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December 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 December 2016.

NMI® at 57.2%

Business Activity Index at 61.4%

New Orders Index at 61.6%

Employment Index at 53.8%

(Tempe, Arizona) — Economic activity in the **non-manufacturing** sector grew in December for the 83rd 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 57.2 percent in December, matching the November figure. This represents continued growth in the non-manufacturing sector at the same rate. The Non-Manufacturing Business Activity Index decreased to 61.4 percent, 0.3 percentage point lower than the November reading of 61.7 percent, reflecting growth for the 89th consecutive month, at a slightly slower rate in December. The New Orders Index registered 61.6 percent, 4.6 percentage points higher than the reading of 57 percent in November. The Employment Index decreased 4.4 percentage points in December to 53.8 percent from the

November reading of 58.2 percent. The Prices Index increased 0.7 percentage point from the November reading of 56.3 percent to 57 percent, indicating prices increased in December for the ninth consecutive month at a slightly faster rate. According to the NMI®, 12 non-manufacturing industries reported growth in December. The non-manufacturing sector closed out the year strong maintaining its rate of growth month-over-month. Respondents' comments are mostly positive about business conditions and the overall economy."

INDUSTRY PERFORMANCE

The 12 non-manufacturing industries reporting growth in December — listed in order — are: Mining; Retail Trade; Finance & Insurance; Information; Arts, Entertainment & Recreation; Construction; Other Services; Health Care & Social Assistance; Professional, Scientific & Technical Services; Utilities; Transportation & Warehousing; and Accommodation & Food Services. The three industries reporting contraction in December are: Public Administration; Wholesale Trade; and Agriculture, Forestry, Fishing & Hunting.

WHAT RESPONDENTS ARE SAYING ...

- "New business slowed a little bit, but we are still growing. The key headwinds are holiday season and capex [capital expenditures] tightening due to end of year budgets." (Construction)
- "Steady with optimism." (Finance & Insurance)
- "Business is the same and at the same volumes as last month." (Health Care & Social Assistance)
- "Very busy end to the 4th Qtr due to customers' year-end spending boost." (Mining)
- "Activity seems to be increasing as more potential client inquiries have been coming in." (Professional, Scientific & Technical Services)
- "Labor, especially construction labor and construction subcontractors, continue to be in short supply." (Public Administration)
- "Sales increasing due to [the] holidays." (Retail Trade)
- "Distribution of finished goods ahead of last year and forecasts in all channels. E-commerce [has the] strongest growth." (Transportation & Warehousing)

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

Index	Non-Manufacturing						Manufacturing		
	Serie s Index Dec	Serie s Index Nov	Perce nt Point Chang e	Direction	Rate of Chang e	Trend** (Months)	Serie s Index Dec	Serie s Index Nov	Perce nt Point Chang e
NMI®/PMI®	57.2	57.2	0.0	Growing	Same	83	54.7	53.2	+1.5
Business Activity/Produ ction	61.4	61.7	-0.3	Growing	Slower	89	60.3	56.0	+4.3
New Orders	61.6	57.0	+4.6	Growing	Faster	89	60.2	53.0	+7.2
Employment	53.8	58.2	-4.4	Growing	Slower	7	53.1	52.3	+0.8
Supplier Deliveries	52.0	52.0	0.0	Slowing	Same	12	52.9	55.7	-2.8
Inventories	52.0	51.5	+0.5	Growing	Faster	4	47.0	49.0	-2.0
Prices	57.0	56.3	+0.7	Increasing	Faster	9	65.5	54.5	+11.0
Backlog of Orders	48.0	51.0	-3.0	Contractin g	From Growin g	1	49.0	49.0	0.0
New Export Orders	53.0	57.0	-4.0	Growing	Slower	4	56.0	52.0	+4.0
Imports	50.0	54.0	-4.0	Unchange d	From Growin g	1	50.5	50.5	0.0
Inventory Sentiment	61.5	60.5	+1.0	Too High	Faster	235	N/A	N/A	N/A
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A	49.0	49.0	0.0
Overall Economy				Growing	Same	89			
Non-Manufacturing Sector				Growing	Same	83			

* **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

Copper (3); Corrugated Boxes (2); #1 Diesel Fuel (4); #2 Diesel Fuel; Fuel (2); Gasoline* (3); Labor (3); Medical Supplies; Natural Gas; Paper; Shrimp; Soy Products; Stainless Steel Products; and Steel Products.

Commodities Down in Price

Beef (5); Butter; Cheese; Corn; Gasoline*; and Lumber Products.

Commodities in Short Supply

Lab Supplies; Labor (15); Labor — Construction (9); and Labor — Temporary (4).

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

*Reported as both up and down in price.

