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## October 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 October 2016.

PMI® at 51.9%

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

(Tempe, Arizona) — Economic activity in the **manufacturing sector** expanded in October, and the **overall economy** grew for the 89th 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 October PMI® registered 51.9 percent, an increase of 0.4 percentage point from the September reading of 51.5 percent. The New Orders Index registered 52.1 percent, a decrease of 3 percentage points from the September reading of 55.1 percent. The Production Index registered 54.6 percent, 1.8 percentage points higher than the September reading of 52.8 percent. The Employment Index registered 52.9 percent, an increase of 3.2 percentage points from the September reading of 49.7 percent. Inventories of raw materials registered 47.5 percent, a decrease of 2 percentage points from the September reading of 49.5 percent. The Prices Index registered 54.5 percent in October, an increase of 1.5 percentage points from the September reading of 53 percent, indicating higher raw materials prices for

the eighth consecutive month. Comments from the panel are largely positive citing a favorable economy and steady sales, with some exceptions."

#### SPECIAL QUESTION

For inclusion in this report, our panel responded to a special question regarding the Hanjin Shipping Company bankruptcy to gain insights into the impact on their businesses this quarter. The responses were as follows:

- Not impacted — 51.9%
- Small, not material impact — 29.7%
- Material, but manageable impact — 13.4%
- Large material impact — 0.8%
- Unsure — 4.2%

Of the 18 manufacturing industries, 10 are reporting growth in October in the following order: Textile Mills; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Computer & Electronic Products; Furniture & Related Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; and Chemical Products. The eight industries reporting contraction in October — listed in order — are: Wood Products; Apparel, Leather & Allied Products; Primary Metals; Plastics & Rubber Products; Transportation Equipment; Electrical Equipment, Appliances & Components; Fabricated Metal Products; and Machinery.

#### WHAT RESPONDENTS ARE SAYING ...

- "Domestic business steady. Export business trending higher." (Chemical Products)
- "Very favorable outlook in the market." (Computer & Electronic Products)
- "We are looking at a considerable slowdown for October and November. Production is down 20 percent." (Primary Metals)
- "Business is much better." (Fabricated Metal Products)
- "Strong economy driving steady sales." (Food, Beverage & Tobacco Products)
- "Due to the hurricane and other storms, our business is up significantly." (Machinery)
- "Ongoing strength seen in 2016 — it's a good year." (Miscellaneous Manufacturing)
- "Customers continue to press price reductions." (Transportation Equipment)
- "Our business remains strong." (Plastics & Rubber Products)

- "Hard to predict oil price dynamics, but there seems to be a consensus that the market is stabilizing, at least above USD 50 bbl this month." (Petroleum & Coal Products)

<b>MANUFACTURING AT A GLANCE</b>						
<b>October 2016</b>						
<b>Index</b>	<b>Series Index Oct</b>	<b>Series Index Sep</b>	<b>Percentage Point Change</b>	<b>Direction</b>	<b>Rate of Change</b>	<b>Trend* (Months)</b>
<b>PMI®</b>	51.9	51.5	+0.4	Growing	Faster	2
<b>New Orders</b>	52.1	55.1	-3.0	Growing	Slower	2
<b>Production</b>	54.6	52.8	+1.8	Growing	Faster	2
<b>Employment</b>	52.9	49.7	+3.2	Growing	From Contracting	1
<b>Supplier Deliveries</b>	52.2	50.3	+1.9	Slowing	Faster	6
<b>Inventories</b>	47.5	49.5	-2.0	Contracting	Faster	16
<b>Customers' Inventories</b>	49.5	53.0	-3.5	Too Low	From Too High	1
<b>Prices</b>	54.5	53.0	+1.5	Increasing	Faster	8
<b>Backlog of Orders</b>	45.5	49.5	-4.0	Contracting	Faster	4
<b>New Export Orders</b>	52.5	52.0	+0.5	Growing	Faster	8
<b>Imports</b>	52.0	49.0	+3.0	Growing	From Contracting	1
<b>OVERALL ECONOMY</b>				Growing	Faster	89
<b>Manufacturing Sector</b>				Growing	Faster	2

**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

Corn; Corrugate; Diesel; HDPE (2); Methanol; Nickel; Petroleum (2); Plastic Resins (3); Polyethylene (2); Polypropylene (2); Propylene (3); Stainless Steel\* (7); and Steel\* (10).

### Commodities Down in Price

Aluminum; Carbon Steel; Copper (2); Scrap Steel (3); Stainless Steel\*; Steel\* (4); Steel — Cold Rolled (3); and Steel — Hot Rolled (3).

### Commodities in Short Supply

None.

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

\*Reported as both up and down in price.

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## OCTOBER 2016 MANUFACTURING INDEX SUMMARIES

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PMI®

Manufacturing expanded in October as the PMI® registered 51.9 percent, an increase of 0.4 percentage point from the September reading of 51.5 percent, indicating growth in manufacturing for the second consecutive month. 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 October PMI® indicates growth for the 89th consecutive month in the overall economy, and indicates growth in the manufacturing sector for the second consecutive month. Holcomb stated, "The past relationship between the PMI® and the overall economy indicates that the average PMI® for January through October (51 percent) corresponds to a 2.5 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI® for October (51.9 percent) is annualized, it corresponds to a 2.8 percent increase in real GDP annually."

