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May 2016 Non-Manufacturing ISM[®] *Report On Business*[®]

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 May 2016.

NMI[®] at 52.9%

Business Activity Index at 55.1%

New Orders Index at 54.2%

Employment Index at 49.7%

(Tempe, Arizona) — Economic activity in the **non-manufacturing sector** grew in May for the 76th 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 52.9 percent in May, 2.8 percentage points lower than the April reading of 55.7 percent. This represents continued growth in the non-manufacturing sector at a slower rate. The Non-Manufacturing Business Activity Index decreased to 55.1 percent, 3.7 percentage points lower than the April reading of 58.8 percent, reflecting growth for the 82nd consecutive month, at a slower rate in May. The New Orders Index registered 54.2 percent, 5.7 percentage points lower than the reading of 59.9 percent in April. The Employment Index decreased 3.3 percentage points to 49.7 percent from the April reading of 53 percent and indicates contraction after two consecutive months of

growth. The Prices Index increased 2.2 percentage points from the April reading of 53.4 percent to 55.6 percent, indicating prices increased in May for the second consecutive month. According to the NMI®, 14 non-manufacturing industries reported growth in May. Respondents' comments are mixed and vary by industry and company. Overall, the report reflects a cooling-off and slowing in momentum from the previous months of growth for the non-manufacturing sector."

INDUSTRY PERFORMANCE

The 14 non-manufacturing industries reporting growth in May — listed in order — are: Health Care & Social Assistance; Accommodation & Food Services; Utilities; Wholesale Trade; Agriculture, Forestry, Fishing & Hunting; Construction; Public Administration; Real Estate, Rental & Leasing; Management of Companies & Support Services; Information; Finance & Insurance; Retail Trade; Transportation & Warehousing; and Arts, Entertainment & Recreation. The four industries reporting contraction in May are: Mining; Other Services; Educational Services; and Professional, Scientific & Technical Services.

WHAT RESPONDENTS ARE SAYING ...

- "Outlook remains strong, with steady pricing, strong demand, and new expansion in the pipeline." (Accommodation & Food Services)
- "Projects from the oil companies are becoming less and less. Budget problems for capital projects." (Construction)
- "There has been a general slowing-down from the momentum we saw last month." (Professional, Scientific & Technical Services)
- "Slower start to the second quarter." (Arts, Entertainment & Recreation)
- "Holding steady. No real increase, but expansion plans on for late Q3 or Q4 in preparation for 2017." (Finance & Insurance)
- "Continued growth in the sector." (Transportation & Warehousing)
- "Pending labor concerns to replace an aging workforce of highly-skilled staff support positions." (Educational Services)
- "High pressure on cost reduction due to declining top line sales." (Retail Trade)
- "Significant drop in shipments for the month. Estimate a decline of nine percent for the markets we serve. Overall retail traffic has slowed. Pricing has stabilized in the market." (Wholesale Trade)

ISM® NON-MANUFACTURING SURVEY RESULTS AT A GLANCE
COMPARISON OF ISM® NON-MANUFACTURING AND ISM® MANUFACTURING
SURVEYS*
MAY 2016

Index	Non-Manufacturing						Manufacturing		
	Series Index May	Series Index Apr	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index May	Series Index Apr	Percent Point Change
NMI®/PMI®	52.9	55.7	-2.8	Growing	Slower	76	51.3	50.8	+0.5
Business Activity/Production	55.1	58.8	-3.7	Growing	Slower	82	52.6	54.2	-1.6
New Orders	54.2	59.9	-5.7	Growing	Slower	82	55.7	55.8	-0.1
Employment	49.7	53.0	-3.3	Contracting	From Growing	1	49.2	49.2	0.0
Supplier Deliveries	52.5	51.0	+1.5	Slowing	Faster	5	54.1	49.1	+5.0
Inventories	54.0	54.0	0.0	Growing	Same	14	45.0	45.5	-0.5
Prices	55.6	53.4	+2.2	Increasing	Faster	2	63.5	59.0	+4.5
Backlog of Orders	50.0	51.5	-1.5	Unchanged	From Growing	1	47.0	50.5	-3.5
New Export Orders	49.0	56.5	-7.5	Contracting	From Growing	1	52.5	52.5	0.0
Imports	53.5	54.0	-0.5	Growing	Slower	4	50.0	50.0	0.0
Inventory Sentiment	60.0	61.0	-1.0	Too High	Slower	228	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	50.0	46.0	+4.0
Overall Economy				Growing	Slower	82			
Non-Manufacturing Sector				Growing	Slower	76			

* **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

Advertising; Airline Tickets; Bacon; Computer Components; #1 Diesel Fuel (2); Diesel (2); Fuel (2); Gasoline (3); Gypsum; Labor (13); Lumber Products (3); Paper (4); Produce (2); Resin-Based Products (2); and Salmon.

