ISM Report On Business®

DECEMBER 2010

PMI at 57%

New Orders, Production and Employment Growing; Supplier Deliveries Slower; Inventories Growing

Economic activity in the **manufacturing sector** expanded in December for the 17th consecutive month, and the overall economy grew for the 20th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM *Report On Business*®**.

The manufacturing sector continued its growth trend as indicated by this month's report. We saw significant recovery for much of the U.S. manufacturing sector in 2010. The recovery centered on strength in autos, metals, food, machinery, computers and electronics, while those industries tied primarily to housing continue to struggle. Additionally, manufacturers that export have benefitted from both global demand and the weaker dollar. December's strong readings in new orders and production, combined with positive comments from the panel, should create momentum as we go into the first quarter of 2011.

Of the 18 manufacturing industries, 11 are reporting growth in December, in the following order: Apparel, Leather & Allied Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Food, Beverage & Tobacco Products; Textile Mills; Plastics & Rubber Products; Transportation Equipment; Electrical Equipment, Appliances & Components; and Chemical Products. ISM

Analysis by Norbert J. Ore, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee.

MANUFACTURING AT A GLANCE

INDEX	DEC. INDEX	NOV. INDEX	% POINT CHANGE	DIRECTION	RATE OF CHANGE	TREND* (MONTHS)
PMI	57.0	56.6	+0.4	Growing	Faster	17
New Orders	60.9	56.6	+4.3	Growing	Faster	18
Production	60.7	55.0	+5.7	Growing	Faster	19
Employment	55.7	57.5	-1.8	Growing	Slower	13
Supplier Deliveries	55.9	57.2	-1.3	Slowing	Slower	19
Inventories	51.8	56.7	-4.9	Growing	Slower	6
Customers' Inventories	40.0	45.5	-5.5	Too Low	Faster	21
Prices	72.5	69.5	+3.0	Increasing	Faster	18
Backlog of Orders	47.0	46.0	+1.0	Contracting	Slower	4
Exports	54.5	57.0	-2.5	Growing	Slower	18
Imports	50.5	53.0	-2.5	Growing	Slower	16
OVERALL ECONOMY				**Growing**	**Faster**	**20**
MANUFACTURING SECTOR				**Growing**	**Faster**	**17**

**Number of months moving in current direction.*
Manufacturing ISM Report On Business® data is seasonally adjusted except for Backlog of Orders, Prices, Customers' Inventories, Imports and New Export Orders.

COMMODITIES REPORTED

Commodities Up in Price: Aluminum (4); Brass; Caustic Soda (5); Chemicals (3); Copper (5); Copper Based Products (2); Corn (4); Corrugated Containers (10); Diesel; Electronic Components; Gasoline; High Density Polyethylene; Natural Gas*; Nickel (2); PET; Plastic Resins (2); Polyester; Polyethylene (4); Resins (2); Soybean Oil (2); Stainless Steel (2); Starch; Steel (4); Steel Products; Sulfur; Tin Plate; Titanium Dioxide (2); and Wheat.

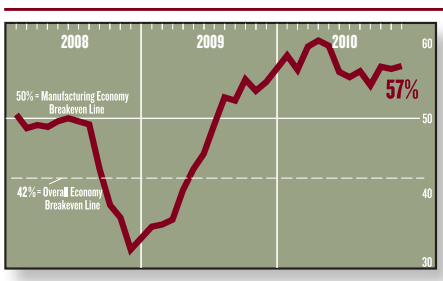
Commodities Down in Price: Natural Gas* (2) is the only commodity reported down in price.

Commodities in Short Supply: Cocoa Powder (4) is the only commodity reported in short supply.

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

**Reported as both up and down in price.*

‡Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

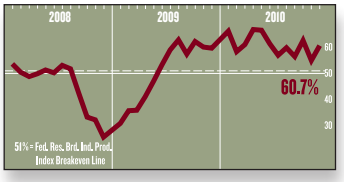


PMI

A PMI in excess of 42 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the PMI indicates growth for the 20th consecutive month in the overall economy, as well as expansion in the manufacturing sector for the 17th consecutive month. The past relationship between the PMI and the overall economy indicates that the average PMI for January through December (57.3 percent) corresponds to a 5.1 percent increase in real gross domestic product (GDP). In addition, if the PMI for December (57 percent) is annualized, it corresponds to a 5 percent increase in real GDP annually.

