

FOR RELEASE: February 5, 2014

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January 2014 Non-Manufacturing ISM Report On Business[®]

NMI[®] at 54%

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 January 2014.

This report reflects ISM's recently completed annual adjustment to the seasonal factors used to calculate the applicable indexes, as noted.

Business Activity Index at 56.3%

New Orders Index at 50.9%

Employment Index at 56.4%

(Tempe, Arizona) — Economic activity in the **non-manufacturing sector** grew in January for the 48th consecutive month, say the nation's purchasing and supply executives in the latest **Non-Manufacturing ISM Report On Business[®]**.

The report was issued today by Anthony Nieves, CPSM, C.P.M., CFPM, chair of the Institute for Supply Management[®] Non-Manufacturing Business Survey Committee. "The NMI[®] registered 54 percent in January, 1 percentage point higher than the seasonally adjusted reading of 53 percent registered in December. The Non-Manufacturing Business Activity Index increased to 56.3 percent, which is 2 percentage points higher than the seasonally adjusted reading of

54.3 percent reported in December, reflecting growth for the 54th consecutive month and at a faster rate. The New Orders Index increased to 50.9 percent, 0.5 percentage point higher than the seasonally adjusted reading of 50.4 registered in December. The Employment Index increased 0.8 percentage point to 56.4 percent from the December seasonally adjusted reading of 55.6 percent and indicates growth in employment for the 25th consecutive month and at a faster rate. The Prices Index increased 2.4 percentage points from the December seasonally adjusted reading of 54.7 percent to 57.1 percent, indicating prices increased at a faster rate in January when compared to December. According to the NMI[®], eleven non-manufacturing industries reported growth in January. The majority of respondents' comments reflect an improvement in business conditions. Some of the respondents indicate that weather conditions have impacted their business. There remains a bit of uncertainty about the overall economy for some of the survey respondents; however, the majority feel positive about continued economic growth."

INDUSTRY PERFORMANCE

The eleven non-manufacturing industries reporting growth in January — listed in order — are: Management of Companies & Support Services; Agriculture, Forestry, Fishing & Hunting; Other Services; Public Administration; Utilities; Professional, Scientific & Technical Services; Information; Wholesale Trade; Real Estate, Rental & Leasing; Retail Trade; and Finance & Insurance. The seven industries reporting contraction in January — listed in order — are: Mining; Arts, Entertainment & Recreation; Health Care & Social Assistance; Transportation & Warehousing; Educational Services; Accommodation & Food Services; and Construction.

WHAT RESPONDENTS ARE SAYING ...

- "Slight increase in business being seen currently." (Management of Companies & Support Services)
- "Business conditions continue to improve." (Information)
- "Activity picking up on new-year projects." (Finance & Insurance)
- "All phases of the business seem to be getting stronger and have good first half-year outlooks and booked business." (Professional, Scientific & Technical Services)
- "Sales has shown signs of improvement, but lack a sustained pattern to build confidence." (Retail Trade)
- "Casual dining remains challenging, tends to slow after the holidays." (Accommodation & Food Services)
- Intense weather in several areas of the country is perceived to have contributed to a slow start in what otherwise is historically a strong month." (Wholesale Trade)

**ISM NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM NON-MANUFACTURING AND ISM MANUFACTURING
SURVEYS*
JANUARY 2014**