Commodities Down in Price

Beef (2); Copper Products; Dairy; Eggs (3); and Steel Products.

Commodities in Short Supply

Construction Labor (2); Fiber Optic Cable; Labor (8); Sterile Medical Fluids; Temporary Labor; Vanilla Beans; and Vanilla Products.

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

MAY 2016 NON-MANUFACTURING INDEX SUMMARIES

NMI®

In May, the NMI® registered 52.9 percent, a decrease of 2.8 percentage points when compared to April's reading of 55.7 percent, indicating continued growth in the non-manufacturing sector for the 76th 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.

An NMI® above 48.9 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the May NMI® indicates growth for the 82nd consecutive month in the overall economy, and indicates expansion in the non-manufacturing sector for the 76th consecutive month. Nieves stated, "The past relationship between the NMI® and the overall economy indicates that the NMI® for May (52.9 percent) corresponds to a 1.6 percent increase in real gross domestic product (GDP) on an annualized basis."

NMI® HISTORY			
<i>Month</i>	<i>NMI®</i>	<i>Month</i>	<i>NMI®</i>
May 2016	52.9	Nov 2015	56.6
Apr 2016	55.7	Oct 2015	58.3
Mar 2016	54.5	Sep 2015	56.7
Feb 2016	53.4	Aug 2015	58.3
Jan 2016	53.5	Jul 2015	59.6
Dec 2015	55.8	Jun 2015	56.2
Average for 12 months – 56.0			
High – 59.6			
Low – 52.9			

Business Activity

ISM®'s Business Activity Index in May registered 55.1 percent, a decrease of 3.7 percentage points from April's reading of 58.8 percent. This represents growth in business activity for the 82nd consecutive month. Eleven industries reported increased business activity and four industries reported decreased activity for the month of May. Comments from respondents include: "Slower retail sales" and "Increased capital improvement programs activity."

The 11 industries reporting growth of business activity in May — listed in order — are: Health Care & Social Assistance; Utilities; Finance & Insurance; Agriculture, Forestry, Fishing & Hunting; Real Estate, Rental & Leasing; Accommodation & Food Services; Public Administration; Retail Trade; Wholesale Trade; Transportation & Warehousing; and Information. The four industries reporting a decrease in business activity in May are: Mining; Other Services; Arts, Entertainment & Recreation; and Professional, Scientific & Technical Services.

	%	%	%	
Business Activity	Higher	Same	Lower	Index
May 2016	33	49	18	55.1
Apr 2016	37	52	11	58.8
Mar 2016	36	52	12	59.8
Feb 2016	31	51	18	57.8

New Orders

ISM®'s Non-Manufacturing New Orders Index registered 54.2 percent, a decrease of 5.7 percentage points from the April reading of 59.9 percent. May represents growth in new orders for the 82nd

consecutive month and at a much slower rate compared to April. Comments from respondents include: "Awarded projects from earlier in the year" and "Adding programs and expansion."

The 11 industries reporting growth of new orders in May — listed in order — are: Health Care & Social Assistance; Utilities; Wholesale Trade; Construction; Public Administration; Agriculture, Forestry, Fishing & Hunting; Accommodation & Food Services; Transportation & Warehousing; Finance & Insurance; Management of Companies & Support Services; and Retail Trade. The three industries reporting contraction of new orders in May are: Mining; Other Services; and Professional, Scientific & Technical Services.

	%	%	%	
New Orders	Higher	Same	Lower	Index
May 2016	31	52	17	54.2
Apr 2016	36	53	11	59.9
Mar 2016	31	55	14	56.7
Feb 2016	29	52	19	55.5

Employment

Employment activity in the non-manufacturing sector contracted in May after two consecutive months of growth. ISM®'s Non-Manufacturing Employment Index registered 49.7 percent, which reflects a decrease of 3.3 percentage points when compared to April's reading of 53 percent. Eleven industries reported increased employment, and six industries reported decreased employment. Comments from respondents include: "Company continues to ramp-down full time employees" and "Some people left and were not back-filled. Attrition."