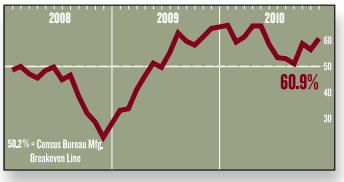
‡Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

PRODUCTION



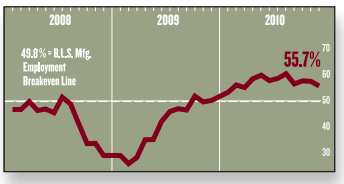
ISM's Production Index registered 60.7 percent in December, which is an increase of 5.7 percentage points from the November reading of 55 percent. The nine industries reporting growth in production during the month of December — listed in order — are: Apparel, Leather & Allied Products; Computer & Electronic Products; Primary Metals; Furniture & Related Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Machinery; Transportation Equipment; and Chemical Products.

NEW ORDERS



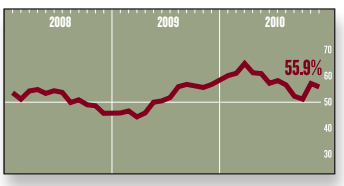
ISM's New Orders Index registered 60.9 percent in December. The 10 industries reporting growth in new orders in December — listed in order — are: Apparel, Leather & Allied Products; Primary Metals; Furniture & Related Products; Computer & Electronic Products; Machinery; Electrical Equipment, Appliances & Components; Fabricated Metal Products; Miscellaneous Manufacturing‡; Food, Beverage & Tobacco Products; and Transportation Equipment.

EMPLOYMENT



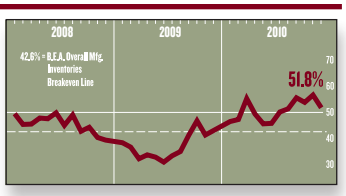
ISM's Employment Index registered 55.7 percent in December, which is 1.8 percentage points lower than the 57.5 percent reported in November. Nine of the 18 manufacturing industries reported growth in employment in December in the following order: Apparel, Leather & Allied Products; Primary Metals; Fabricated Metal Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Transportation Equipment; Machinery; Electrical Equipment, Appliances & Components; and Paper Products.

SUPPLIER DELIVERIES



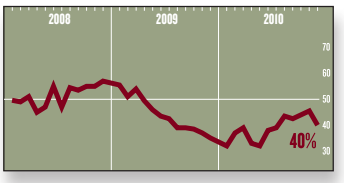
The delivery performance of suppliers to manufacturing organizations was slower in December as the Supplier Deliveries Index registered 55.9 percent. The eight industries reporting slower supplier deliveries in December — listed in order — are: Plastics & Rubber Products; Primary Metals; Fabricated Metal Products; Machinery; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; Chemical Products; and Transportation Equipment.

INVENTORIES



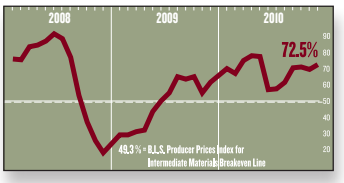
Manufacturers' inventories grew for the sixth consecutive month in December, but at a slower rate as the Inventories Index registered 51.8 percent. The index is 4.9 percentage points lower than the 56.7 percent reported in November. The six industries reporting higher inventories in December — listed in order — are: Apparel, Leather & Allied Products; Textile Mills; Machinery; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Chemical Products.

CUSTOMERS' INVENTORIES



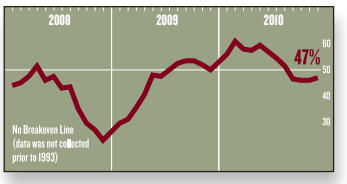
The ISM Customers' Inventories Index registered 40 percent in December, 5.5 percentage points lower than in November when the index registered 45.5 percent. This is the 21st consecutive month the Customers' Inventories Index has been below 50 percent, indicating that respondents believe their customers' inventories are too low at this time. The two manufacturing industries reporting customers' inventories as being too high during December are: Textile Mills and Miscellaneous Manufacturing‡.

