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September 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 September 2016.

NMI® at 57.1%

Business Activity Index at 60.3%

New Orders Index at 60.0%

Employment Index at 57.2%

(Tempe, Arizona) — Economic activity in the **non-manufacturing sector** grew in September for the 80th 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 57.1 percent in September, 5.7 percentage points higher than the August reading of 51.4 percent. This represents continued growth in the non-manufacturing sector at a faster rate. The Non-Manufacturing Business Activity Index increased substantially to 60.3 percent, 8.5 percentage points higher than the August reading of 51.8 percent, reflecting growth for the 86th consecutive month, at a noticeably faster rate in September. The New Orders Index registered 60 percent, 8.6 percentage points higher than the reading of 51.4 percent in August. The Employment Index increased 6.5 percentage

points in September to 57.2 percent from the August reading of 50.7 percent. The Prices Index increased 2.2 percentage points from the August reading of 51.8 percent to 54 percent, indicating prices increased in September for the sixth consecutive month. According to the NMI®, 14 non-manufacturing industries reported growth in September. The comments from the respondents are mostly positive about business conditions and the overall economy. A degree of uncertainty does exist due to geopolitical conditions coupled with the upcoming U.S. presidential election."

INDUSTRY PERFORMANCE

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

WHAT RESPONDENTS ARE SAYING ...

- "Somewhat flat month of overall pricing conditions; however, labor cost and availability remains a concern." (Accommodation & Food Services)
- "Business is showing a moderate unexpected uptick over last month. YTD business volume is moderately under forecast." (Management of Companies & Support Services)
- "Macroeconomic issues like Brexit and reduced travel from South America impact summer travel." (Arts, Entertainment & Recreation)
- "Sales ahead of plan. Net income below plan. Costs running higher than plan. In addition, continued low interest rates impact investment results." (Finance & Insurance)
- "Affordable Care Act, changes in Medicare and Medicaid causing problems across much of the healthcare and insurance industries. Acquisition helping our company, but also lost a large client that will impact our financials for the next year." (Health Care & Social Assistance)
- "Solid steady growth." (Professional, Scientific & Technical Services)
- "Business is [at] an annual high." (Public Administration)
- "Sales continue [at an] increased pace from last month." (Retail Trade)
- "We are watching the effects of the Hanjin Shipping issues with regard to cost and availability of Asian imports." (Wholesale Trade)

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

	Non-Manufacturing						Manufacturing		
Index	Series Index Sep	Series Index Aug	Percent Point Change	Direction	Rate of Change	Trend** (Months)	Series Index Sep	Series Index Aug	Percent Point Change
NMI®/PMI®	57.1	51.4	+5.7	Growing	Faster	80	51.5	49.4	+2.1
Business Activity/Production	60.3	51.8	+8.5	Growing	Faster	86	52.8	49.6	+3.2
New Orders	60.0	51.4	+8.6	Growing	Faster	86	55.1	49.1	+6.0
Employment	57.2	50.7	+6.5	Growing	Faster	4	49.7	48.3	+1.4
Supplier Deliveries	51.0	51.5	-0.5	Slowing	Slower	9	50.3	50.9	-0.6
Inventories	51.5	48.0	+3.5	Growing	From Contracting	1	49.5	49.0	+0.5
Prices	54.0	51.8	+2.2	Increasing	Faster	6	53.0	53.0	0.0
Backlog of Orders	52.0	49.5	+2.5	Growing	From Contracting	1	49.5	45.5	+4.0
New Export Orders	56.5	46.5	+10.0	Growing	From Contracting	1	52.0	52.5	-0.5
Imports	51.0	50.5	+0.5	Growing	Faster	8	49.0	47.0	+2.0
Inventory Sentiment	64.5	64.0	+0.5	Too High	Faster	232	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	53.0	49.5	+3.5
Overall Economy				Growing	Faster	86			
Non-Manufacturing Sector				Growing	Faster	80			

* **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

Coffee (2); Chicken; Dairy (3); #1 Diesel Fuel; #2 Diesel Fuel (4); Diesel Fuel (2); Fuel; Packaging; Paper; Poly Products; Shingles; and Surgical Implants.

Commodities Down in Price

Beef (2); Butter; Eggs (2); Ground Beef; and Lumber Products — Pine, Plywood and Spruce.

Commodities in Short Supply

Labor (12); Labor — Construction (6); Labor — Temporary; and Shingles.