The 11 industries reporting an increase in employment in May — listed in order — are: Construction; Health Care & Social Assistance; Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; Accommodation & Food Services; Wholesale Trade; Transportation & Warehousing; Management of Companies & Support Services; Public Administration; Information; and Retail Trade. The six industries reporting a reduction in employment in May — listed in order — are: Educational Services; Other Services; Mining; Utilities; Professional, Scientific & Technical Services; and Finance & Insurance.

	%	%	%	
Employment	Higher	Same	Lower	Index
May 2016	22	60	18	49.7
Apr 2016	25	62	13	53.0
Mar 2016	19	67	14	50.3
Feb 2016	19	63	18	49.7

Supplier Deliveries

Supplier deliveries were slower in May for the fifth consecutive month. The index registered 52.5 percent, which is 1.5 percentage points higher than the 51 percent that was registered in April. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. Comments from respondents include: "Trucking issues" and "Factory backlogs continue to build. Few suppliers adding capacity at this time."

The nine industries reporting slower deliveries in May — listed in order — are: Real Estate, Rental & Leasing; Arts, Entertainment & Recreation; Utilities; Information; Accommodation & Food Services; Wholesale Trade; Construction; Professional, Scientific & Technical Services; and Public Administration. The two industries reporting faster deliveries in May are: Transportation & Warehousing; and Finance & Insurance. Seven industries reported no change in supplier deliveries in May compared to April.

	%	%	%	
Supplier Deliveries	Slower	Same	Faster	Index
May 2016	8	89	3	52.5
Apr 2016	9	84	7	51.0
Mar 2016	6	90	4	51.0
Feb 2016	7	87	6	50.5

Inventories

ISM®'s Non-Manufacturing inventories grew for the 14th consecutive month and registered 54 percent in May, which is the same percent that was reported in April. Of the total respondents in May, 30 percent indicated they do not have inventories, or do not measure them. Comments from respondents include: "The increase in sales activity has lowered available stock" and "Sales are below expectations."

The eight industries reporting an increase in inventories in May — listed in order — are: Utilities; Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; Professional, Scientific & Technical Services; Public Administration; Accommodation & Food Services; Wholesale Trade; and Retail Trade. The four industries reporting decreases in inventories in May are: Educational Services; Other Services; Health Care & Social Assistance; and Information. Six industries reported no change in inventories in May compared to April.

	%	%	%	
Inventories	Higher	Same	Lower	Index
May 2016	23	62	15	54.0
Apr 2016	21	66	13	54.0
Mar 2016	21	63	16	52.5
Feb 2016	23	59	18	52.5

Prices

Prices paid by non-manufacturing organizations for purchased materials and services increased in May for the second consecutive month. ISM®'s Non-Manufacturing Prices Index for May registered 55.6 percent, 2.2 percentage points higher than the 53.4 percent reported in April. The proportion of respondents reporting higher prices is 24 percent, 69 percent indicated no change in prices paid, and 7 percent of the respondents reported lower prices.

The nine non-manufacturing industries reporting an increase in prices paid during the month of May — listed in order — are: Utilities; Wholesale Trade; Construction; Health Care & Social Assistance; Finance & Insurance; Professional, Scientific & Technical Services; Public Administration; Retail Trade; and Transportation & Warehousing. The four industries reporting a decrease in prices paid for the month of May are: Mining; Management of Companies & Support Services; Information; and Agriculture, Forestry, Fishing & Hunting.

	%	%	%	
Prices	Higher	Same	Lower	Index
May 2016	24	69	7	55.6
Apr 2016	19	74	7	53.4
Mar 2016	14	77	9	49.1
Feb 2016	10	73	17	45.5

NOTE: Commodities reported as up in price and down in price are listed in the commodities section of this report.

Backlog of Orders

ISM®'s Non-Manufacturing Backlog of Orders Index indicates order backlogs were unchanged in May. The index registered 50 percent, which is 1.5 percentage points lower than the 51.5 percent reported in April. Of the total respondents in May, 37 percent indicated they do not measure backlog of orders.