PRICES



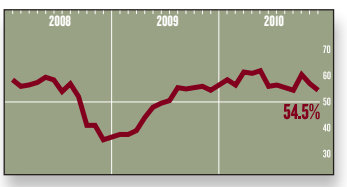
The ISM Prices Index registered 72.5 percent in December. Fourteen industries reported paying increased prices during the month of December in the following order: Plastics & Rubber Products; Paper Products; Printing & Related Support Activities; Primary Metals; Chemical Products; Textile Mills; Food, Beverage & Tobacco Products; Transportation Equipment; Machinery; Fabricated Metal Products; Computer & Electronic Products; Miscellaneous Manufacturing‡; Nonmetallic Mineral Products; and Electrical Equipment, Appliances & Components.

BACKLOG OF ORDERS



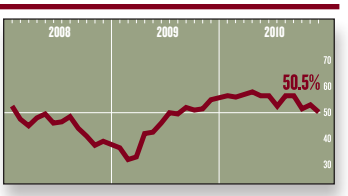
ISM's Backlog of Orders Index registered 47 percent in December, which is 1 percentage point higher than the 46 percent reported in November. The six industries reporting increased order backlogs in December — listed in order — are: Apparel, Leather & Allied Products; Primary Metals; Furniture & Related Products; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing‡; and Transportation Equipment.

NEW EXPORT ORDERS



ISM's New Export Orders Index registered 54.5 percent in December, which is 2.5 percentage points lower than the 57 percent reported in November. The eight industries reporting growth in new export orders in December — listed in order — are: Apparel, Leather & Allied Products; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing‡; Machinery; Transportation Equipment; and Chemical Products.

IMPORTS



Imports of materials by manufacturers continued to expand in December as the Imports Index registered 50.5 percent, which is 2.5 percentage points lower than the 53 percent reported in November. The six industries reporting growth in imports during the month of December — listed in order — are: Apparel, Leather & Allied Products; Plastics & Rubber Products; Machinery; Transportation Equipment; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

ISM Report On Business®

DECEMBER 2010

NMI at 57.1%

Business Activity Index at 63.5%; New Orders Index at 63%; Employment Index at 50.5%

Economic activity in the **non-manufacturing sector** grew in December for the 12th consecutive month, say the nation's purchasing and supply executives in the latest **Non-Manufacturing ISM** ***Report On Business®***.

The NMI registered 57.1 percent in December, 2.1 percentage points higher than the 55 percent registered in November, and indicating continued growth in the non-manufacturing sector. The Non-Manufacturing Business Activity Index increased 6.5 percentage points to 63.5 percent, reflecting growth for the 13th consecutive month at a faster rate than in November. The New Orders Index increased 5.3 percentage points to 63 percent, and the Employment Index decreased 2.2 percentage points to 50.5 percent, indicating growth in employment for the fourth consecutive month, but at a slower rate. The Prices Index increased 6.8 percentage points to 70 percent, indicating that prices increased significantly in December. Respondents' comments vary by company and industry, but overall are mostly positive about business conditions.

The 14 industries reporting growth in December based on the NMI composite index — listed in order — are: Real Estate, Rental & Leasing; Retail Trade; Information; Mining; Transportation & Warehousing; Professional, Scientific & Technical Services; Utilities; Finance & Insurance; Management of Companies & Support Services; Wholesale Trade; Arts, Entertainment & Recreation; Health Care & Social Assistance; Accommodation & Food Services; and Construction. ISM

Analysis by **Anthony Nieves, C.P.M., CFPM,** chair of the Institute for Supply Management™ Non-Manufacturing Business Survey Committee.

NON-MANUFACTURING AT A GLANCE

INDEX	DEC. INDEX	NOV. INDEX	% POINT CHANGE	DIRECTION	RATE OF CHANGE	TREND* (MONTHS)
NMI	57.1	55.0	+2.1	Growing	Faster	12
Business Activity	63.5	57.0	+6.5	Growing	Faster	13
New Orders	63.0	57.7	+5.3	Growing	Faster	16
Employment	50.5	52.7	-2.2	Growing	Slower	4
Supplier Deliveries	51.5	52.5	-1.0	Slowing	Slower	9
Inventories	52.5	51.5	+1.0	Growing	Faster	2
Prices	70.0	63.2	+6.8	Increasing	Faster	17
Backlog of Orders	48.5	51.5	-3.0	Contracting	From Growing	1
New Export Orders	56.0	59.5	-3.5	Growing	Slower	4
Imports	51.0	54.5	-3.5	Growing	Slower	5
Inventory Sentiment	61.5	60.0	+1.5	Too High	Faster	163

