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September 2016 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 September 2016.

PMI® at 51.5%

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in September following one month of contraction in August, and the **overall economy** grew for the 88th 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 51.5 percent, an increase of 2.1 percentage points from the August reading of 49.4 percent. The New Orders Index registered 55.1 percent, an increase of 6 percentage points from the August reading of 49.1 percent. The Production Index registered 52.8 percent, 3.2 percentage points higher than the August reading of 49.6 percent. The Employment Index registered 49.7 percent, an increase of 1.4 percentage points from the August reading of 48.3 percent. Inventories of raw materials registered 49.5 percent, an increase of 0.5 percentage point from the August reading of 49 percent. The Prices Index registered 53 percent in September, the same reading as in August, indicating higher raw

materials prices for the seventh consecutive month. Manufacturing expanded in September following one month of contraction in August, with nine of the 18 industries reporting an increase in new orders in September (up from six in August), and 10 of the 18 industries reporting an increase in production in September (up from eight in August)."

Of the 18 manufacturing industries, seven are reporting growth in September in the following order: Nonmetallic Mineral Products; Furniture & Related Products; Textile Mills; Food, Beverage & Tobacco Products; Computer & Electronic Products; Miscellaneous Manufacturing; and Paper Products. The 11 industries reporting contraction in September — listed in order — are: Printing & Related Support Activities; Petroleum & Coal Products; Wood Products; Apparel, Leather & Allied Products; Transportation Equipment; Machinery; Plastics & Rubber Products; Primary Metals; Fabricated Metal Products; Chemical Products; and Electrical Equipment, Appliances & Components.

WHAT RESPONDENTS ARE SAYING ...

- "Domestic and international sales moving up slightly." (Chemical Products)
- "Negotiating prices down on all metals." (Computer & Electronic Products)
- "Business is still strong, but we are seeing some pushouts from certain consumer market products." (Primary Metals)
- "Sales on the increase and positive outlook for the remainder of 2016." (Fabricated Metal Products)
- "Good growing conditions for this year's corn and soybean crop has the protein market anticipating large supplies and lower cost of goods for 2017." (Food, Beverage & Tobacco Products)
- "General business conditions are slowly improving with increased sales and sales leads." (Machinery)
- "Furniture sales are increasing." (Furniture & Related Products)
- "Some concern about fallout from the Hanjin Shipping bankruptcy. Spending time tracking containers — alternatives. Also, predicated on the impact to worldwide rates, there is some concern around both capacity and ocean rates in the near — to midterm future." (Transportation Equipment)
- "Demand increase after previous lackluster month. Some pre-buying activity underway by customers in advance of expected price increases." (Plastics & Rubber Products)
- "Oil prices have increased with respect to the first quarter but they remain at low levels affecting our revenue and purchasing power." (Petroleum & Coal Products)

MANUFACTURING AT A GLANCE						
September 2016						
Index	Series Index Sep	Series Index Aug	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	51.5	49.4	+2.1	Growing	From Contracting	1
New Orders	55.1	49.1	+6.0	Growing	From Contracting	1
Production	52.8	49.6	+3.2	Growing	From Contracting	1
Employment	49.7	48.3	+1.4	Contracting	Slower	3
Supplier Deliveries	50.3	50.9	-0.6	Slowing	Slower	5
Inventories	49.5	49.0	+0.5	Contracting	Slower	15
Customers' Inventories	53.0	49.5	+3.5	Too High	From Too Low	1
Prices	53.0	53.0	0.0	Increasing	Same	7
Backlog of Orders	49.5	45.5	+4.0	Contracting	Slower	3
New Export Orders	52.0	52.5	-0.5	Growing	Slower	7
Imports	49.0	47.0	+2.0	Contracting	Slower	2
OVERALL ECONOMY				Growing	Faster	88
Manufacturing Sector				Growing	From Contracting	1

Manufacturing ISM® *Report On Business*® data is seasonally adjusted for the 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

Caustic Soda (2); Garlic — Dehydrated; HDPE; Petroleum; Plastic Resins (2); Polyethylene; Polypropylene; Propylene (2); Stainless Steel (6); Steel* (9); and Titanium Dioxide (2).