The five industries reporting an increase in order backlogs in May are: Utilities; Arts, Entertainment & Recreation; Information; Construction; and Public Administration. The seven industries reporting a decrease in order backlogs in May — listed in order — are: Mining; Other Services; Health Care & Social Assistance; Management of Companies & Support Services; Professional, Scientific & Technical Services; Wholesale Trade; and Retail Trade.

	%	%	%	
Backlog of Orders	Higher	Same	Lower	Index
May 2016	15	70	15	50.0
Apr 2016	18	67	15	51.5
Mar 2016	18	68	14	52.0
Feb 2016	18	68	14	52.0

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 May for the second time in the last five months. The New Export Orders Index for May registered 49 percent, which is 7.5 percentage points lower than the 56.5 percent reported in April. Of the total respondents in May, 69 percent indicated they either do not perform, or do not separately measure, orders for work outside of the United States.

The four industries reporting an increase in new export orders in May are: Health Care & Social Assistance; Construction; Information; and Retail Trade. The five industries reporting a decrease in new export orders in May are: Arts, Entertainment & Recreation; Finance & Insurance; Mining; Wholesale Trade; and Professional, Scientific & Technical Services. Seven industries reported no change in new export orders in May compared to April.

	%	%	%	
New Export Orders	Higher	Same	Lower	Index
May 2016	8	82	10	49.0
Apr 2016	16	81	3	56.5
Mar 2016	21	75	4	58.5
Feb 2016	19	69	12	53.5

Imports

Imports of raw materials grew in May for the fourth consecutive month. This month's reading at 53.5 percent is 0.5 percentage point lower than the reading of 54 percent reported in April. Fifty-eight percent of respondents reported that they do not use, or do not track the use of, imported materials.

The four industries reporting an increase in imports for the month of May are: Health Care & Social Assistance; Wholesale Trade; Accommodation & Food Services; and Construction. The only industry reporting a decrease in imports for the month of May is Public Administration. Twelve industries reported no change in imports in May compared to April.

	%	%	%	
Imports	Higher	Same	Lower	Index
May 2016	12	83	5	53.5
Apr 2016	14	80	6	54.0
Mar 2016	14	78	8	53.0
Feb 2016	16	79	5	55.5

Inventory Sentiment

The ISM® Non-Manufacturing Inventory Sentiment Index in May registered 60 percent, which is 1 percentage point lower than the 61 percent reported in April. This indicates that respondents believe their inventories are still too high at this time. In May, 26 percent of respondents said their inventories were too high, 6 percent said their inventories were too low, and 68 percent said their inventories were about right.

The eight industries reporting a feeling that their inventories are too high in May — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Mining; Wholesale Trade; Information; Retail Trade; Utilities; Professional, Scientific & Technical Services; and Public Administration. The only industry reporting the feeling that their inventory was too low for the month of May is Finance & Insurance. Eight industries reported no change in inventory sentiment in May compared to April.

	% Too	% About	% Too	
Inventory Sentiment	High	Right	Low	Index
May 2016	26	68	6	60.0
Apr 2016	25	72	3	61.0
Mar 2016	30	65	5	62.5
Feb 2016	28	68	4	62.0

About This Report

The data presented herein is obtained from a survey of non-manufacturing supply executives 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 **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 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.

An NMI® above 48.9 percent, over a period of time, indicates that the overall economy, or gross domestic product (GDP), is generally expanding; below 48.9 percent, it is generally declining. The distance from 50 percent or 48.9 percent is indicative of the strength of the expansion or decline.

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.

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Institute for Supply Management® (ISM®) serves supply management professionals in more than 90 countries. Its 48,000 members around the world manage about \$1 trillion in corporate and government supply chain procurement annually. Founded in 1915 as the first supply management institute in the world, ISM is committed to advancing the practice of supply management to drive value and competitive advantage for its members, contributing to a prosperous and sustainable world. ISM leads the profession through the ISM Report On Business®, its highly regarded certification programs and the newly launched ISM Mastery Model™. 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 **Non-Manufacturing ISM® Report On Business®** is posted on ISM®'s website at www.instituteforsupplymanagement.org on the third business day* of every month after 10:00 a.m. (ET).

The next **Non-Manufacturing ISM® Report On Business®** featuring the June 2016 data will be released at 10:00 a.m. (ET) on Wednesday, July 6, 2016.

*Unless the NYSE is closed.