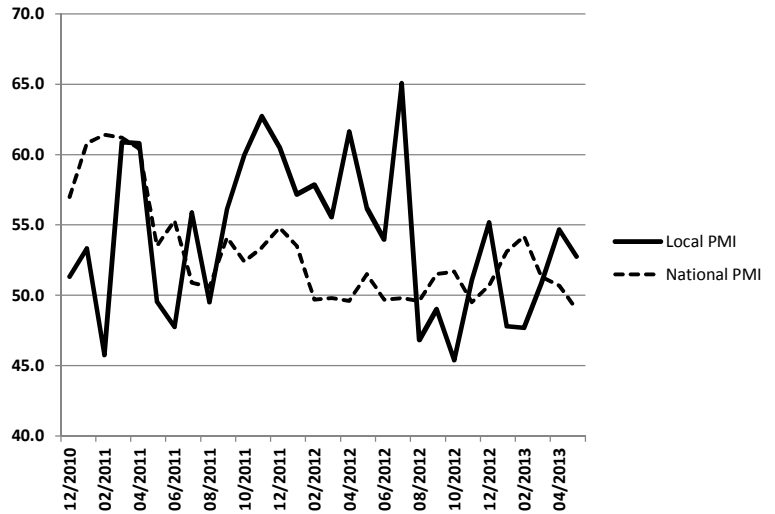


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**The PMI Index**

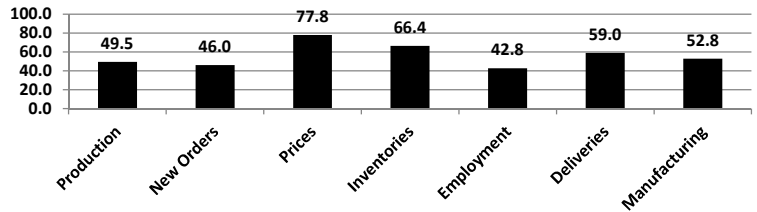
The local seasonally adjusted PMI Index for May is 52.8. March and April's results were 50.9 and 54.7 respectively, this relates the third straight month of expansion based on survey results. The Buffalo-Niagara region has outpaced the national index the past two months, with the national number actually slipping into decreasing territory at 49.0 for the month of May.

Monthly seasonally adjusted numbers are featured in the table below. New Orders fell to 46.0, off from last month's 66.7 sliding into contractionary territory. Deliveries continue to expand at 59.0 remaining relatively steady compared to last month's index value of 57.3. Results from the past two months have generally been positive, although there may be cause for concern looking to future months. This month seasonally adjusted production and manufacturing slipped downward. When coupled with increasing inventories and it may signal decreasing activity unless New Orders show some strength to pull off some of those inventories. Outside the region, global macroeconomic threats remain much the same when looking to the eurozone although the additional recent unrest in Brazil is a new development.



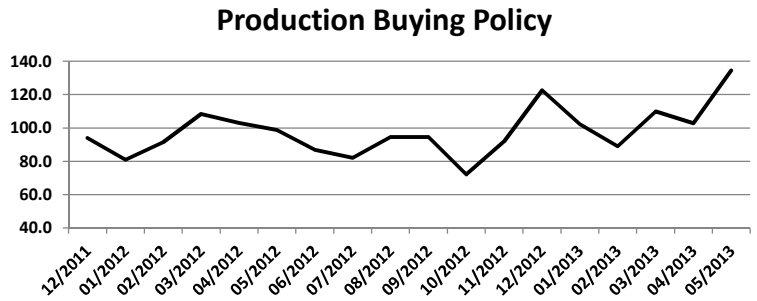
**This month (Seasonally Adjusted)**

| Index         | Index | Direction  | Rate of Change |
|---------------|-------|------------|----------------|
| Production    | 49.5  | Decreasing | Decreasing     |
| New Orders    | 46.0  | Decreasing | Increasing     |
| Prices        | 77.8  | Increasing | Increasing     |
| Inventories   | 66.4  | Increasing | Increasing     |
| Employment    | 42.8  | Decreasing | Increasing     |
| Deliveries    | 59.0  | Increasing | Increasing     |
| Manufacturing | 52.8  | Increasing | Decreasing     |



