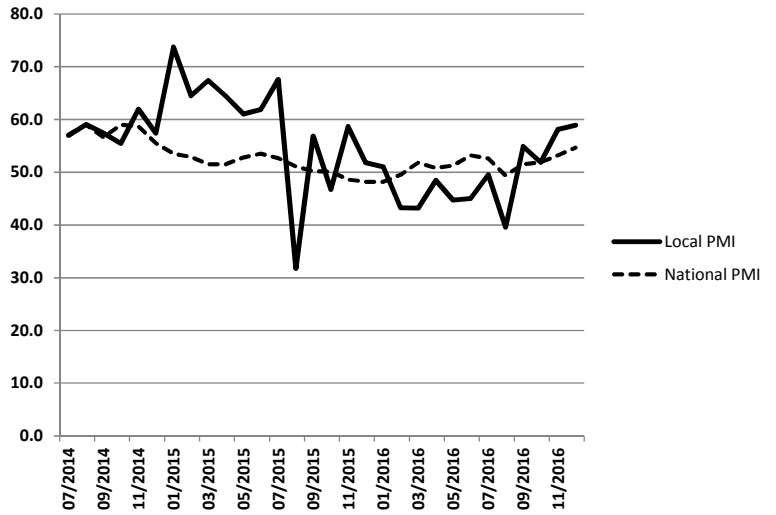


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The PMI Index

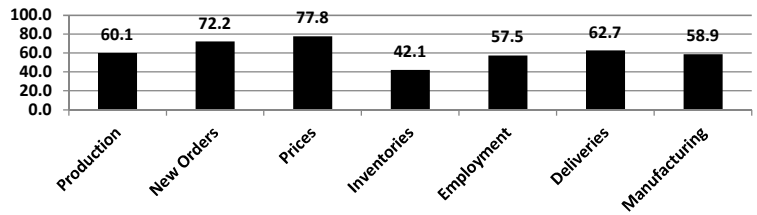
Favorable local results continued in December with a Buffalo-Niagara Manufacturing index value of 58.9, our fourth straight month in expansionary territory (where values of 50.0 or greater indicate increased activity). We improved relative to last month's local index value of 58.1 and bested the national ISM manufacturing index which registered a 54.7 in December. Regionally, the NY Fed's Empire State Manufacturing Survey, which surveys manufacturers statewide, also showed favorable results with its general business index registering the highest value since April of this year. Almost all macroeconomic indicators have been exhibiting favorable results in recent months. With that said, I remain personally concerned about the statements president-elect Trump has been making regarding trade restrictions, but otherwise it seems markets and indicators of the macroeconomy are finishing (or beginning, as I write this in January) the year strong.

Looking to the other local indices, production again increased relative to November levels with a seasonally adjusted index value of 60.1. Both New Orders and Employment again showed favorable increases relative to prior month as well. Inventories decreased yet again relative to prior month, in the face of the strong results it is possible that respondents are managing inventories more efficiently. Prices show some continued upward pressure in December to close the year with an index value of 77.8.



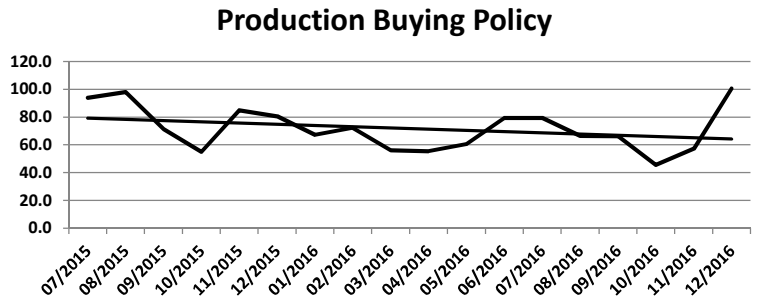
This month (Seasonally Adjusted)

Index	Index	Direction	Rate of Change
Production	60.1	Increasing	Decreasing
New Orders	72.2	Increasing	Increasing
Prices	77.8	Increasing	Increasing
Inventories	42.1	Decreasing	Flat
Employment	57.5	Increasing	Increasing
Deliveries	62.7	Faster	Decreasing
Manufacturing	58.9	Increasing	Flat



