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February 2014 Non-Manufacturing ISM *Report On Business*[®]

NMI[®] at 51.6%

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 February 2014.

Business Activity Index at 54.6%

New Orders Index at 51.3%

Employment Index at 47.5%

(Tempe, Arizona) — Economic activity in the **non-manufacturing sector** grew in February for the 49th 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[®] (ISM[®]) Non-Manufacturing Business Survey Committee. "The NMI[®] registered 51.6 percent in February, 2.4 percentage points lower than January's reading of 54 percent. The Non-Manufacturing Business Activity Index decreased to 54.6 percent, which is 1.7 percentage points lower than the reading of 56.3 percent reported in January, reflecting growth for the 55th consecutive month and at a slower rate. The New Orders Index registered 51.3 percent, 0.4 percentage point higher than the reading of 50.9 percent registered in January. The Employment Index decreased 8.9 percentage points to 47.5 percent from the January reading of 56.4 percent and indicates contraction in employment for the first time after 25 consecutive months of growth. The Prices Index decreased 3.4 percentage points from the January reading of 57.1 percent to 53.7 percent, indicating prices increased at a slower rate in February when compared to January. According to the NMI[®], ten non-manufacturing industries reported

growth in February. The majority of respondents' comments indicate a slowing in the rate of growth month over month of business activity. Some of the respondents attribute this to weather conditions. Overall respondents' comments reflect cautiousness regarding business conditions and the economy."

INDUSTRY PERFORMANCE

The 10 non-manufacturing industries reporting growth in February — listed in order — are: Other Services; Management of Companies & Support Services; Public Administration; Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Utilities; Transportation & Warehousing; Educational Services; Professional, Scientific & Technical Services; and Information. The eight industries reporting contraction in February — listed in order — are: Mining; Arts, Entertainment & Recreation; Real Estate, Rental & Leasing; Retail Trade; Accommodation & Food Services; Wholesale Trade; Construction; and Health Care & Social Assistance.

WHAT RESPONDENTS ARE SAYING ...

- "Steady — trending slightly lower." (Finance & Insurance)
- "Economy still plugging along, but at a very slow rate of growth." (Professional, Scientific & Technical Services)
- "The Affordable Care Act is creating significant financial uncertainty to healthcare organizations. With little warning, the negative impact on revenue has been unprecedented." (Health Care & Social Assistance)
- "Passage of the federal budget and subsequent funding appropriations are allowing government agencies to start spending funds on planned new projects." (Public Administration)
- "Oil prices continue creeping upwards along with chemicals." (Utilities)
- "Cold winter weather has had a major affect on us when compared to year-over-year." (Wholesale Trade)
- "Winter weather is slowing down our projects; it should only be until April." (Construction)

**ISM[®] NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM[®] NON-MANUFACTURING AND ISM[®] MANUFACTURING
SURVEYS*
FEBRUARY 2014**

	Non-Manufacturing						Manufacturing		
Index	Series Index Feb	Series Index Jan	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Feb	Series Index Jan	Percent Point Change
NMI[®]/PMI[®]	51.6	54.0	-2.4	Growing	Slower	49	53.2	51.3	+1.9
Business Activity/Production	54.6	56.3	-1.7	Growing	Slower	55	48.2	54.8	-6.6
New Orders	51.3	50.9	+0.4	Growing	Faster	55	54.5	51.2	+3.3
Employment	47.5	56.4	-8.9	Contracting	From Growing	1	52.3	52.3	0.0
Supplier Deliveries	53.0	52.5	+0.5	Slowing	Faster	4	58.5	54.3	+4.2
Inventories	50.5	50.5	0.0	Growing	Same	2	52.5	44.0	+8.5
Prices	53.7	57.1	-3.4	Increasing	Slower	53	60.0	60.5	-0.5
Backlog of Orders	52.0	49.0	+3.0	Growing	From Contracting	1	52.0	48.0	+4.0
New Export Orders	47.5	49.0	-1.5	Contracting	Faster	2	53.5	54.5	-1.0
Imports	47.0	48.0	-1.0	Contracting	Faster	2	53.5	53.5	0.0
Inventory Sentiment	62.0	63.0	-1.0	Too High	Slower	201	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	46.5	44.0	+2.5

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

** Number of months moving in current direction.

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

Commodities Up in Price

Beef Items (3); Cheese; Coffee; Copier Paper; Dairy (3); #1 Diesel Fuel (2); #2 Diesel Fuel (3); #2 Heating Fuel; Gasoline (3); Janitorial Supplies; Laptop Computers; Lumber — Pine, Spruce and Treated (2); Medical IV Solutions; Natural Gas; Pharmaceuticals; Plastic Film; Plastic Products; Propane (2); and Shrimp (3).