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 NON-MANUFACTURING INDEX SUMMARIES

NMI®

In September, the NMI® registered 57.1 percent, an increase of 5.7 percentage points when compared to the August reading of 51.4 percent, indicating continued growth in the non-manufacturing sector for the 80th 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 September NMI® indicates growth for the 86th consecutive month in the overall economy, and indicates expansion in the non-manufacturing sector for the 80th consecutive month. Nieves stated, "The past relationship between the NMI® and the overall economy indicates that the NMI® for September (57.1 percent) corresponds to a 3.2 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>
Sep 2016	57.1	Mar 2016	54.5
Aug 2016	51.4	Feb 2016	53.4
Jul 2016	55.5	Jan 2016	53.5
Jun 2016	56.5	Dec 2015	55.8
May 2016	52.9	Nov 2015	56.6
Apr 2016	55.7	Oct 2015	58.3
Average for 12 months – 55.1			
High – 58.3			
Low – 51.4			

Business Activity

ISM®’s Business Activity Index in September registered 60.3 percent, an increase of 8.5 percentage points from the August reading of 51.8 percent. This represents growth in business activity for the 86th consecutive month. Fourteen industries reported increased business activity and three industries reported decreased activity for the month of September. Comments from respondents include: "We are receiving more orders from our clients for unknown reasons. Uptick was not expected" and "Improved sales above forecast expectations."

The 14 industries reporting growth of business activity in September — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Utilities; Retail Trade; Information; Management of Companies & Support Services; Health Care & Social Assistance; Finance & Insurance; Other Services; Transportation & Warehousing; Construction; Public Administration; Professional, Scientific & Technical Services; Accommodation & Food Services; and Wholesale Trade. The three industries reporting a decrease in business activity in September are: Mining; Arts, Entertainment & Recreation; and Educational Services.

	%	%	%	
Business Activity	Higher	Same	Lower	Index
Sep 2016	33	54	13	60.3
Aug 2016	24	58	18	51.8
Jul 2016	35	52	13	59.3
Jun 2016	35	47	18	59.5

New Orders

ISM®’s Non-Manufacturing New Orders Index registered 60 percent, an increase of 8.6 percentage points from the August reading of 51.4 percent. September represents growth in new orders for the 86th consecutive month and at a noticeably faster rate compared to August. Comments from respondents include: "Increased customer retention" and "The number of new orders has remained consistent, with some of the increase in activity resulting from legacy projects."

The 13 industries reporting growth of new orders in September — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Utilities; Information; Transportation & Warehousing; Retail Trade; Health Care & Social Assistance; Finance & Insurance; Public Administration; Accommodation & Food Services; Other Services; Management of Companies & Support Services; Wholesale Trade; and Construction. The four industries reporting contraction of new orders in September are: Mining; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; and Educational Services.

	%	%	%	
New Orders	Higher	Same	Lower	Index
Sep 2016	33	56	11	60.0
Aug 2016	22	59	19	51.4
Jul 2016	35	52	13	60.3
Jun 2016	34	52	14	59.9

Employment

Employment activity in the non-manufacturing sector grew in September for the fourth consecutive month. ISM®’s Non-Manufacturing Employment Index registered 57.2 percent, which reflects an increase of 6.5 percentage points when compared to the August reading of 50.7 percent. Nine industries reported increased employment, and five industries reported decreased employment. Comments from respondents include: "New roles added" and "Increases in volume."

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

	%	%	%	
Employment	Higher	Same	Lower	Index
Sep 2016	21	66	13	57.2
Aug 2016	16	68	16	50.7
Jul 2016	22	63	15	51.4
Jun 2016	29	55	16	52.7

Supplier Deliveries

Supplier deliveries were slower in September for the ninth consecutive month. The index registered 51 percent, which is 0.5 percentage point lower than the 51.5 percent that was registered in August. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. Comments from respondents include: "Faster, smaller backlogs of inventory" and "Suppliers have done a great job in providing fast delivery."

The six industries reporting slower deliveries in September — listed in order — are: Other Services; Management of Companies & Support Services; Retail Trade; Transportation & Warehousing; Construction; and Health Care & Social Assistance. The four industries reporting faster deliveries in September are: Educational Services; Mining; Professional, Scientific & Technical Services; and Public Administration. Eight industries reported no change in supplier deliveries in September compared to August.

	%	%	%	
Supplier Deliveries	Slower	Same	Faster	Index
Sep 2016	6	90	4	51.0
Aug 2016	8	87	5	51.5
Jul 2016	8	86	6	51.0
Jun 2016	11	86	3	54.0

Inventories

ISM®'s Non-Manufacturing Inventories Index grew after one month of contraction and registered 51.5 percent in September, which is 3.5 percentage points higher than the 48 percent that was reported in August. Of the total respondents in September, 31 percent indicated they do not have inventories, or do not measure them. Comments from respondents include: "Managing inventory efficiently to sales projections" and "Trying [to] tighten controls on inventory activity."

The six industries reporting an increase in inventories in September — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Transportation & Warehousing; Mining; Utilities; and Wholesale Trade. The seven industries reporting decreases in inventories in September — listed in order — are: Real Estate, Rental & Leasing; Other Services; Information; Construction; Public Administration; Health Care & Social Assistance; and Professional, Scientific & Technical Services.