| | Non-Manufacturing | | | | | | Manufacturing | | |
|-------------------------------------|-------------------|------------------|----------------------|-------------|------------------|------------------|------------------|------------------|----------------------|
| Index | Series Index Jan | Series Index Dec | Percent Point Change | Direction | Rate of Change | Trend** (Months) | Series Index Jan | Series Index Dec | Percent Point Change |
| NMI®/PMI® | 54.0 | 53.0 | +1.0 | Growing | Faster | 48 | 51.3 | 56.5 | -5.2 |
| Business Activity/Production | 56.3 | 54.3 | +2.0 | Growing | Faster | 54 | 54.8 | 61.7 | -6.9 |
| New Orders | 50.9 | 50.4 | +0.5 | Growing | Faster | 54 | 51.2 | 64.4 | -13.2 |
| Employment | 56.4 | 55.6 | +0.8 | Growing | Faster | 25 | 52.3 | 55.8 | -3.5 |
| Supplier Deliveries | 52.5 | 51.5 | +1.0 | Slowing | Faster | 3 | 54.3 | 53.7 | +0.6 |
| Inventories | 50.5 | 48.0 | +2.5 | Growing | From Contracting | 1 | 44.0 | 47.0 | -3.0 |
| Prices | 57.1 | 54.7 | +2.4 | Increasing | Faster | 52 | 60.5 | 53.5 | +7.0 |
| Backlog of Orders | 49.0 | 46.0 | +3.0 | Contracting | Slower | 3 | 48.0 | 51.5 | -3.5 |
| New Export Orders | 49.0 | 51.5 | -2.5 | Contracting | From Growing | 1 | 54.5 | 55.0 | -0.5 |
| Imports | 48.0 | 50.5 | -2.5 | Contracting | From Growing | 1 | 53.5 | 55.0 | -1.5 |
| Inventory Sentiment | 63.0 | 57.5 | +5.5 | Too High | Faster | 200 | N/A | N/A | N/A |
| Customers' Inventories | N/A | N/A | N/A | N/A | N/A | N/A | 44.0 | 47.5 | -3.5 |

* **Non-Manufacturing ISM Report On Business®** data is seasonally adjusted for Business Activity, New Orders, Prices and Employment. **Manufacturing ISM Report On Business®** data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries.

** Number of months moving in current direction.

Indexes reflect newly released seasonal adjustment factors.

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

Commodities Up in Price

Aircraft Parts; Beef Items (2); Chemical Products; Copper; Copper Products; Dairy (2); #1 Diesel Fuel; #2 Diesel Fuel (2); Gasoline* (2); Lumber — Pine, Plywood, Treated and Spruce; Produce; Propane; and Shrimp (2).

Commodities Down in Price

Chicken (2); Gasoline* (5); and Labor.

Commodities in Short Supply

Helium; IT Consultants/Labor; Medical IV Solutions; and Shrimp (2).

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

*Reported as both up and down in price.

JANUARY 2014 NON-MANUFACTURING INDEX SUMMARIES

NMI®

In January, the NMI® registered 54 percent, indicating continued growth in the non-manufacturing sector for the 48th consecutive month. A reading above 50 percent indicates the non-manufacturing sector economy is generally expanding; below 50 percent indicates the non-manufacturing sector is generally contracting.

| NMI® HISTORY | | | |
|---|-------------|--------------|-------------|
| <i>Month</i> | <i>NMI®</i> | <i>Month</i> | <i>NMI®</i> |
| Jan 2014 | 54.0 | Jul 2013 | 55.9 |
| Dec 2013 | 53.0 | Jun 2013 | 53.4 |
| Nov 2013 | 54.1 | May 2013 | 54.0 |
| Oct 2013 | 55.1 | Apr 2013 | 53.8 |
| Sep 2013 | 54.5 | Mar 2013 | 54.5 |
| Aug 2013 | 57.9 | Feb 2013 | 54.8 |
| Average for 12 months – 54.6 High – 57.9 Low – 53.0 | | | |

Business Activity

ISM's Business Activity Index in January registered 56.3 percent, 2 percentage points higher than the seasonally adjusted reading of 54.3 percent registered in December. Ten industries reported increased business activity, and six industries reported decreased activity for the month of January. Comments from respondents include: "New pricing strategies have resulted in gaining more customers" and "Stronger and more orders."

The industries reporting growth of business activity in January — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Management of Companies & Support Services; Information; Public Administration; Finance & Insurance; Professional, Scientific & Technical Services; Other Services; Utilities; Wholesale Trade; and Construction. The industries reporting decreased business activity in January — listed in order — are: Mining; Arts, Entertainment &

Recreation; Educational Services; Accommodation & Food Services; Health Care & Social Assistance; and Transportation & Warehousing.

| Business Activity | % Higher | % Same | % Lower | Index |
|--------------------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 27 | 52 | 21 | 56.3 |
| Dec 2013 | 28 | 52 | 20 | 54.3 |
| Nov 2013 | 26 | 55 | 19 | 55.3 |
| Oct 2013 | 32 | 50 | 18 | 58.9 |

New Orders

ISM's Non-Manufacturing New Orders Index grew in January for the 54th consecutive month. The index registered 50.9 percent, an increase of 0.5 percentage point from the seasonally adjusted reading of 50.4 percent reported in December. Comments from respondents include: "New prospects and new orders" and "New product placements."

