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

PMI[®] at 56.6%

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 September 2014.

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in September for the 16th consecutive month, and the **overall economy** grew for the 64th 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 September PMI[®] registered 56.6 percent, a decrease of 2.4 percentage points from August's reading of 59 percent, indicating continued expansion in manufacturing. The New Orders Index registered 60 percent, a decrease of 6.7 percentage points from the 66.7 percent reading in August, indicating growth in new orders for the 16th consecutive month. The Production Index registered 64.6 percent, 0.1 percentage point above the August reading of 64.5 percent. The Employment Index grew for the 15th consecutive month, registering 54.6 percent, a decrease of 3.5 percentage points below the August reading of 58.1 percent.

Inventories of raw materials registered 51.5 percent, a decrease of 0.5 percentage point from the August reading of 52 percent, indicating growth in inventories for the second consecutive month. Comments from the panel reflect a generally positive business outlook, while noting some labor shortages and continuing concern over geopolitical unrest."

Of the 18 manufacturing industries, 15 are reporting growth in September in the following order: Wood Products; Primary Metals; Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Furniture & Related Products; Fabricated Metal Products; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Printing & Related Support Activities; Computer & Electronic Products; Paper Products; Chemical Products; Transportation Equipment; Petroleum & Coal Products; and Textile Mills. The three industries reporting contraction in September are: Machinery; Plastics & Rubber Products; and Electrical Equipment, Appliances & Components.

WHAT RESPONDENTS ARE SAYING ...

- "Business seems to be picking-up as fuel prices drop. More disposable income at the C store level where many of our products are sold." (Food, Beverage & Tobacco Products)
- "Warehouse and multi-family construction seems to be continuing strong." (Fabricated Metal Products)
- "World political unrest is creating additional defense requirements." (Transportation Equipment)
- "We are seeing shipments up, year-over-year, in the 8 to10 percent range for last couple of months. This is good." (Apparel, Leather & Allied Products)
- "Seen an increase in sales due to government fiscal year-end." (Computer & Electronic Products)
- "Demand is pretty good overall. Freight continues to be a major issue." (Chemical Products)
- "Things are a bit slower than the first half." (Printing & Related Support Activities)
- "Outlook is very good. Demand seems to be growing." (Paper Products)
- "Our search continues for good machinists and electrical engineers." (Machinery)
- "Overall, orders are at the strongest point this year." (Miscellaneous Manufacturing)

MANUFACTURING AT A GLANCE SEPTEMBER 2014						
Index	Series Index Sep	Series Index Aug	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	56.6	59.0	-2.4	Growing	Slower	16
New Orders	60.0	66.7	-6.7	Growing	Slower	16
Production	64.6	64.5	+0.1	Growing	Faster	7
Employment	54.6	58.1	-3.5	Growing	Slower	15
Supplier Deliveries	52.2	53.9	-1.7	Slowing	Slower	16
Inventories	51.5	52.0	-0.5	Growing	Slower	2
Customers' Inventories	44.5	49.0	-4.5	Too Low	Faster	34
Prices	59.5	58.0	+1.5	Increasing	Faster	14
Backlog of Orders	47.0	52.5	-5.5	Contracting	From Growing	1
Exports	53.5	55.0	-1.5	Growing	Slower	22
Imports	53.0	56.0	-3.0	Growing	Slower	20
OVERALL ECONOMY				Growing	Slower	64
Manufacturing Sector				Growing	Slower	16

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 (8); Aluminum Products (2); Butter; Electronic Components (2); LLDPE; Plastic Components; Plate Steel; Polypropylene (3); and Stainless Steel (7).

Commodities Down in Price

Copper (2); Corn (3); and Lumber.

Commodities in Short Supply

Labor; and Stainless Steel (2).

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

SEPTEMBER 2014 MANUFACTURING INDEX SUMMARIES

PMI®

Manufacturing expanded in September as the PMI® registered 56.6 percent, a decrease of 2.4 percentage points when compared to August's reading of 59 percent. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

A PMI® in excess of 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the September PMI® indicates growth for the 64th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 16th consecutive month. Holcomb stated, "The past relationship between the PMI® and the overall economy indicates that the average PMI® for January through September (55.2 percent) corresponds to a 4.0 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI® for September (56.6 percent) is annualized, it corresponds to a 4.4 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI®</i>	<i>Month</i>	<i>PMI®</i>
Sep 2014	56.6	Mar 2014	53.7
Aug 2014	59.0	Feb 2014	53.2
Jul 2014	57.1	Jan 2014	51.3
Jun 2014	55.3	Dec 2013	56.5
May 2014	55.4	Nov 2013	57.0
Apr 2014	54.9	Oct 2013	56.6
Average for 12 months – 55.6 High – 59.0 Low – 51.3			

New Orders

ISM®'s New Orders Index registered 60 percent in September, a decrease of 6.7 percentage points when compared to the 66.7 percent reported in August, indicating growth in new orders for the 16th 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 12 industries reporting growth in new orders in September — listed in order — are: Primary Metals; Apparel, Leather & Allied Products; Miscellaneous Manufacturing; Textile Mills; Wood Products; Furniture & Related Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Paper Products; Transportation Equipment; Chemical Products; and Computer & Electronic Products. The two industries reporting a decrease in new orders during September are: Plastics & Rubber Products; and Machinery.