	%	%	%	
Inventories	Higher	Same	Lower	Index
Sep 2016	21	61	18	51.5
Aug 2016	16	64	20	48.0
Jul 2016	23	62	15	54.0
Jun 2016	28	55	17	55.5

Prices

Prices paid by non-manufacturing organizations for purchased materials and services increased in September for the sixth consecutive month. ISM®'s Non-Manufacturing Prices Index for September registered 54 percent, 2.2 percentage points higher than the 51.8 percent reported in August. The proportion of respondents reporting higher prices is 15 percent, 73 percent indicated no change in prices paid, and 12 percent of the respondents reported lower prices.

The nine non-manufacturing industries reporting an increase in prices paid during the month of September — listed in order — are: Real Estate, Rental & Leasing; Utilities; Finance & Insurance; Other Services; Health Care & Social Assistance; Professional, Scientific & Technical Services; Wholesale Trade; Public Administration; and Construction. The six industries reporting a decrease in prices paid for the month of September — listed in order — are: Accommodation & Food Services; Information; Transportation & Warehousing; Management of Companies & Support Services; Retail Trade; and Arts, Entertainment & Recreation.

	%	%	%	
Prices	Higher	Same	Lower	Index
Sep 2016	15	73	12	54.0
Aug 2016	10	81	9	51.8
Jul 2016	15	78	7	51.9
Jun 2016	20	75	5	55.5

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 grew in September after contracting twice since June. The index registered 52 percent, which is 2.5 percentage points higher than the 49.5 percent reported in August. Of the total respondents in September, 36 percent indicated they do not measure backlog of orders.

The five industries reporting an increase in order backlogs in September are: Finance & Insurance; Information; Management of Companies & Support Services; Construction; and Public Administration. The four industries reporting a decrease in order backlogs in September are: Mining; Health Care & Social Assistance; Transportation & Warehousing; and Professional, Scientific & Technical Services. Seven industries reported no change in order backlogs in September compared to August.

	%	%	%	
Backlog of Orders	Higher	Same	Lower	Index
Sep 2016	15	74	11	52.0
Aug 2016	12	75	13	49.5
Jul 2016	17	68	15	51.0
Jun 2016	12	71	17	47.5

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 grew in September after a month of contraction. The New Export Orders Index for September registered 56.5 percent, which is 10 percentage points higher than the 46.5 percent reported in August. Of the total respondents in September, 67 percent indicated they either do not perform, or do not separately measure, orders for work outside of the United States.

The six industries reporting an increase in new export orders in September — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Professional, Scientific & Technical Services; Construction; Retail Trade; and Other Services. The three industries reporting a decrease in new export orders in September are: Mining; Information; and Wholesale Trade. Eight industries reported no change in new export orders in September compared to August.

	%	%	%	
New Export Orders	Higher	Same	Lower	Index
Sep 2016	19	75	6	56.5
Aug 2016	8	77	15	46.5
Jul 2016	21	69	10	55.5
Jun 2016	11	84	5	53.0

Imports

Imports of raw materials grew in September for the eighth consecutive month. This month's reading at 51 percent is 0.5 percentage point higher than the reading of 50.5 percent reported in August. Fifty-seven percent of respondents reported that they do not use, or do not track the use of, imported materials.

The six industries reporting an increase in imports for the month of September — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; Information; Accommodation & Food Services; Retail Trade; and Wholesale Trade. The four industries reporting a decrease in imports for the month of September are: Arts, Entertainment & Recreation; Health Care & Social Assistance; Mining; and Professional, Scientific & Technical Services. Seven industries reported no change in imports in September compared to August.

	%	%	%	
Imports	Higher	Same	Lower	Index
Sep 2016	11	80	9	51.0
Aug 2016	8	85	7	50.5
Jul 2016	13	80	7	53.0
Jun 2016	13	82	5	54.0

Inventory Sentiment

The ISM® Non-Manufacturing Inventory Sentiment Index in September registered 64.5 percent, which is 0.5 percentage point higher than the reading of 64 percent reported in August. This indicates that respondents believe their inventories are still too high at this time. In September, 30 percent of respondents said their inventories were too high, 1 percent said their inventories were too low, and 69 percent said their inventories were about right.

The 11 industries reporting a feeling that their inventories are too high in September — listed in order — are: Mining; Arts, Entertainment & Recreation; Wholesale Trade; Other Services; Retail Trade; Finance & Insurance; Health Care & Social Assistance; Utilities; Information; Public Administration; and Professional, Scientific & Technical Services. No industry reported the feeling that their inventory was too low for the month of September.

Inventory Sentiment	%Too High	%About Right	%Too Low	Index
Sep 2016	30	69	1	64.5
Aug 2016	32	64	4	64.0
Jul 2016	31	64	5	63.0
Jun 2016	26	73	1	62.5

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.ismrob.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 October 2016 data will be released at 10:00 a.m. (ET) on Thursday, November 3, 2016.

*Unless the NYSE is closed.