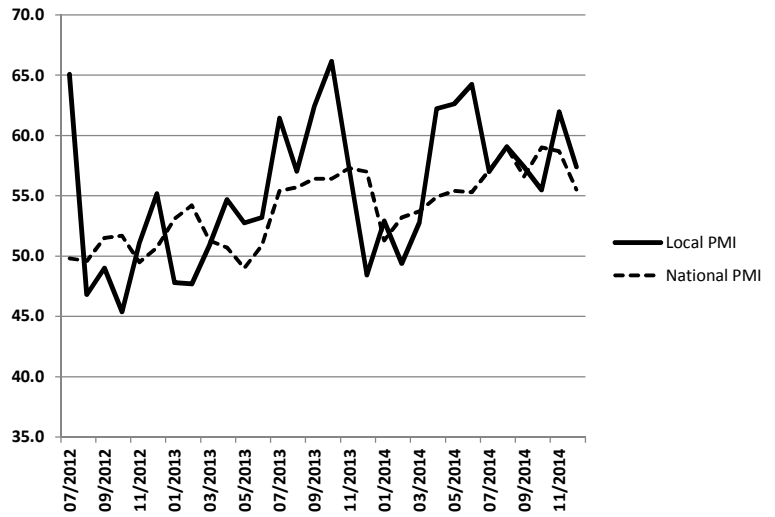


**Institute of Supply Management - Buffalo**  
**December 2014 Business Survey Monthly Comparison Report**

**The PMI Index**

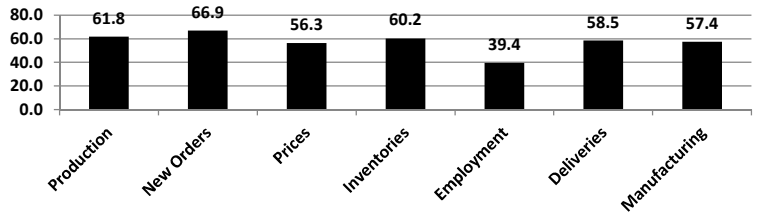
Manufacturing activity increased in the Buffalo area to close out 2014 based on December's local PMI. This month's local PMI value was 57.4, decreasing slightly from November's 62.0 level. The national PMI also eased from prior month levels while remaining in positive territory coming in at 55.5. In looking at statewide activity in November, the Empire State Manufacturing Report generated by the NYC Federal Reserve Branch dipped into negative territory for the first time in two years, locally we generally exhibited favorable results to prior month excepting the employment index.

Looking at other indices locally, the employment index fell back into decreasing territory in December with a seasonally adjusted value of 39.4. While overall manufacturing activity has been consistently strong in recent month, respondents have reported contractionary employment results two of the last three months if you consider the non-adjusted results on the second page. Although this certainly doesn't signal a long term trend, as productivity has increased in recent years total manufacturing employment has trended down in the greater Buffalo-Niagara region. While total orders and output may continue to increase over the longer term, I do expect that trend likely to continue over time. Much of the manufacturing styled "renaissance" in the US has not led to broad increases in employment among low to mid-skilled workers and instead are more technologically focused.



**This month (Seasonally Adjusted)**

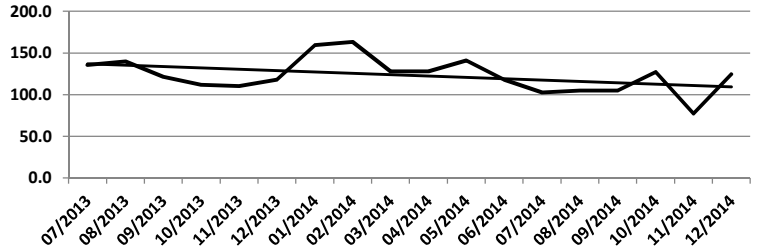
Index	Index	Direction	Rate of Change
Production	61.8	Increasing	Decreasing
New Orders	66.9	Increasing	Flat
Prices	56.3	Increasing	Increasing
Inventories	60.2	Increasing	Increasing
Employment	39.4	Decreasing	Increasing
Deliveries	58.5	Increasing	Flat
Manufacturing	57.4	Increasing	Flat



**Production Buying Policy**

Survey respondents reported days ahead commitments rebounded nicely in December to 124.4 days from 77.1 days in November. Although production buying policy does continue down its broadly decreasing trend, November seemed like a notable outlier with its marked decrease. While not sharp, the trend has been fairly consistent since February of this year.