Commodities Down in Price

Chicken (3); Fuel Services; Soybean Oil; and Steel Pipe.

Commodities in Short Supply

Helium (2); IT Consultants/Labor (2); Medical IV Solutions (2); RAM; Road Salt; and Salt.

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

FEBRUARY 2014 NON-MANUFACTURING INDEX SUMMARIES

NMI[®]

In February, the NMI[®] registered 51.6 percent, a decrease of 2.4 percentage points when compared to January's reading of 54 percent indicating continued growth in the non-manufacturing sector for the 49th consecutive month. This month's reading reflects the lowest NMI[®] since February 2010 when the index registered 50.8 percent. 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			
Month	NMI[®]	Month	NMI[®]
Feb 2014	51.6	Aug 2013	57.9
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
Average for 12 months – 54.3 High – 57.9 Low – 51.6			

Business Activity

ISM[®]'s Business Activity Index in February registered 54.6 percent, 1.7 percentage points lower than the reading of 56.3 percent registered in January. Eleven industries reported increased business activity, and seven industries reported decreased activity for the month of February. Comments from respondents include: "New sales initiatives" and "Increased client orders."

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

Business Activity	% Higher	% Same	% Lower	Index
Feb 2014	30	51	19	54.6
Jan 2014	27	52	21	56.3
Dec 2013	28	52	20	54.3
Nov 2013	26	55	19	55.3

New Orders

ISM®'s Non-Manufacturing New Orders Index grew in February for the 55th consecutive month. The index registered 51.3 percent, an increase of 0.4 percentage point from the January reading of 50.9 percent. Comments from respondents include: "Large orders being held until after the first quarter" and "Pick-up in sales."

The 10 industries reporting growth of new orders in February — listed in order — are: Educational Services; Other Services; Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; Management of Companies & Support Services; Public Administration; Finance & Insurance; Utilities; Information; and Professional, Scientific & Technical Services. The seven industries reporting contraction of new orders in February — listed in order — are: Mining; Arts, Entertainment & Recreation; Retail Trade; Real Estate, Rental & Leasing; Wholesale Trade; Accommodation & Food Services; and Health Care & Social Assistance.

New Orders	% Higher	% Same	% Lower	Index
Feb 2014	26	56	18	51.3
Jan 2014	22	55	23	50.9
Dec 2013	22	53	25	50.4
Nov 2013	29	54	17	55.7

Employment

Employment activity in the non-manufacturing sector contracted in February after 25 consecutive months of growth. ISM®'s Non-Manufacturing Employment Index registered 47.5 percent, which reflects a decrease of 8.9 percentage points when compared to the reading of 56.4 percent registered in January. Seven industries reported increased employment, and eight industries reported decreased employment. Comments from respondents include: "Labor reduction to reduce expenses" and "Attrition without backfill."

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

Employment	% Higher	% Same	% Lower	Index
Feb 2014	16	65	19	47.5
Jan 2014	18	70	12	56.4
Dec 2013	23	63	14	55.6
Nov 2013	16	68	16	54.5

Supplier Deliveries

The Supplier Deliveries Index registered 53 percent in February, indicating that deliveries were slower after the January reading of 52.5 percent. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries.

The six industries reporting slower deliveries in February — listed in order — are: Other Services; Health Care & Social Assistance; Professional, Scientific & Technical Services; Public Administration; Wholesale Trade; and Information. The five industries reporting faster deliveries in February are: Educational Services; Transportation & Warehousing; Construction; Finance & Insurance; and Agriculture, Forestry, Fishing & Hunting. Seven industries reported no change in supplier deliveries in February compared to January.

Supplier Deliveries	% Slower	% Same	% Faster	Index
Feb 2014	11	84	5	53.0
Jan 2014	11	83	6	52.5
Dec 2013	8	87	5	51.5
Nov 2013	5	92	3	51.0

Inventories

ISM®'s Non-Manufacturing Inventories Index indicated growth in inventories for the second consecutive month. The index registered 50.5 percent, which is the same percentage that was reported in January. Of the total respondents in February, 28 percent indicated they do not have inventories or do not measure them. Comments from respondents include: "Continue to reduce inventories" and "Planned reductions."

The eight industries reporting an increase in inventories in February — listed in order — are: Utilities; Management of Companies & Support Services; Finance & Insurance; Retail Trade; Wholesale Trade; Accommodation & Food Services; Professional, Scientific & Technical Services; and Public Administration. The five industries reporting decreases in inventories in February are: Other Services; Arts, Entertainment & Recreation; Real Estate, Rental & Leasing; Information; and Health Care & Social Assistance.

