16	+3	51.6
Jul 2012	20	65	15	+5	52.0
Jun 2012	29	57	14	+15	56.6
May 2012	30	59	11	+19	56.9

## Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was faster in August as the Supplier Deliveries Index registered 49.3 percent, which is 0.6 percentage point higher than the 48.7 percent reported in July. This is the seventh 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 six industries reporting slower supplier deliveries in August — listed in order — are: Electrical Equipment, Appliances & Components; Furniture & Related Products; Miscellaneous Manufacturing; Transportation Equipment;

Chemical Products; and Primary Metals. The five industries reporting faster supplier deliveries in August are: Nonmetallic Mineral Products; Plastics & Rubber Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Fabricated Metal Products. Seven industries reported no change in supplier deliveries in August compared to July.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Aug 2012	9	83	8	+1	49.3
Jul 2012	9	84	7	+2	48.7
Jun 2012	8	85	7	+1	48.9
May 2012	10	82	8	+2	48.7

### Inventories\*

The Inventories Index registered 53 percent in August, which is 4 percentage points higher than the 49 percent reported in July. This month's reading indicates that respondents are reporting inventories are growing for the first time since September 2011, when the Inventories Index registered 52 percent. 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 nine industries reporting higher inventories in August — listed in order — are: Primary Metals; Plastics & Rubber Products; Machinery; Chemical Products; Petroleum & Coal Products; Furniture & Related Products; Paper Products; Food, Beverage & Tobacco Products; and Transportation Equipment. The five industries reporting decreases in inventories in August are: Apparel, Leather & Allied Products; Textile Mills; Computer & Electronic Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

Inventories	% Higher	% Same	% Lower	Net	Index
Aug 2012	24	58	18	+6	53.0
Jul 2012	21	56	23	-2	49.0
Jun 2012	13	62	25	-12	44.0
May 2012	14	64	22	-8	46.0

## Customers' Inventories\*

The ISM Customers' Inventories Index registered 49 percent in August, which is 0.5 percentage point lower than in July when the index registered 49.5 percent. Customers' inventories have registered at or below 50 percent for 41 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 August — listed in order — are: Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Chemical Products; Fabricated Metal Products; and Primary Metals. The eight industries reporting customers' inventories as too low during August — listed in order — are: Plastics & Rubber Products; Wood Products; Furniture & Related Products; Transportation Equipment; Machinery; Miscellaneous Manufacturing; Computer & Electronic Products; and Apparel, Leather & Allied Products.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Aug 2012	70	16	66	18	-2	49.0
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

## Prices\*

The ISM Prices Index registered 54 percent in August, which is an increase of 14.5 percentage points compared to the July reading of 39.5 percent. This is the first month the index has reflected an increase in the price of raw materials since April 2012 when the Prices Index registered 61 percent. This is also the largest month-over-month increase since September 2005, when the index increased 15.5 percentage points from August 2005. In August, 23 percent of respondents reported paying higher prices, 15 percent reported paying lower prices, and 62 percent of supply executives reported paying the same prices as in July. 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, seven reported paying increased prices during the month of August in the following order: Nonmetallic Mineral Products; Printing & Related Support Activities; Food, Beverage & Tobacco Products; Furniture & Related Products; Chemical Products; Paper Products; and Primary Metals. The four industries reporting paying lower prices during August are: Petroleum & Coal Products; Miscellaneous Manufacturing; Machinery; and Computer & Electronic Products. Seven industries reported no change in prices paid in August compared to July.



Prices	% Higher	% Same	% Lower	Net	Index
Aug 2012	23	62	15	+8	54.0
Jul 2012	11	57	32	-21	39.5
Jun 2012	7	60	33	-26	37.0
May 2012	14	67	19	-5	47.5

### Backlog of Orders\*

ISM's Backlog of Orders Index registered 42.5 percent in August, which is 0.5 percentage point lower than the 43 percent reported in July. Of the 84 percent of respondents who reported their backlog of orders, 16 percent reported greater backlogs, 31 percent reported smaller backlogs, and 53 percent reported no change from July.

The three industries reporting increased order backlogs in August are: Apparel, Leather & Allied Products; Primary Metals; and Plastics & Rubber Products. The 10 industries reporting decreases in order backlogs during August — listed in order — are: Textile Mills; Petroleum & Coal Products; Machinery; Furniture & Related Products; Transportation Equipment; Miscellaneous Manufacturing; Fabricated Metal Products; Paper Products; Food, Beverage & Tobacco Products; and Chemical Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Aug 2012	84	16	53	31	-15	42.5
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

### New Export Orders\*

ISM's New Export Orders Index registered 47 percent in August, which is 0.5 percentage point higher than the 46.5 percent reported in July, and represents the third month of contraction in the index since June 2009, when the index registered 49.5 percent. Prior to this current three-month period of contraction, the New Export Orders Index had registered 50 percent or above for the past 35 consecutive months.

The five industries reporting growth in new export orders in August are: Fabricated Metal Products; Primary Metals; Electrical Equipment, Appliances & Components; Computer & Electronic Products; and Chemical Products. The eight industries reporting a decrease in new export orders during August — listed in order — are: Petroleum & Coal

Products; Furniture & Related Products; Miscellaneous Manufacturing; Transportation Equipment; Machinery; Paper Products; Food, Beverage & Tobacco Products; and Apparel, Leather & Allied Products.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Aug 2012	77	13	68	19	-6	47.0
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

### Imports\*

ISM's Imports Index registered 49 percent in August, which is 1.5 percentage points lower than the 50.5 percent reported in July. This month's reading reflects the first month of contraction in imports since November 2011 when the Imports Index also registered 49 percent.

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

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Aug 2012	77	13	72	15	-2	49.0
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

\* 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 15 days to 124 days. Average lead time for Production Materials increased 1 day to 55 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased 1 day to 27 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2012	23	7	13	19	23	15	124
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
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2012	16	37	26	15	4	2	55
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
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Aug 2012	46	38	11	3	2	0	27
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

## 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**<sup>®</sup> is based on data compiled from purchasing and supply executives nationwide. Membership of the Manufacturing Business Survey Committee is diversified by NAICS, based on each industry's contribution to gross domestic product (GDP). Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Food, Beverage & Tobacco Products; Textile Mills; Apparel, Leather & Allied Products; Wood Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries) and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive).

The resulting single index number for those meeting the criteria for seasonal adjustments (PMI<sup>™</sup>, New Orders, Production, Employment and Supplier Deliveries) is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements, and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. The PMI<sup>™</sup> is a composite index based on the diffusion indexes of five of the indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. A PMI<sup>™</sup> reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. A PMI<sup>™</sup> in

excess of 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**<sup>®</sup> 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**<sup>®</sup> 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**<sup>®</sup> is published monthly by the Institute for Supply Management<sup>™</sup>, 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**<sup>®</sup> is posted on ISM's website at [www.ism.ws](http://www.ism.ws) on the first business day of every month after 10:10 a.m. (ET).

The next **Manufacturing ISM Report On Business**<sup>®</sup> featuring the September 2012 data will be released at 10:00 a.m. (ET) on Monday, October 1, 2012.