New Orders	% Better	% Same	% Worse	Net	Index
Sep 2014	30	55	15	+15	60.0
Aug 2014	38	48	14	+24	66.7
Jul 2014	29	57	14	+15	63.4
Jun 2014	30	55	15	+15	58.9

Production

ISM®'s Production Index registered 64.6 percent in September, which is a slight increase of 0.1 percentage point when compared to the 64.5 percent reported in August, indicating growth in production for the seventh consecutive month. This is the highest reading since May 2010 when the Production Index also registered 64.6 percent. An index above 51.1 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

The 15 industries reporting growth in production during the month of September — listed in order — are: Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Textile Mills; Wood Products; Printing & Related Support Activities; Primary Metals; Computer & Electronic Products; Furniture & Related Products; Paper Products; Food, Beverage & Tobacco Products; Fabricated Metal Products; Plastics & Rubber Products; Transportation Equipment; Miscellaneous Manufacturing; and Chemical Products. The only industry reporting a decrease in production during September is Machinery.

Production	% Better	% Same	% Worse	Net	Index
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Sep 2014	32	57	11	+21	64.6
Aug 2014	35	53	12	+23	64.5
Jul 2014	31	54	15	+16	61.2
Jun 2014	32	55	13	+19	60.0

Employment

ISM®'s Employment Index registered 54.6 percent in September, which is a decrease of 3.5 percentage points when compared to 58.1 percent reported in August. This is the 15th 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, 11 reported growth in employment in September in the following order: Apparel, Leather & Allied Products; Primary Metals; Wood Products; Printing & Related Support Activities; Petroleum & Coal Products; Furniture & Related Products; Computer & Electronic Products; Chemical Products; Machinery; Fabricated Metal Products; and Electrical Equipment, Appliances & Components. The five industries reporting a decrease in employment in September are: Plastics & Rubber Products; Paper Products; Food, Beverage & Tobacco Products; Transportation Equipment; and Textile Mills.

Employment	% Higher	% Same	% Lower	Net	Index
Sep 2014	21	64	15	+6	54.6
Aug 2014	25	63	12	+13	58.1
Jul 2014	23	68	9	+14	58.2
Jun 2014	23	63	14	+9	52.8

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations slowed in September at a slower rate relative to August as the Supplier Deliveries Index registered 52.2 percent. This month's reading is 1.7 percentage points lower than the 53.9 percent reported in August. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The 11 industries reporting slower supplier deliveries in September — listed in order — are: Wood Products; Furniture & Related Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Paper Products; Fabricated Metal Products; Chemical Products; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products;

Transportation Equipment; and Primary Metals. The four industries reporting faster supplier deliveries during September are: Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; and Textile Mills.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Sep 2014	12	81	7	+5	52.2
Aug 2014	13	82	5	+8	53.9
Jul 2014	16	79	5	+11	54.1
Jun 2014	11	83	6	+5	51.9

Inventories*

The Inventories Index registered 51.5 percent in September, which is 0.5 percentage point lower than the 52 percent registered in August, which indicates raw materials inventories are growing for the second consecutive month. 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 seven industries reporting higher inventories in September — listed in order — are: Nonmetallic Mineral Products; Wood Products; Paper Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Chemical Products; and Fabricated Metal Products. The seven industries reporting lower inventories in September — listed in order — are: Apparel, Leather & Allied Products; Textile Mills; Machinery; Plastics & Rubber Products; Furniture & Related Products; Miscellaneous Manufacturing; and Electrical Equipment, Appliances & Components.

Inventories	% Higher	% Same	% Lower	Net	Index
Sep 2014	18	67	15	+3	51.5
Aug 2014	19	66	15	+4	52.0
Jul 2014	17	63	20	-3	48.5
Jun 2014	22	62	16	+6	53.0

Customers' Inventories*

ISM®'s Customers' Inventories Index registered 44.5 percent in September, a decrease of 4.5 percentage points from August when customer inventories registered 49 percent. This indicates that customers' inventories are considered too low, and lower than in August. Customers' inventories have been too low for 34 consecutive months, as a reading below 50 percent indicates customers' inventories are considered too low.