**Production Buying Policy**

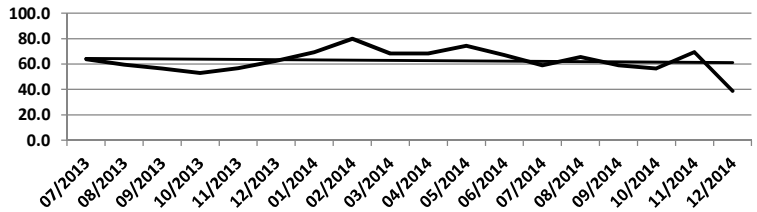


**MRO Buying Policy**

(Maintenance, Repair, and Operating)

Maintenance, Repair, and Operating (MRO) supplies fell off during December to 38.8 days from November's 69.3. The past two months have shown to be more variable in terms of movement than seem normal for this series. Although there was not a dip in prior year, it seems reasonable to think there could have been a draw down at the end of the year if holding this inventory not involved in the production process may have tax implications.

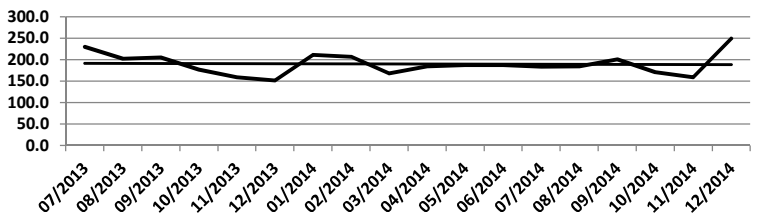
**MRO Buying Policy**



**Capital Equipment Buying Policy**

Manufacturers report making capital equipment buying commitments an average of 249.4 days ahead, increasing notably from November's 159.3. With this movement, the long term trend turned slightly positive following declines in October and November and may serve as a positive indicator for 2015 in terms of productive capability for respondent firms.

**Capital Equipment Buying Policy**



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**The Production level was:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2014	50.0%	12.5%	37.5%	56.3	43.8
November 2014	57.1%	28.6%	14.3%	71.4	59.1
October 2014	40.0%	30.0%	30.0%	55.0	76.9

The Production diffusion index marked a full year of individual months denoting increasing production activity relative to prior month. At this point in 2013 I was markedly more concerned in terms of recent index results, as October 2013 was a sharp increase but November and December appeared to possibly signal a downward trend.

**New Orders were reported:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2014	50.0%	25.0%	25.0%	62.5	56.3
November 2014	57.1%	14.3%	28.6%	64.3	54.5
October 2014	40.0%	20.0%	40.0%	50.0	73.1

The non-seasonally adjusted New Orders index proved to be relatively flat relative to November values, slightly falling to 62.5. With the past two months exhibiting values well above the 50.0 mark denoting expansion, it could relate a positive outlook in the coming months.

**Commodity Prices are:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2014	12.5%	87.5%	0.0%	56.3	56.3
November 2014	14.3%	71.4%	14.3%	50.0	50.0
October 2014	20.0%	70.0%	10.0%	55.0	46.2

The Commodity Price diffusion index continues in expansionary territory at 56.3, with no participating firms reporting lower prices relative to prior month. I admit a bit of surprise at this result with the recent drop in oil prices. Looking at All Commodity PPI Index for October/November relate drops in input prices for producers nationally, while local firms are yet to report the same phenomenon.

**Inventories of Purchased Goods were:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2014	37.5%	37.5%	25.0%	56.3	37.5
November 2014	28.6%	42.9%	28.6%	50.0	54.5
October 2014	40.0%	30.0%	30.0%	55.0	65.4

The Inventories of Purchased Goods index continued in positive territory in December at 56.3 after flirting with the 50.0 mark in November. While MRO supplies may have been drawn down at year end, it doesn't seem that purchased goods inventories exhibited the same contractionary behavior.