Commodities Down in Price

Copper; Corn (3); Electric Components; Scrap Steel (2); Steel* (3); Steel — Cold Rolled (2); and Steel — Hot Rolled (2).

Commodities in Short Supply

Electronic Components.

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

*Reported as both up and down in price.

SEPTEMBER 2016 MANUFACTURING INDEX SUMMARIES

PMI®

Manufacturing expanded in September as the PMI® registered 51.5 percent, an increase of 2.1 percentage points from the August reading of 49.4 percent, indicating growth in manufacturing following one month of contraction. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

A PMI® above 43.2 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the September PMI® indicates growth for the 88th consecutive month in the overall economy, and indicates growth in the manufacturing sector following one month of contraction. Holcomb stated, "The past relationship between the PMI® and the overall economy indicates that the average PMI® for January through September (50.9 percent) corresponds to a 2.4 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI® for September (51.5 percent) is annualized, it corresponds to a 2.6 percent increase in real GDP annually."

THE LAST 12 MONTHS

<i>Month</i>	<i>PMI®</i>	<i>Month</i>	<i>PMI®</i>
Sep 2016	51.5	Mar 2016	51.8
Aug 2016	49.4	Feb 2016	49.5
Jul 2016	52.6	Jan 2016	48.2
Jun 2016	53.2	Dec 2015	48.0
May 2016	51.3	Nov 2015	48.4
Apr 2016	50.8	Oct 2015	49.4
Average for 12 months – 50.3			
High – 53.2			
Low – 48.0			

New Orders

ISM®'s New Orders Index registered 55.1 percent in September, which is an increase of 6 percentage points when compared to the 49.1 percent reported for August, indicating growth in new orders following one month of contraction. A New Orders Index above 52.2

percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars).

The nine industries reporting growth in new orders in September — listed in order — are: Wood Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Nonmetallic Mineral Products; Computer & Electronic Products; Furniture & Related Products; Fabricated Metal Products; Paper Products; and Machinery. The six industries reporting a decrease in new orders during September — listed in order — are: Apparel, Leather & Allied Products; Printing & Related Support Activities; Transportation Equipment; Electrical Equipment, Appliances & Components; Chemical Products; and Textile Mills.

New Orders	% Better	% Same	% Worse	Net	Index
Sep 2016	27	53	20	+7	55.1
Aug 2016	22	52	26	-4	49.1
Jul 2016	27	58	15	+12	56.9
Jun 2016	31	51	18	+13	57.0

Production

ISM's Production Index registered 52.8 percent in September, which is an increase of 3.2 percentage points when compared to the 49.6 percent reported for August, indicating growth in production in September following one month of contraction. An index above 51.3 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

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

	%	%	%		
Production	Better	Same	Worse	Net	Index
Sep 2016	24	56	20	+4	52.8
Aug 2016	19	59	22	-3	49.6
Jul 2016	25	58	17	+8	55.4
Jun 2016	28	55	17	+11	54.7

Employment

ISM®'s Employment Index registered 49.7 percent in September, an increase of 1.4 percentage points when compared to the August reading of 48.3 percent, indicating contraction in employment in September for the third consecutive month. 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, the seven industries reporting employment growth in September — listed in order — are: Textile Mills; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Furniture & Related Products; Food, Beverage & Tobacco Products; Paper Products; and Computer & Electronic Products. The eight industries reporting a decrease in employment in September — listed in order — are: Petroleum & Coal Products; Transportation Equipment; Primary Metals; Fabricated Metal Products; Plastics & Rubber Products; Chemical Products; Machinery; and Printing & Related Support Activities.