**Number of months moving in current direction.*
Non-Manufacturing ISM Report On Business® *data is seasonally adjusted for the Business Activity, New Orders, Prices and Employment Indexes.*

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

COMMODITIES REPORTED

Commodities Up in Price: Airfares; Batteries; Beef; Copper Products; Cotton (2); Cotton Products (4); #1 Diesel Fuel (3); #2 Diesel Fuel (6); Fuel (12); Gasoline (3); Heating Fuel; Liner Bags; Paper (2); Polyester and Polyester Products; Polyethylene Bags; Service Labor; Soy Oil; Steel; Steel Products; Sugar; Transportation Costs; and Waste Management Services.

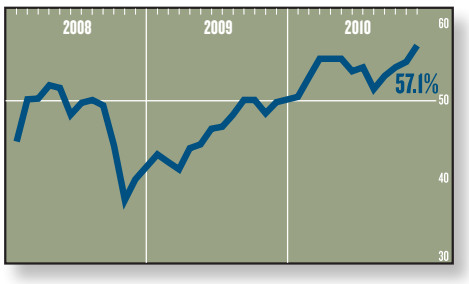
Commodities Down in Price: Computer and Peripherals; and Pork Products.

Commodities in Short Supply: Coated Groundwood (6); and Electronic Parts.

✣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).

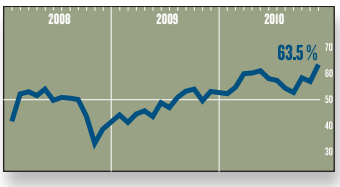
NMI

In December, the NMI registered 57.1 percent, indicating continued growth in the non-manufacturing sector for the 12th 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.



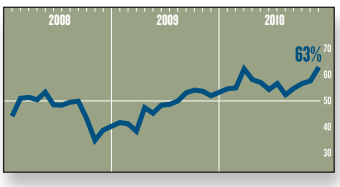
✣Other Services (services such as Equipment & Machinery Repairing; Promoting or Administering Religious Activities; Grantmaking; Advocacy; and Providing Dry-Cleaning & Laundry Services, Personal Care Services, Death Care Services, Pet Care Services, Photofinishing Services, Temporary Parking Services, and Dating Services).

BUSINESS ACTIVITY



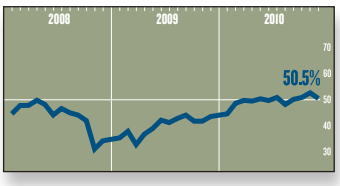
ISM's Non-Manufacturing Business Activity Index in December registered 63.5 percent. The 14 industries reporting growth of business activity in December are: Real Estate, Rental & Leasing; Retail Trade; Information; Professional, Scientific & Technical Services; Accommodation & Food Services; Mining; Arts, Entertainment & Recreation; Transportation & Warehousing; Management of Companies & Support Services; Utilities; Construction; Finance & Insurance; Health Care & Social Assistance; and Wholesale Trade.

NEW ORDERS



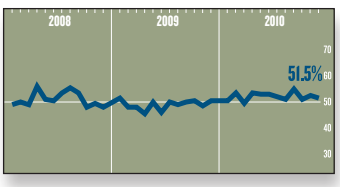
ISM's Non-Manufacturing New Orders Index registered 63 percent in December. The 14 industries reporting growth of new orders in December — listed in order — are: Real Estate, Rental & Leasing; Mining; Retail Trade; Information; Arts, Entertainment & Recreation; Construction; Transportation & Warehousing; Professional, Scientific & Technical Services; Finance & Insurance; Management of Companies & Support Services; Health Care & Social Assistance; Utilities; Accommodation & Food Services; and Wholesale Trade.

EMPLOYMENT



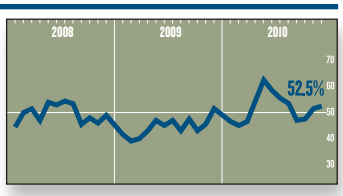
Employment activity in the non-manufacturing sector grew in December, as ISM's Non-Manufacturing Employment Index registered 50.5 percent. This reflects a decrease of 2.2 percentage points when compared to the 52.7 percent registered in November. The nine industries reporting an increase in employment in December — listed in order — are: Mining; Retail Trade; Information; Other Services✣; Utilities; Finance & Insurance; Transportation & Warehousing; Professional, Scientific & Technical Services; and Educational Services.