The two manufacturing industries reporting customers' inventories as being too high during the month of September are: Electrical Equipment, Appliances & Components; and Paper Products. The 10 industries reporting customers' inventories as too low during September — listed in order — are: Plastics & Rubber Products; Apparel, Leather & Allied Products; Machinery; Primary Metals; Furniture & Related Products; Miscellaneous Manufacturing; Transportation Equipment; Chemical Products; Fabricated Metal Products; and Food, Beverage & Tobacco Products. Six industries reported no change in customer inventories in September compared to August.

Customers' Inventories	% Reporting	%Too High	%About Right	%Too Low	Net	Index
Sep 2014	59	9	71	20	-11	44.5
Aug 2014	63	13	72	15	-2	49.0
Jul 2014	64	11	65	24	-13	43.5
Jun 2014	65	9	75	16	-7	46.5

Prices*

The ISM® Prices Index registered 59.5 percent in September, which is an increase of 1.5 percentage points compared to the August reading of 58 percent. In September, 28 percent of respondents reported paying higher prices, 9 percent reported paying lower prices, and 63 percent of supply executives reported paying the same prices as in August. A Prices Index above 49.7 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Index of Manufacturers Prices.

Of the 18 manufacturing industries, 13 reported paying increased prices during the month of September in the following order: Primary Metals; Plastics & Rubber Products; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Textile Mills; Printing & Related Support Activities; Machinery; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Furniture & Related Products; Chemical Products; Computer & Electronic Products; and Transportation Equipment. The three industries reporting paying lower prices during the month of September are: Apparel, Leather & Allied Products; Wood Products; and Petroleum & Coal Products.

	%	%	%		
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Prices	Higher	Same	Lower	Net	Index
Sep 2014	28	63	9	+19	59.5
Aug 2014	24	68	8	+16	58.0
Jul 2014	26	67	7	+19	59.5
Jun 2014	23	70	7	+16	58.0

Backlog of Orders*

ISM®'s Backlog of Orders Index registered 47 percent in September, which is 5.5 percentage points lower than the 52.5 percent reported in August, indicating contraction in order backlogs following one month of growth. Of the 85 percent of respondents who reported their backlog of orders, 18 percent reported greater backlogs, 24 percent reported smaller backlogs, and 58 percent reported no change from August.

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

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Sep 2014	85	18	58	24	-6	47.0
Aug 2014	87	25	55	20	+5	52.5
Jul 2014	86	21	57	22	-1	49.5
Jun 2014	83	18	60	22	-4	48.0

New Export Orders*

ISM®'s New Export Orders Index registered 53.5 percent in September, which is 1.5 percentage points lower than the 55 percent reported in August. September's reading reflects growth in the level of exports for the 22nd consecutive month.

The seven industries reporting growth in new export orders in September — listed in order — are: Wood Products; Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Chemical Products; and Transportation Equipment. The four industries

reporting a decrease in new export orders during September are: Nonmetallic Mineral Products; Computer & Electronic Products; Paper Products; and Machinery. Seven industries reported no change in new export orders in September compared to August.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Sep 2014	76	14	79	7	+7	53.5
Aug 2014	76	18	74	8	+10	55.0
Jul 2014	77	14	78	8	+6	53.0
Jun 2014	74	16	77	7	+9	54.5

Imports*

ISM®'s Imports Index registered 53 percent in September, which is 3 percentage points lower than the 56 percent reported in August. This month's reading represents 20 consecutive months of growth in imports.

The 10 industries reporting growth in imports during the month of September — listed in order — are: Textile Mills; Apparel, Leather & Allied Products; Printing & Related Support Activities; Plastics & Rubber Products; Miscellaneous Manufacturing; Furniture & Related Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Chemical Products; and Fabricated Metal Products. The four industries reporting a decrease in imports during September are: Primary Metals; Nonmetallic Mineral Products; Paper Products; and Machinery.

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Sep 2014	79	15	76	9	+6	53.0
Aug 2014	76	18	76	6	+12	56.0
Jul 2014	79	14	76	10	+4	52.0
Jun 2014	77	19	76	5	+14	57.0

* 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 1 day to 120 days. Average lead time for Production Materials remained unchanged at 62 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies decreased 3 days to 26 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2014	27	7	12	19	19	16	120
Aug 2014	27	7	12	18	21	15	119
Jul 2014	27	5	11	18	23	16	125
Jun 2014	28	7	11	15	26	13	117
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2014	16	37	21	16	7	3	62
Aug 2014	13	41	23	13	7	3	62
Jul 2014	15	38	22	16	7	2	60
Jun 2014	13	39	22	17	7	2	61
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2014	46	36	13	4	1	0	26
Aug 2014	42	38	13	6	1	0	29
Jul 2014	41	38	14	7	0	0	28
Jun 2014	45	38	12	5	0	0	25

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 10:10 a.m. (ET).

The next **Manufacturing ISM® Report On Business®** featuring the October 2014 data will be released at 10:00 a.m. (ET) on Monday, November 3, 2014.