DECEMBER 2016 NON-MANUFACTURING INDEX SUMMARIES

NMI[®]

In December, the NMI[®] registered 57.2 percent, the same reading registered in November, indicating continued growth in the non-manufacturing sector for the 83rd 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 December NMI® indicates growth for the 89th consecutive month in the overall economy, and indicates expansion in the non-manufacturing sector for the 83rd consecutive month. Nieves stated, "The past relationship between the NMI® and the overall economy indicates that the NMI® for December (57.2 percent) corresponds to a 3.3 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>
Dec 2016	57.2	Jun 2016	56.5
Nov 2016	57.2	May 2016	52.9
Oct 2016	54.8	Apr 2016	55.7
Sep 2016	57.1	Mar 2016	54.5
Aug 2016	51.4	Feb 2016	53.4
Jul 2016	55.5	Jan 2016	53.5
Average for 12 months – 55.0			
High – 57.2			
Low – 51.4			

Business Activity

ISM®'s Business Activity Index in December registered 61.4 percent, a decrease of 0.3 percentage point from the November reading of 61.7 percent. This represents growth in business activity for the 89th consecutive month. Eleven industries reported increased business activity and four industries reported decreased activity for the month of December. Comments from respondents include: "Expanded business base" and "Business activity has remained strong and continues to increase."

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

	%	%	%	
Business Activity	Higher	Same	Lower	Index
Dec 2016	34	49	17	61.4
Nov 2016	32	55	13	61.7
Oct 2016	29	55	16	57.7
Sep 2016	33	54	13	60.3

New Orders

ISM®'s Non-Manufacturing New Orders Index registered 61.6 percent, an increase of 4.6 percentage points from the November reading of 57 percent. December represents growth in new orders for the 89th consecutive month at a faster rate compared to November.

Comments from respondents include: "Departments are trying to spend their budget money before year-end" and "New capital projects being initiated."

The 10 industries reporting growth of new orders in December — listed in order — are: Mining; Retail Trade; Finance & Insurance; Utilities; Information; Construction; Professional, Scientific & Technical Services; Health Care & Social Assistance; Accommodation & Food Services; and Other Services. The three industries reporting contraction of new orders in December are: Transportation & Warehousing; Public Administration; and Wholesale Trade.

	%	%	%	
New Orders	Higher	Same	Lower	Index
Dec 2016	33	50	17	61.6
Nov 2016	28	59	13	57.0
Oct 2016	28	56	16	57.7
Sep 2016	33	56	11	60.0

Employment

Employment activity in the non-manufacturing sector grew in December for the seventh consecutive month. ISM®'s Non-Manufacturing Employment Index registered 53.8 percent, which reflects a decrease of 4.4 percentage points when compared to the November reading of 58.2 percent. Nine industries reported increased employment, and four industries reported decreased employment. Comments from respondents include: "We reduced our workforce in December due to missed sales forecast and revenue misses" and "Less labor hours to align with reduced business needs."

The nine industries reporting an increase in employment in December — listed in order — are: Educational Services; Retail Trade; Finance & Insurance; Other Services; Construction;

Accommodation & Food Services; Health Care & Social Assistance; Professional, Scientific & Technical Services; and Public Administration. The four industries reporting a reduction in employment in December are: Utilities; Transportation & Warehousing; Wholesale Trade; and Information.

	%	%	%	
Employment	Higher	Same	Lower	Index
Dec 2016	20	65	15	53.8
Nov 2016	20	66	14	58.2
Oct 2016	20	63	17	53.1
Sep 2016	21	66	13	57.2

Supplier Deliveries

Supplier deliveries were slower in December for the 12th consecutive month. The index registered 52 percent, which is the same reading that was registered in November. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. Comments from respondents include: "More availability of supplier capacity" and "[The] supply chain speeds up during holidays."

The seven industries reporting slower deliveries in December — listed in order — are: Other Services; Transportation & Warehousing; Professional, Scientific & Technical Services; Wholesale Trade; Health Care & Social Assistance; Information; and Public Administration. The two industries reporting faster deliveries in December are: Retail Trade; and Agriculture, Forestry, Fishing & Hunting. Nine industries reported no change in supplier deliveries in December compared to November.

	%	%	%	
Supplier Deliveries	Slower	Same	Faster	Index
Dec 2016	10	84	6	52.0
Nov 2016	7	90	3	52.0
Oct 2016	7	87	6	50.5
Sep 2016	6	90	4	51.0

Inventories

ISM®'s Non-Manufacturing Inventories Index grew for the fourth consecutive month and registered 52 percent in December, which is 0.5 percentage point higher than the 51.5 percent that was reported in November. Of the total respondents in December, 32 percent indicated they do not have inventories, or do not measure them. Comments from

respondents include: "Increased equipment inventory to cover current projects" and "Inventory is marginally higher than last month in anticipation of holiday activity."

The nine industries reporting an increase in inventories in December — listed in order — are: Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Mining; Utilities; Health Care & Social Assistance; Retail Trade; Accommodation & Food Services; Construction; and Public Administration. The six industries reporting decreases in inventories in December — listed in order — are: Arts, Entertainment & Recreation; Educational Services; Professional, Scientific & Technical Services; Transportation & Warehousing; Wholesale Trade; and Other Services.