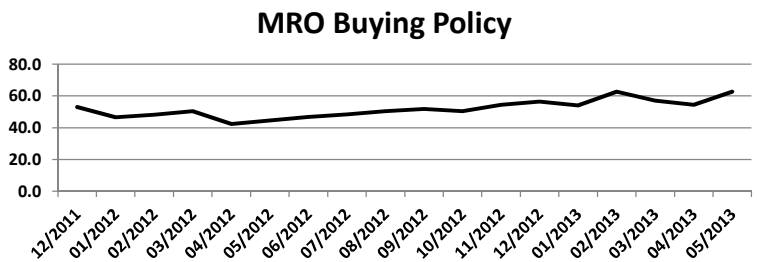
**Production Buying Policy**

Survey respondents report days ahead commitments for production material increased to 134.4 from 110.0 days in April. The longer term trend from 3rd quarter 2012 of generally increasing lengths of commitments seems to be continuing.



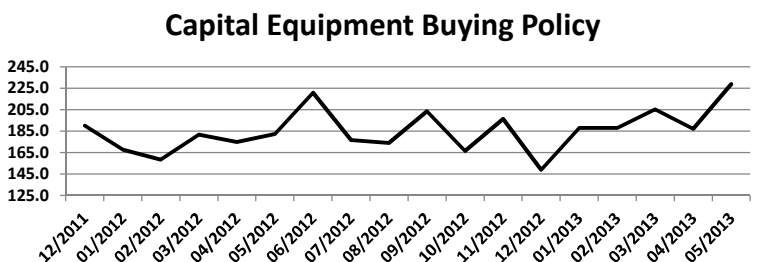
**MRO Buying Policy**

This month respondents report having 62.8 days ahead for MRO supplies, ticking up from April's 54.5 days. The slow and steady upward trend since last year's bottom in April seems to be broadly holding, although this series does not exhibit as large a variance as some of the other measures.



**Capital Equipment Buying Policy**

Manufacturers are looking out an average of 228.9 days and making commitments for capital equipment, a bit of an upward break from recent index values. Capital Equipment Buying Policy day commitments have not reached values this high in the past 18 months.

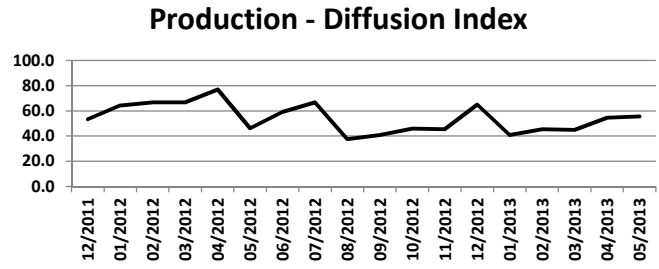


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**The Production level was:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 33.3%  | 44.4% | 22.2% | 55.6  | 46.2     |
| April 2013 | 27.3%  | 54.5% | 18.2% | 54.5  | 76.9     |
| March 2013 | 30.0%  | 30.0% | 40.0% | 45.0  | 66.7     |

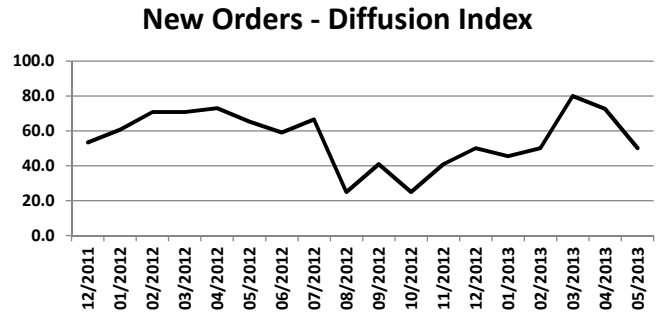
The Production diffusion index ticked up slightly from April's levels, staying in positive territory. Minus the volatility and dip at year end 2012 production has been generally increasing since mid 2012.