The eight industries reporting growth of new orders in January — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Management of Companies & Support Services; Public Administration; Information; Other Services; Utilities; Transportation & Warehousing; and Finance & Insurance. The seven industries reporting contraction of new orders in January — listed in order — are: Mining; Health Care & Social Assistance; Retail Trade; Construction; Wholesale Trade; Professional, Scientific & Technical Services; and Real Estate, Rental & Leasing.

| New Orders | % Higher | % Same | % Lower | Index |
|-------------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 22 | 55 | 23 | 50.9 |
| Dec 2013 | 22 | 53 | 25 | 50.4 |
| Nov 2013 | 29 | 54 | 17 | 55.7 |
| Oct 2013 | 27 | 54 | 19 | 56.4 |

Employment

Employment activity in the non-manufacturing sector grew in January for the 25th consecutive month. ISM's Non-Manufacturing Employment Index registered 56.4 percent, which reflects an increase of 0.8 percentage point when compared to the seasonally adjusted reading of 55.6 percent registered in December. Six industries reported increased employment, and nine industries reported decreased employment. Comments from respondents include: "Adding staff to handle additional orders" and "Available funding to expand."

The six industries reporting an increase in employment in January — listed in order — are: Management of Companies & Support Services; Other Services; Retail Trade; Wholesale Trade; Professional, Scientific & Technical Services; and Public Administration. The nine industries reporting a reduction in employment in January — listed in order — are: Mining; Information; Arts, Entertainment & Recreation; Transportation & Warehousing; Utilities; Health Care & Social Assistance; Accommodation & Food Services; Finance & Insurance; and Construction.

| Employment | % Higher | % Same | % Lower | Index |
|-------------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 18 | 70 | 12 | 56.4 |
| Dec 2013 | 23 | 63 | 14 | 55.6 |
| Nov 2013 | 16 | 68 | 16 | 54.5 |
| Oct 2013 | 22 | 60 | 18 | 56.0 |

Supplier Deliveries

The Supplier Deliveries Index registered 52.5 percent in January, indicating that deliveries were slower after the December seasonally adjusted reading of 51.5 percent. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries.

The 11 industries reporting slower deliveries in January — listed in order — are: Utilities; Real Estate, Rental & Leasing; Arts, Entertainment & Recreation; Information; Other Services; Health Care & Social Assistance; Retail Trade; Accommodation & Food Services; Wholesale Trade; Professional, Scientific & Technical Services; and Public Administration. The three industries reporting faster deliveries in January are: Mining; Transportation & Warehousing; and Finance & Insurance.

| Supplier Deliveries | % Slower | % Same | % Faster | Index |
|----------------------------|-----------------|---------------|-----------------|--------------|
| Jan 2014 | 11 | 83 | 6 | 52.5 |
| Dec 2013 | 8 | 87 | 5 | 51.5 |
| Nov 2013 | 5 | 92 | 3 | 51.0 |
| Oct 2013 | 4 | 90 | 6 | 49.0 |

Inventories

ISM's Non-Manufacturing Inventories Index grew after contracting in December. The index registered 50.5 percent, which is 2.5 percentage points higher than the 48 percent reported in December. Of the total respondents in

January, 31 percent indicated they do not have inventories or do not measure them. Comments from respondents include: "Ramping up from year-end lows" and "Increased customer demand."