### THE LAST 12 MONTHS

<b>Month</b>	<b>PMI®</b>	<b>Month</b>	<b>PMI®</b>
Oct 2016	51.9	Apr 2016	50.8
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
Average for 12 months – 50.6			
High – 53.2			
Low – 48.0			

## New Orders

ISM®'s New Orders Index registered 52.1 percent in October, which is a decrease of 3 percentage points when compared to the 55.1 percent reported for September, indicating growth in new orders for the second consecutive month. 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 eight industries reporting growth in new orders in October — listed in order — are: Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Petroleum & Coal Products; Paper Products; Plastics & Rubber Products; Computer & Electronic Products; and Chemical Products. The eight industries reporting a decrease in new orders during October — listed in order — are: Wood Products; Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Furniture & Related Products; Transportation Equipment; Fabricated Metal Products; Primary Metals; and Machinery.

<b>New Orders</b>	<b>% Better</b>	<b>% Same</b>	<b>% Worse</b>	<b>Net</b>	<b>Index</b>
Oct 2016	24	56	20	+4	52.1
Sep 2016	27	53	20	+7	55.1
Aug 2016	22	52	26	-4	49.1
Jul 2016	27	58	15	+12	56.9

## Production

ISM®'s Production Index registered 54.6 percent in October, which is an increase of 1.8 percentage points when compared to the 52.8 percent reported for September, indicating growth in production in October for the second consecutive month. An index above 51.3 percent, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures.

The nine industries reporting growth in production during the month of October — listed in order — are: Textile Mills; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Petroleum & Coal Products; Paper Products; Fabricated Metal Products; Chemical Products; and Computer & Electronic Products. The four industries reporting a decrease in production during October are: Primary Metals; Transportation Equipment; Machinery; and Plastics & Rubber Products.

	%	%	%		
<b>Production</b>	<b>Better</b>	<b>Same</b>	<b>Worse</b>	<b>Net</b>	<b>Index</b>
Oct 2016	25	56	19	+6	54.6
Sep 2016	24	56	20	+4	52.8
Aug 2016	19	59	22	-3	49.6
Jul 2016	25	58	17	+8	55.4

#### Employment

ISM®'s Employment Index registered 52.9 percent in October, an increase of 3.2 percentage points when compared to the September reading of 49.7 percent, indicating growth in employment in October following three consecutive months of contraction. 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 11 industries reporting employment growth in October — listed in order — are: Textile Mills; Printing & Related Support Activities; Miscellaneous Manufacturing; Furniture & Related Products; Paper Products; Electrical Equipment, Appliances & Components; Machinery; Food, Beverage & Tobacco Products; Chemical Products; Nonmetallic Mineral Products; and Primary Metals. The five industries reporting a decrease in employment in October are: Apparel, Leather & Allied Products; Petroleum & Coal Products; Plastics & Rubber Products; Transportation Equipment; and Fabricated Metal Products.

	%	%	%		
<b>Employment</b>	<b>Higher</b>	<b>Same</b>	<b>Lower</b>	<b>Net</b>	<b>Index</b>
Oct 2016	20	62	18	+2	52.9
Sep 2016	17	63	20	-3	49.7
Aug 2016	16	65	19	-3	48.3
Jul 2016	17	68	15	+2	49.4

#### Supplier Deliveries

The delivery performance of suppliers to manufacturing organizations was slower in October as the Supplier Deliveries Index registered 52.2 percent, which is 1.9 percentage points higher than the 50.3 percent reported for September. 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 October — listed in order — are: Electrical Equipment, Appliances & Components; Food, Beverage & Tobacco Products; Transportation Equipment; Chemical Products; Machinery; Computer & Electronic Products;

and Primary Metals. The four industries reporting faster supplier deliveries in October are: Paper Products; Plastics & Rubber Products; Fabricated Metal Products; and Miscellaneous Manufacturing. Seven industries reported no change in supplier deliveries in October compared to September.

<b>Supplier Deliveries</b>	<b>% Slower</b>	<b>% Same</b>	<b>% Faster</b>	<b>Net</b>	<b>Index</b>
Oct 2016	8	87	5	+3	52.2
Sep 2016	8	85	7	+1	50.3
Aug 2016	8	86	6	+2	50.9
Jul 2016	10	85	5	+5	51.8

#### Inventories\*

The Inventories Index registered 47.5 percent in October, which is a decrease of 2 percentage points when compared to the 49.5 percent reported for September, indicating raw materials inventories are contracting in October for the 16th 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 six industries reporting higher inventories in October — listed in order — are: Textile Mills; Nonmetallic Mineral Products; Furniture & Related Products; Computer & Electronic Products; Petroleum & Coal Products; and Miscellaneous Manufacturing. The 10 industries reporting lower inventories in October — listed in order — are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Primary Metals; Machinery; Paper Products; Chemical Products; Fabricated Metal Products; Transportation Equipment; and Printing & Related Support Activities.