**New Orders were reported:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 44.4%  | 11.1% | 44.4% | 50.0  | 65.4     |
| April 2013 | 63.6%  | 18.2% | 18.2% | 72.7  | 73.1     |
| March 2013 | 70.0%  | 20.0% | 10.0% | 80.0  | 70.8     |

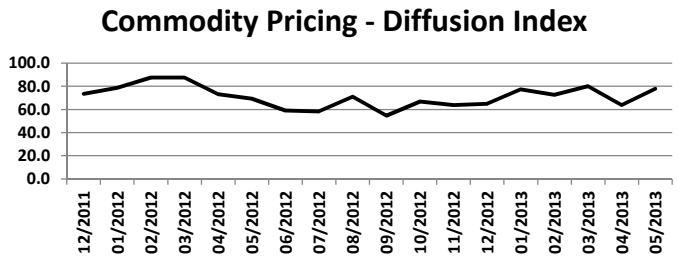
Following the strong results in New Orders the past two months, it might not be that surprising to have a bit slower growth. With an index of 50.0 New Orders are essentially unchanged. My bigger concern with the New Order fall off is if orders slow and are accompanied by an increase in inventories (as shown below) it might signal future decreases in production.



**Commodity prices are:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 55.6%  | 44.4% | 0.0%  | 77.8  | 69.2     |
| April 2013 | 36.4%  | 54.5% | 9.1%  | 63.6  | 73.1     |
| March 2013 | 60.0%  | 40.0% | 0.0%  | 80.0  | 87.5     |

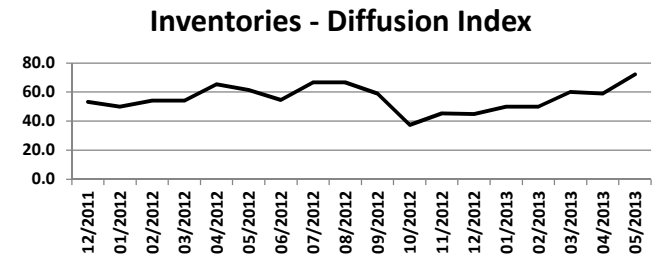
Commodity price pressure continues, bouncing back from a slightly less strong 63.6. Ben Bernanke has signaled that quantitative easing may be slowing over the medium to longer term, but with these continued strong price increases it may be after inflation reaches the retail consumer level.



**Inventories of purchased goods were:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 55.6%  | 33.3% | 11.1% | 72.2  | 61.5     |
| April 2013 | 27.3%  | 63.6% | 9.1%  | 59.1  | 65.4     |
| March 2013 | 40.0%  | 40.0% | 20.0% | 60.0  | 54.1     |

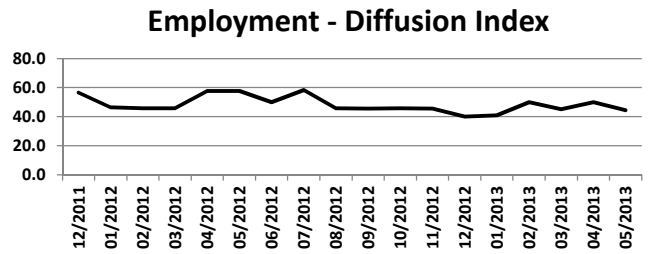
The Inventories of purchased goods index ticked up this month and is something to be watching in relation to some of the other measures. According to the reason, inventories increasing can be good or bad. Is it due to increased expectations of future sales or lower than anticipated current sales?



**Employment levels were:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 11.1%  | 66.7% | 22.2% | 44.4  | 57.7     |
| April 2013 | 18.2%  | 63.6% | 18.2% | 50.0  | 57.7     |
| March 2013 | 0.0%   | 90.0% | 10.0% | 45.0  | 45.9     |

Employment slid below the 50.0 mark this month to 44.4, relating a bit of a contraction in employment. This month's index value is approximately in line with recent results showing continued weakness or employment at the status quo.



**Vendor Deliveries were:**

| Period     | Higher | Same  | Lower | Index | Prior Yr |
|------------|--------|-------|-------|-------|----------|
| May 2013   | 22.2%  | 77.8% | 0.0%  | 61.1  | 61.5     |
| April 2013 | 18.2%  | 81.8% | 0.0%  | 59.1  | 61.5     |
| March 2013 | 0.0%   | 90.0% | 10.0% | 45.0  | 58.3     |

Vendor deliveries increased slightly to 61.1 from last month's 59.1, essentially flat. With increasing vendor deliveries this could result in greater inventory increases according to how many orders are outstanding for manufactured goods.