The eight industries reporting an increase in inventories in January — listed in order — are: Mining; Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; Wholesale Trade; Accommodation & Food Services; Finance & Insurance; Professional, Scientific & Technical Services; and Public Administration. The six industries reporting decreases in inventories in January — listed in order — are: Other Services; Arts, Entertainment & Recreation; Information; Utilities; Health Care & Social Assistance; and Retail Trade.

| Inventories | % Higher | % Same | % Lower | Index |
|--------------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 18 | 65 | 17 | 50.5 |
| Dec 2013 | 15 | 66 | 19 | 48.0 |
| Nov 2013 | 25 | 58 | 17 | 54.0 |
| Oct 2013 | 24 | 61 | 15 | 54.5 |

Prices

Prices paid by non-manufacturing organizations for purchased materials and services increased in January for the 52nd consecutive month. ISM's Non-Manufacturing Prices Index for January registered 57.1 percent, 2.4 percentage points higher than the seasonally adjusted 54.7 percent reported in December. In January, the percentage of respondents reporting higher prices is 21 percent, the percentage indicating no change in prices paid is 76 percent, and 3 percent of the respondents reported lower prices.

Fifteen non-manufacturing industries reported an increase in prices paid during the month of January, in the following order: Educational Services; Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; Wholesale Trade; Real Estate, Rental & Leasing; Utilities; Accommodation & Food Services; Professional, Scientific & Technical Services; Construction; Transportation & Warehousing; Other Services; Public Administration; Retail Trade; Finance & Insurance; and Health Care & Social Assistance. The two industries reporting a decrease in prices paid during January are: Management of Companies & Support Services; and Information.

| Prices | % Higher | % Same | % Lower | Index |
|----------|----------|--------|---------|-------|
| Jan 2014 | 21 | 76 | 3 | 57.1 |
| Dec 2013 | 14 | 76 | 10 | 54.7 |
| Nov 2013 | 11 | 77 | 12 | 52.7 |
| Oct 2013 | 16 | 77 | 7 | 56.2 |

Backlog of Orders

ISM's Non-Manufacturing Backlog of Orders Index contracted in January for the third consecutive month, registering 49 percent, which is 3 percentage points higher than the 46 percent reported in December. Of the total respondents in January, 37 percent indicated they do not measure backlog of orders.

The five industries reporting an increase in order backlogs in January are: Utilities; Retail Trade; Construction; Finance & Insurance; and Health Care & Social Assistance. The six industries reporting a decrease in order backlogs — listed in order — are: Mining; Other Services; Real Estate, Rental & Leasing; Transportation & Warehousing; Wholesale Trade; and Public Administration. Seven industries reported no change in order backlogs in January compared to December.

| Backlog of Orders | % Higher | % Same | % Lower | Index |
|-------------------|----------|--------|---------|-------|
| Jan 2014 | 13 | 72 | 15 | 49.0 |
| Dec 2013 | 10 | 72 | 18 | 46.0 |
| Nov 2013 | 11 | 76 | 13 | 49.0 |
| Oct 2013 | 12 | 76 | 12 | 50.0 |

New Export Orders

Orders and requests for services and other non-manufacturing activities to be provided outside of the United States by domestically based personnel contracted in January after five consecutive months of growth. The New Export Orders Index for January registered 49 percent, which is 2.5 percentage points lower than the 51.5 percent reported in December. Of the total respondents in January, 65 percent indicated they either do not perform, or do not separately measure, orders for work outside of the United States.

The three industries reporting an increase in new export orders in January are: Construction; Information; and Finance & Insurance. The three industries reporting a decrease in export orders in January are: Utilities; Wholesale Trade; and Accommodation & Food Services. Ten industries reported no change in export orders in January compared to December.

| New Export Orders | % Higher | % Same | % Lower | Index |
|--------------------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 15 | 68 | 17 | 49.0 |
| Dec 2013 | 13 | 77 | 10 | 51.5 |
| Nov 2013 | 19 | 78 | 3 | 58.0 |
| Oct 2013 | 11 | 84 | 5 | 53.0 |

Imports

The ISM Non-Manufacturing Imports Index contracted in January after seven consecutive months of growth. This month's reading at 48 percent is 2.5 percentage points lower than the 50.5 percent that was reported in December. Fifty-five percent of respondents reported that they do not use, or do not track the use of, imported materials.