<b>Inventories</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Oct 2016	16	63	21	-5	47.5
Sep 2016	16	67	17	-1	49.5
Aug 2016	18	62	20	-2	49.0
Jul 2016	19	61	20	-1	49.5

#### Customers' Inventories\*

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

The five manufacturing industries reporting customers' inventories as being too high during the month of October are: Primary Metals; Fabricated Metal Products; Furniture & Related Products; Chemical Products; and Transportation Equipment. The six industries reporting customers' inventories as too low during October — listed in order — are: Plastics & Rubber Products; Paper Products; Electrical Equipment, Appliances & Components; Machinery; Miscellaneous Manufacturing; and Computer & Electronic Products. Six industries reported no change in customer inventories in October compared to September.

<b>Customers' Inventories</b>	<b>% Reporting</b>	<b>%Too High</b>	<b>%About Right</b>	<b>%Too Low</b>	<b>Net</b>	<b>Index</b>
Oct 2016	59	13	73	14	-1	49.5
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

#### Prices\*

The ISM® Prices Index registered 54.5 percent in October, which is 1.5 percentage points higher than reported in September, indicating an increase in raw materials prices for the eighth consecutive month. In October, 25 percent of respondents reported paying higher prices, 16 percent reported paying lower prices, and 59 percent of supply executives reported paying the same prices as in September. 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 seven industries that reported paying increased prices for its raw materials in October — listed in order — are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Petroleum & Coal Products; Chemical Products; Food, Beverage & Tobacco Products; Paper Products; and Computer & Electronic Products. The eight industries reporting paying lower prices during the month of October — listed in order — are: Textile Mills; Fabricated Metal Products; Machinery; Electrical Equipment, Appliances & Components; Primary Metals; Transportation Equipment; Nonmetallic Mineral Products; and Miscellaneous Manufacturing.

<b>Prices</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Oct 2016	25	59	16	+9	54.5
Sep 2016	20	66	14	+6	53.0
Aug 2016	19	68	13	+6	53.0
Jul 2016	22	66	12	+10	55.0



#### Backlog of Orders\*

ISM®'s Backlog of Orders Index registered 45.5 percent in October, a decrease of 4 percentage points when compared to the September reading of 49.5 percent, indicating contraction in order backlogs for the fourth consecutive month. Of the 88 percent of respondents who reported their backlog of orders, 16 percent reported greater backlogs, 25 percent reported smaller backlogs, and 59 percent reported no change from September.

The five industries reporting growth in order backlogs in October are: Textile Mills; Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Computer & Electronic Products; and Paper Products. The 11 industries reporting a decrease in order backlogs during October — listed in order — are: Wood Products; Primary Metals; Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Furniture & Related Products; Transportation Equipment; Plastics & Rubber Products; Chemical Products; Miscellaneous Manufacturing; Machinery; and Fabricated Metal Products.

<b>Backlog of Orders</b>	<b>% Reporting</b>	<b>% Greater</b>	<b>% Same</b>	<b>% Less</b>	<b>Net</b>	<b>Index</b>
Oct 2016	88	16	59	25	-9	45.5
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

#### New Export Orders\*

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

The six industries reporting growth in new export orders in October — listed in order — are: Textile Mills; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Fabricated Metal Products; Chemical Products; and Computer & Electronic Products. The five industries reporting a decrease in new export orders during October are: Wood Products; Nonmetallic Mineral Products; Plastics & Rubber Products; Transportation Equipment; and Machinery. Seven industries reported no change in new export orders in October compared to September.

<b>New Export Orders</b>	<b>% Reporting</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Oct 2016	79	12	81	7	+5	52.5
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

#### Imports\*

ISM®'s Imports Index registered 52 percent in October, which is 3 percentage points above the September reading of 49 percent. This month's reading indicates growth in imports following two consecutive months of contraction in imports.

The nine industries reporting growth in imports during the month of October — listed in order — are: Miscellaneous Manufacturing; Furniture & Related Products; Fabricated Metal Products; Computer & Electronic Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Machinery; Chemical Products; and Nonmetallic Mineral Products. The three industries reporting a decrease in imports during October are: Electrical Equipment, Appliances & Components; Printing & Related Support Activities; and Transportation Equipment.

<b>Imports</b>	<b>% Reporting</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
Oct 2016	81	11	82	7	+4	52.0
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

\* 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 October by 4 days to 136 days. Average lead time for Production Materials increased by 4 days to 64 days. Average lead time for Maintenance, Repair and Operating (MRO) Supplies remained the same at 31 days.

Percent Reporting							
Capital Expenditures	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2016	19	11	10	18	23	19	136
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
Production Materials	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2016	12	38	24	16	7	3	64
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
MRO Supplies	Hand-to-Mouth	30 Days	60 Days	90 Days	6 Months	1 Year+	Average Days
Oct 2016	41	34	17	7	1	0	31
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

#### 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.

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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](http://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 November 2016 data will be released at 10:00 a.m. (ET) on Thursday, December 1, 2016.

\*Unless the NYSE is closed.