	%	%	%	
Inventories	Higher	Same	Lower	Index
Dec 2016	21	62	17	52.0
Nov 2016	22	59	19	51.5
Oct 2016	23	58	19	52.0
Sep 2016	21	61	18	51.5

Prices

Prices paid by non-manufacturing organizations for purchased materials and services increased in December for the ninth consecutive month. ISM®'s Non-Manufacturing Prices Index for December registered 57 percent, 0.7 percentage point higher than the 56.3 percent reported in November. The proportion of respondents reporting higher prices is 14 percent, 77 percent indicated no change in prices paid, and 9 percent of the respondents reported lower prices.

The eight non-manufacturing industries reporting an increase in prices paid during the month of December — listed in order — are: Mining; Utilities; Wholesale Trade; Retail Trade; Public Administration; Health Care & Social Assistance; Construction; and Professional, Scientific & Technical Services. The three industries reporting a decrease in prices paid for the month of December are: Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; and Information. Seven industries reported no change in prices in December compared to November.

	%	%	%	
Prices	Higher	Same	Lower	Index
Dec 2016	14	77	9	57.0
Nov 2016	12	81	7	56.3
Oct 2016	13	81	6	56.6
Sep 2016	15	73	12	54.0

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 contracted in December after three consecutive months of growth. The index registered 48 percent, which is 3 percentage points lower than the 51 percent reported in November. Of the total respondents in December, 38 percent indicated they do not measure backlog of orders.

The four industries reporting an increase in order backlogs in December are: Finance & Insurance; Professional, Scientific & Technical Services; Construction; and Retail Trade. The seven industries reporting a decrease in order backlogs in December — listed in order — are: Management of Companies & Support Services; Other Services; Information; Wholesale Trade; Health Care & Social Assistance; Public Administration; and Transportation & Warehousing.

	%	%	%	
Backlog of Orders	Higher	Same	Lower	Index
Dec 2016	13	70	17	48.0
Nov 2016	16	70	14	51.0
Oct 2016	19	66	15	52.0
Sep 2016	15	74	11	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 grew in December for the fourth consecutive month. The New Export Orders Index for December registered 53 percent, which is 4 percentage points lower than the 57 percent reported in November. Of the total respondents in December, 67 percent indicated they either do not perform, or do not separately measure, orders for work outside of the United States.

The five industries reporting an increase in new export orders in December are: Professional, Scientific & Technical Services; Mining; Construction; Accommodation & Food Services; and Wholesale Trade. The three industries reporting a decrease in new export orders in December are: Arts, Entertainment & Recreation; Public Administration; and Other Services. Eight industries reported no change in new export orders in December compared to November.

	%	%	%	
New Export Orders	Higher	Same	Lower	Index
Dec 2016	17	72	11	53.0
Nov 2016	19	76	5	57.0
Oct 2016	17	77	6	55.5
Sep 2016	19	75	6	56.5

Imports

Imports were unchanged in December after 10 consecutive months of growth. This month's reading at 50 percent is 4 percentage points lower than the reading of 54 percent reported in November. Fifty-six 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 December are: Agriculture, Forestry, Fishing & Hunting; Information; Accommodation & Food Services; and Wholesale Trade. The six industries reporting a decrease in imports for the month of December — listed in order — are: Arts, Entertainment & Recreation; Other Services; Health Care & Social Assistance; Construction; Professional, Scientific & Technical Services; and Retail Trade. Seven industries reported no change in imports in December compared to November.

	%	%	%	
Imports	Higher	Same	Lower	Index
Dec 2016	8	84	8	50.0
Nov 2016	16	76	8	54.0
Oct 2016	12	82	6	53.0
Sep 2016	11	80	9	51.0

Inventory Sentiment

The ISM® Non-Manufacturing Inventory Sentiment Index in December registered 61.5 percent, which is 1 percentage point higher than the reading of 60.5 percent reported in

November. This indicates that respondents believe their inventories are still too high at this time. In December, 29 percent of respondents said their inventories were too high, 6 percent said their inventories were too low, and 65 percent said their inventories were about right.

The 12 industries reporting a feeling that their inventories are too high in December — listed in order — are: Management of Companies & Support Services; Utilities; Wholesale Trade; Mining; Other Services; Information; Retail Trade; Finance & Insurance; Accommodation & Food Services; Construction; Public Administration; and Professional, Scientific & Technical Services. The three industries reporting a feeling that their inventories are too low in December are: Agriculture, Forestry, Fishing & Hunting; Transportation & Warehousing; and Health Care & Social Assistance.

Inventory Sentiment	%Too High	%About Right	%Too Low	Index
Dec 2016	29	65	6	61.5
Nov 2016	27	67	6	60.5
Oct 2016	29	66	5	62.0
Sep 2016	30	69	1	64.5

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 January 2017 data will be released at 10:00 a.m. (ET) on Friday, February 3, 2017.

*Unless the NYSE is closed.