SUPPLIER DELIVERIES



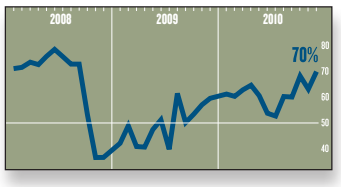
The Supplier Deliveries Index registered 51.5 percent in December, 1 percentage point lower than the 52.5 percent registered in November, indicating that supplier deliveries continued to slow in December. A reading above 50 percent indicates slower deliveries. The three industries reporting slower deliveries in December are: Wholesale Trade; Retail Trade; and Public Administration.

INVENTORIES



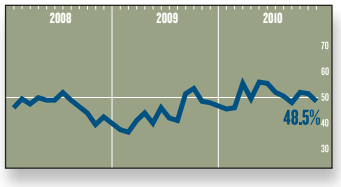
ISM's Non-Manufacturing Inventories Index registered 52.5 percent in December, indicating that inventory levels grew in December for the second consecutive month. The six industries reporting an increase in inventories in December — listed in order — are: Real Estate, Rental & Leasing; Retail Trade; Utilities; Transportation & Warehousing; Professional, Scientific & Technical Services; and Wholesale Trade.

PRICES



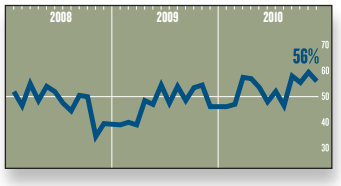
ISM's Non-Manufacturing Prices Index for December registered 70 percent. In December, 15 industries reported an increase in prices paid, in the following order: Agriculture, Forestry, Fishing & Hunting; Wholesale Trade; Educational Services; Accommodation & Food Services; Other Services✣; Utilities; Mining; Public Administration; Finance & Insurance; Management of Companies & Support Services; Professional, Scientific & Technical Services; Health Care & Social Assistance; Construction; Information; and Retail Trade.

BACKLOG OF ORDERS



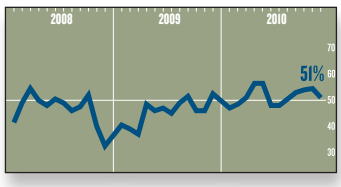
ISM's Non-Manufacturing Backlog of Orders Index contracted in December after two consecutive months of growth. The index registered 48.5 percent, 3 percentage points lower than the 51.5 percent reported in November. The five industries reporting an increase in order backlogs in December are: Mining; Utilities; Construction; Retail Trade; and Health Care & Social Assistance.

NEW EXPORT ORDERS



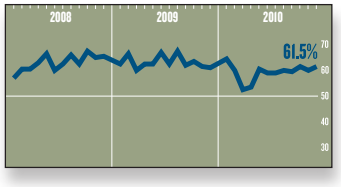
Orders and requests for services and other non-manufacturing activities to be provided outside of the United States by domestically based personnel grew at a slower rate in December. The New Export Orders Index for December registered 56 percent. Eight industries reported an increase in new export orders in December in the following order: Construction; Information; Mining; Accommodation & Food Services; Other Services✣; Retail Trade; Transportation & Warehousing; and Wholesale Trade.

IMPORTS



The ISM Non-Manufacturing Imports Index grew in December for the fifth consecutive month, but at a slower rate. The index registered 51 percent, which is 3.5 percentage points lower than the 54.5 percent reported in November. The four industries reporting an increase in the use of imports in December are: Information; Retail Trade; Agriculture, Forestry, Fishing & Hunting; and Management of Companies & Support Services.

INVENTORY SENTIMENT



The ISM Non-Manufacturing Inventory Sentiment Index in December registered 61.5 percent. This indicates that respondents believe their inventories are too high at this time. The seven industries reporting a feeling that their inventories are too high in December — listed in order — are: Other Services✣; Wholesale Trade; Health Care & Social Assistance; Utilities; Finance & Insurance; Professional, Scientific & Technical Services; and Accommodation & Food Services.