	%	%	%		
Employment	Higher	Same	Lower	Net	Index
Sep 2016	17	63	20	-3	49.7
Aug 2016	16	65	19	-3	48.3
Jul 2016	17	68	15	+2	49.4
Jun 2016	22	58	20	+2	50.4

Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was slower in September as the Supplier Deliveries Index registered 50.3 percent, which is 0.6 percentage point lower than the 50.9 percent reported for August. A reading below 50 percent indicates faster deliveries, while a reading above 50 percent indicates slower deliveries.

The seven industries reporting slower supplier deliveries in September — listed in order — are: Nonmetallic Mineral Products; Furniture & Related Products; Paper Products;

Machinery; Food, Beverage & Tobacco Products; Chemical Products; and Primary Metals. The four industries reporting faster supplier deliveries in September are: Petroleum & Coal Products; Fabricated Metal Products; Plastics & Rubber Products; and Computer & Electronic Products. Seven industries reported no change in supplier deliveries in September compared to August.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Index
Sep 2016	8	85	7	+1	50.3
Aug 2016	8	86	6	+2	50.9
Jul 2016	10	85	5	+5	51.8
Jun 2016	12	84	4	+8	55.4

Inventories*

The Inventories Index registered 49.5 percent in September, which is an increase of 0.5 percentage point when compared to the 49 percent reported for August, indicating raw materials inventories are contracting in September for the 15th 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 eight industries reporting higher inventories in September — listed in order — are: Apparel, Leather & Allied Products; Textile Mills; Computer & Electronic Products; Furniture & Related Products; Fabricated Metal Products; Transportation Equipment; Food, Beverage & Tobacco Products; and Chemical Products. The nine industries reporting lower inventories in September — listed in order — are: Wood Products; Printing & Related Support Activities; Miscellaneous Manufacturing; Machinery; Primary Metals; Plastics & Rubber Products; Nonmetallic Mineral Products; Paper Products; and Petroleum & Coal Products.

	% Higher	% Same	% Lower	Net	Index
Sep 2016	16	67	17	-1	49.5
Aug 2016	18	62	20	-2	49.0
Jul 2016	19	61	20	-1	49.5
Jun 2016	19	59	22	-3	48.5

Customers' Inventories*

ISM®'s Customers' Inventories Index registered 53 percent in September, which is 3.5 percentage points higher than the 49.5 percent reported in August, indicating that customers' inventory levels are considered too high in September.

The eight manufacturing industries reporting customers' inventories as being too high during the month of September — listed in order — are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Furniture & Related Products; Transportation Equipment; Food, Beverage & Tobacco Products; Chemical Products; Computer & Electronic Products; and Fabricated Metal Products. The three industries reporting customers' inventories as too low during September are: Printing & Related Support Activities; Paper Products; and Electrical Equipment, Appliances & Components. 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 2016	58	17	72	11	+6	53.0
Aug 2016	54	16	67	17	-1	49.5
Jul 2016	59	13	76	11	+2	51.0
Jun 2016	57	16	70	14	+2	51.0

Prices*

The ISM® Prices Index registered 53 percent in September, the same reading as reported for August, indicating an increase in raw materials prices for the seventh consecutive month. In September, 20 percent of respondents reported paying higher prices, 14 percent reported paying lower prices, and 66 percent of supply executives reported paying the same prices as in August. A Prices Index above 52.4 percent, over time, is generally consistent with an increase in the Bureau of Labor Statistics (BLS) Producer Price Index for Intermediate Materials.

Of the 18 manufacturing industries, the 10 industries that reported paying increased prices for its raw materials in September — listed in order — are: Textile Mills; Apparel, Leather & Allied Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Paper Products; Chemical Products; Petroleum & Coal Products; Furniture & Related Products; Food, Beverage & Tobacco Products; and Miscellaneous Manufacturing. The four industries reporting paying lower prices during the month of September are: Primary Metals; Electrical Equipment, Appliances & Components; Fabricated Metal Products; and Computer & Electronic Products.