Inventories	% Higher	% Same	% Lower	Index
Feb 2014	15	71	14	50.5
Jan 2014	18	65	17	50.5
Dec 2013	15	66	19	48.0
Nov 2013	25	58	17	54.0

Prices

Prices paid by non-manufacturing organizations for purchased materials and services increased in February for the 53rd consecutive month. ISM®'s Non-Manufacturing Prices Index for February registered 53.7 percent, 3.4 percentage points lower than the 57.1 percent reported in January. In February, the percentage of respondents reporting higher prices is 23 percent, the percentage indicating no change in prices paid is 71 percent, and six percent of the respondents reported lower prices.

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

Prices	% Higher	% Same	% Lower	Index
Feb 2014	23	71	6	53.7
Jan 2014	21	76	3	57.1
Dec 2013	14	76	10	54.7
Nov 2013	11	77	12	52.7

Backlog of Orders

ISM®'s Non-Manufacturing Backlog of Orders Index grew in February after three consecutive months of contraction. The index registered 52 percent, which is 3 percentage points higher than the 49 percent reported in January. Of the total respondents in February, 42 percent indicated they do not measure backlog of orders.

The seven industries reporting an increase in order backlogs in February — listed in order — are: Other Services; Real Estate, Rental & Leasing; Finance & Insurance; Management of Companies & Support Services; Construction; Accommodation & Food Services; and Public Administration. The three industries reporting a decrease in order backlogs are: Wholesale Trade; Information; and Health Care & Social Assistance. Seven industries reported no change in order backlogs in February compared to January.

Backlog of Orders	% Higher	% Same	% Lower	Index
Feb 2014	15	74	11	52.0
Jan 2014	13	72	15	49.0
Dec 2013	10	72	18	46.0
Nov 2013	11	76	13	49.0

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 February for the second consecutive month. The New Export Orders Index for February registered 47.5 percent, which is 1.5 percentage points lower than the 49 percent reported in January. Of the total respondents in February, 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 February are: Transportation & Warehousing; Finance & Insurance; and Professional, Scientific & Technical Services. The seven industries reporting a decrease in export orders in February — listed in order — are: Arts, Entertainment & Recreation; Construction; Other Services; Health Care & Social Assistance; Wholesale Trade; Retail Trade; and Accommodation & Food Services. Six industries reported no change in export orders in February compared to January.

New Export Orders	% Higher	% Same	% Lower	Index
Feb 2014	9	77	14	47.5
Jan 2014	15	68	17	49.0
Dec 2013	13	77	10	51.5
Nov 2013	19	78	3	58.0

Imports

The ISM[®] Non-Manufacturing Imports Index contracted in February for the second consecutive month after seven consecutive months of growth. This month's reading at 47 percent is 1 percentage point lower than the 48 percent that was reported in January. Sixty 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 February are: Other Services; Agriculture, Forestry, Fishing & Hunting; and Professional, Scientific & Technical Services. The four industries reporting a decrease in imports for the month of February are: Accommodation & Food Services; Utilities; Wholesale Trade; and Retail Trade. Ten industries reported no change in imports for the month of February compared to January.

Imports	% Higher	% Same	% Lower	Index
Feb 2014	7	80	13	47.0
Jan 2014	9	78	13	48.0
Dec 2013	8	85	7	50.5
Nov 2013	16	78	6	55.0

Inventory Sentiment

The ISM[®] Non-Manufacturing Inventory Sentiment Index in February registered 62 percent, which is 1 percentage point lower than the 63 percent reported in January. This indicates that respondents believe their inventories are still too high at this time. In February, 28 percent of respondents said their inventories were too high, 4 percent said their inventories were too low, and 68 percent said their inventories were about right.

The nine industries reporting a feeling that their inventories are too high in February — listed in order — are: Mining; Finance & Insurance; Retail Trade; Wholesale Trade; Utilities; Health Care & Social Assistance; Information; Accommodation & Food Services; and Public Administration. No industry reported a feeling that their inventories are too low. Eight industries reported no change in inventory sentiment for the month of February compared to January.

Inventory Sentiment	%Too High	%About Right	%Too Low	Index
Feb 2014	28	68	4	62.0
Jan 2014	31	64	5	63.0
Dec 2013	21	73	6	57.5
Nov 2013	25	71	4	60.5

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 March 2014 data will be released at 10:00 a.m. (ET) on Thursday, April 3, 2014.