The three industries reporting an increase in imports for the month of January are: Agriculture, Forestry, Fishing & Hunting; Other Services; and Information. The five industries reporting a decrease in imports for the month of January are: Mining; Arts, Entertainment & Recreation; Accommodation & Food Services; Retail Trade; and Wholesale Trade. Ten industries reported no change in imports for the month of January compared to December.

| Imports | % Higher | % Same | % Lower | Index |
|----------------|-----------------|---------------|----------------|--------------|
| Jan 2014 | 9 | 78 | 13 | 48.0 |
| Dec 2013 | 8 | 85 | 7 | 50.5 |
| Nov 2013 | 16 | 78 | 6 | 55.0 |
| Oct 2013 | 12 | 86 | 2 | 55.0 |

Inventory Sentiment

The ISM Non-Manufacturing Inventory Sentiment Index in January registered 63 percent, which is 5.5 percentage points higher than the 57.5 percent reported in December. This indicates that respondents believe their inventories are still too high at this time. In January, 31 percent of respondents said their inventories were too high, 5 percent said their inventories were too low, and 64 percent said their inventories were about right.

The 10 industries reporting a feeling that their inventories are too high in January — listed in order — are: Mining; Finance & Insurance; Public Administration; Professional, Scientific & Technical Services; Wholesale Trade; Utilities; Arts, Entertainment & Recreation; Accommodation & Food Services; Health Care & Social Assistance; and Information. The two industries reporting feeling that their inventories are too low in January are: Construction; and Retail Trade.

| Inventory Sentiment | %Too High | %About Right | %Too Low | Index |
|----------------------------|------------------|---------------------|-----------------|--------------|
| Jan 2014 | 31 | 64 | 5 | 63.0 |
| Dec 2013 | 21 | 73 | 6 | 57.5 |
| Nov 2013 | 25 | 71 | 4 | 60.5 |
| Oct 2013 | 28 | 69 | 3 | 62.5 |

About This Report

The data presented herein is obtained from a survey of non-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 **Non-Manufacturing ISM Report On Business[®]** is based on data compiled from purchasing and supply executives nationwide. Membership of the Non-Manufacturing Business Survey Committee is diversified by NAICS, based on each industry's contribution to gross domestic product (GDP). The Non-Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Agriculture, Forestry, Fishing & Hunting; Mining; Utilities; Construction; Wholesale Trade; Retail Trade; Transportation & Warehousing; Information; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; Management of Companies & Support Services; Educational Services; Health Care & Social Assistance; Arts, Entertainment & Recreation; Accommodation & Food Services; Public Administration; and Other Services (services such as Equipment & Machinery Repairing; Promoting or Administering Religious Activities; Grantmaking; Advocacy; and Providing Dry-Cleaning & Laundry Services, Personal Care Services, Death Care Services, Pet Care Services, Photofinishing Services, Temporary Parking Services, and Dating Services).

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (Business Activity, New Orders, Backlog of Orders, New Export Orders, Inventory Change, Inventory Sentiment, Imports, Prices, Employment and Supplier Deliveries), this report shows the percentage

reporting each response, and the diffusion index. Responses represent raw data and are never changed. Data is seasonally adjusted for Business Activity, New Orders, Prices and Employment. All seasonal adjustment factors are subject annually to relatively minor changes when conditions warrant them. The remaining indexes have not indicated significant seasonality.

The NMI[®] (Non-Manufacturing Index) is a composite index based on the diffusion indexes for four of the indicators with equal weights: Business Activity (seasonally adjusted), New Orders (seasonally adjusted), Employment (seasonally adjusted) and Supplier Deliveries. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50 percent indicates that the non-manufacturing economy in that index is generally expanding; below 50 percent indicates that it is generally declining. Supplier Deliveries is an exception. A Supplier Deliveries Index above 50 percent indicates slower deliveries and below 50 percent indicates faster deliveries.

The **Non-Manufacturing ISM Report On Business[®]** survey is sent out to Non-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 third business day of the following month.

The industries reporting growth, as indicated in the **Non-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.

The **Non-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.

The full text version of the **Non-Manufacturing ISM Report On Business[®]** is posted on ISM's website at www.ism.ws on the third business day of every month after 10:10 a.m. (ET).

The next **Non-Manufacturing ISM Report On Business[®]** featuring the February 2014 data will be released at 10:00 a.m. (ET) on Wednesday, March 5, 2014.