	%	%	%		
Prices	Higher	Same	Lower	Net	Index
Sep 2016	20	66	14	+6	53.0
Aug 2016	19	68	13	+6	53.0
Jul 2016	22	66	12	+10	55.0
Jun 2016	27	67	6	+21	60.5

Backlog of Orders*

ISM®'s Backlog of Orders Index registered 49.5 percent in September, an increase of 4 percentage points when compared to the August reading of 45.5 percent, indicating contraction in order backlogs for the third consecutive month. Of the 87 percent of respondents who reported their backlog of orders, 19 percent reported greater backlogs, 20 percent reported smaller backlogs, and 61 percent reported no change from August.

The seven industries reporting growth in order backlogs in September — listed in order — are: Nonmetallic Mineral Products; Furniture & Related Products; Petroleum & Coal Products; Plastics & Rubber Products; Computer & Electronic Products; Machinery; and Chemical Products. The eight industries reporting a decrease in order backlogs during September — listed in order — are: Apparel, Leather & Allied Products; Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Miscellaneous Manufacturing; Transportation Equipment; Primary Metals; Food, Beverage & Tobacco Products; and Paper Products.

Backlog of Orders	% Reporting	% Greater	% Same	% Less	Net	Index
Sep 2016	87	19	61	20	-1	49.5
Aug 2016	88	18	55	27	-9	45.5
Jul 2016	86	16	64	20	-4	48.0
Jun 2016	89	24	57	19	+5	52.5

New Export Orders*

ISM®'s New Export Orders Index registered 52 percent in September, a decrease of 0.5 percentage point when compared to the 52.5 percent reported for August, indicating growth in new export orders for the seventh consecutive month.

The seven industries reporting growth in new export orders in September — listed in order — are: Wood Products; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Transportation Equipment; Chemical Products; Fabricated Metal Products; and Computer & Electronic Products. The seven industries reporting a decrease in new export

orders during September — listed in order — are: Apparel, Leather & Allied Products; Furniture & Related Products; Printing & Related Support Activities; Primary Metals; Nonmetallic Mineral Products; Machinery; and Plastics & Rubber Products.

New Export Orders	% Reporting	% Higher	% Same	% Lower	Net	Index
Sep 2016	76	15	74	11	+4	52.0
Aug 2016	78	16	73	11	+5	52.5
Jul 2016	76	14	77	9	+5	52.5
Jun 2016	79	14	79	7	+7	53.5

Imports*

ISM®'s Imports Index registered 49 percent in September, which is 2 percentage points above the August reading of 47 percent. This month's reading indicates contraction in imports for the second consecutive month.

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

Imports	% Reporting	% Higher	% Same	% Lower	Net	Index
Sep 2016	81	12	74	14	-2	49.0
Aug 2016	83	8	78	14	-6	47.0
Jul 2016	80	14	76	10	+4	52.0
Jun 2016	84	11	82	7	+4	52.0

* 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 in September by 3 days to 132 days. Average lead time for Production Materials remained the same at 60 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies increased by 2 days to 31 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2016	18	12	9	16	30	15	132
Aug 2016	22	6	13	19	24	16	129
Jul 2016	20	8	14	18	22	18	132
Jun 2016	23	7	11	15	28	16	131
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2016	15	35	25	16	7	2	60
Aug 2016	15	38	22	15	8	2	60
Jul 2016	12	37	26	15	7	3	64
Jun 2016	15	38	23	15	7	2	59
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Sep 2016	38	35	18	9	0	0	31
Aug 2016	40	39	13	8	0	0	29
Jul 2016	38	40	15	5	2	0	31
Jun 2016	39	37	17	6	1	0	30

About This Report

The data presented herein is obtained from a survey of 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 **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® above 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 Capital Expenditures; Production Materials; 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.

ISM ROB Content

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The full text version of the **Manufacturing ISM[®] Report On Business[®]** is posted on ISM[®]'s website at www.ismrob.org on the first business day* of every month after 10:00 a.m. (ET).

The next **Manufacturing ISM[®] Report On Business[®]** featuring the October 2016 data will be released at 10:00 a.m. (ET) on Tuesday, November 1, 2016.

*Unless the NYSE is closed.