**Employment Levels were:**

Period	Higher	Same	Lower	Index	Prior Yr
December 2014	12.5%	50.0%	37.5%	37.5	37.5
November 2014	28.6%	42.9%	28.6%	50.0	45.5
October 2014	10.0%	70.0%	20.0%	45.0	46.2

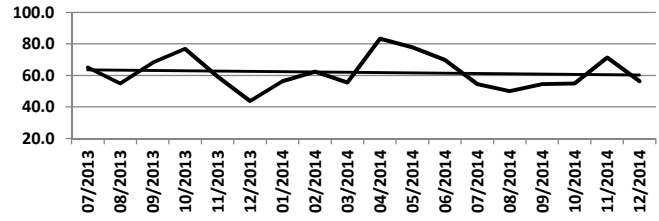
The non-seasonally adjusted Employment index came in at 37.5 during December with this activity mirroring the contraction from past year. We had a sluggish first quarter of 2014, so this is definitely an area to watch as we proceed into the New Year.

**Vendor Deliveries were:**

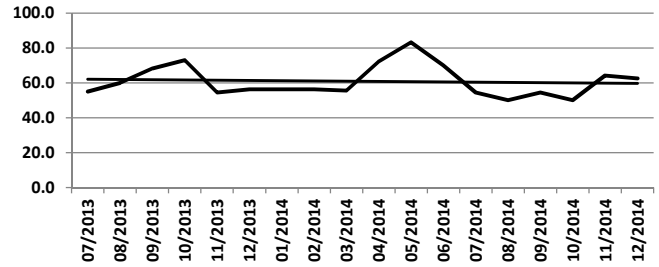
Period	Higher	Same	Lower	Index	Prior Yr
December 2014	12.5%	87.5%	0.0%	56.3	50.0
November 2014	28.6%	57.1%	14.3%	57.1	54.5
October 2014	10.0%	90.0%	0.0%	55.0	50.0

The Vendor Deliveries index remained relatively flat in December, the majority of respondents reported their being the same relative to prior month. This month continued below the longer term trend line, while remaining in positive territory.

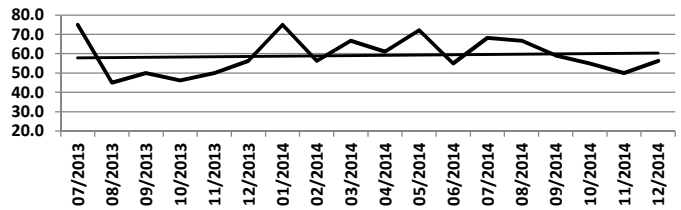
**Production - Diffusion Index**



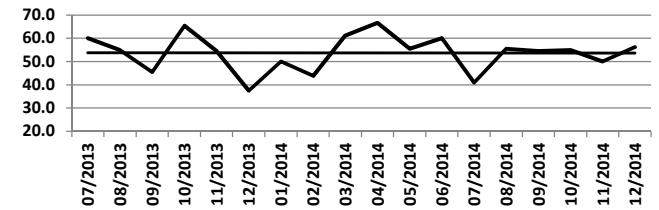
**New Orders - Diffusion Index**



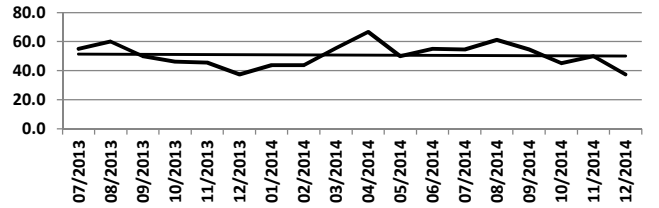
**Commodity Pricing - Diffusion Index**



**Inventories - Diffusion Index**



**Employment - Diffusion Index**



**Vendor Deliveries - Diffusion Index**