Production Buying Policy

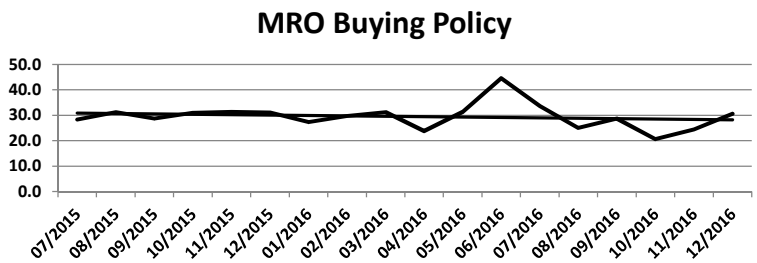
Days ahead production commitments among respondents registered 100.6 days in December, markedly up from the 57.2 days in November and 2016's yearly low of 45.6 days in October. We broke well above the long term trend line this month registering the greatest number of days ahead that respondents have production commitments in the past 18 months. This is one of the strongest moves in the overall report, and can be seen as a positive near term indicator. I personally am interested to see where this series moves after such a marked increase.



MRO Buying Policy

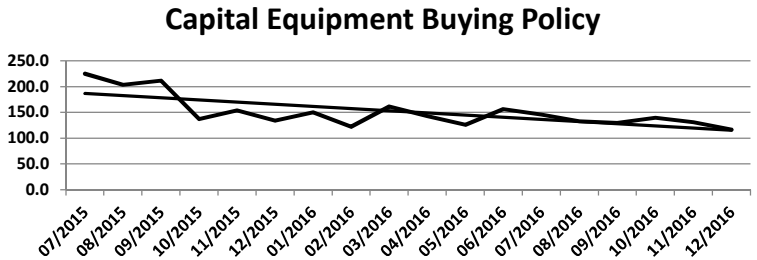
(Maintenance, Repair, and Operating)

Maintenance, Repair, and Operating (MRO) supplies on hand increased to 30.6 days in December, an increase from the last two months' 24.4 and 20.6 days, respectively. Excepting the outlier in June, this is very near the average on hand levels we've seen in the past 18 months.



Capital Equipment Buying Policy

Manufacturers report making capital equipment buying commitments an average of 116.7 days in December off from the 130.6 days reported last month. We are closing 2016 near the low end of the 130-150 day range we've seen since approximately October of 2015. The strength in other series in recent months is yet to creep into capital equipment buying decisions.



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The Production level was:

Period	Higher	Same	Lower	Index	Prior Yr
December 2016	44.4%	22.2%	33.3%	55.6	66.7
November 2016	55.6%	33.3%	11.1%	72.2	72.7
October 2016	25.0%	37.5%	37.5%	43.8	45.0

The non-seasonally adjusted Production diffusion index registered an index value of 55.6 in December, falling from the sharp increase the index registered at 72.2 in November. We remain comfortably in the range reflecting increases in production relative to prior month, while the rate of change has decreased to close the year.

New Orders were reported:

Period	Higher	Same	Lower	Index	Prior Yr
December 2016	44.4%	44.4%	11.1%	66.7	38.9
November 2016	33.3%	44.4%	22.2%	55.6	54.5
October 2016	37.5%	37.5%	25.0%	56.3	50.0

The non-seasonally adjusted New Orders index increased in December to 66.7 following the positive and fairly stable values in the 55-56 range we've seen in October/November. This month's value ties the strongest positive movement we've seen in the past 18 months (July 2015). This series I especially watch in terms of being a harbinger for future expected production activity and buying decisions.

Commodity Prices are:

Period	Higher	Same	Lower	Index	Prior Yr
December 2016	55.6%	44.4%	0.0%	77.8	44.4
November 2016	44.4%	44.4%	11.1%	66.7	40.9
October 2016	12.5%	75.0%	12.5%	50.0	40.0

The Commodity Price diffusion index registered a value of 77.8 in December, up from 66.7 in November. This bested the next highest index value in the past 18 months from May of this year at 77.3. We haven't had significant price pressures over recent months (or years, really). If continued, increasing pressure in commodity prices over time lead to increasing consumer prices encouraging the Fed to act.

Inventories of Purchased Goods were:

Period	Higher	Same	Lower	Index	Prior Yr
December 2016	0.0%	77.8%	22.2%	38.9	33.3
November 2016	0.0%	77.8%	22.2%	38.9	45.5
October 2016	12.5%	50.0%	37.5%	37.5	35.0

The Inventories of Purchased Goods index remained in contractionary territory in December with *no* respondents reporting increasing inventories relative to November levels. This has been consistent in 2016 if nothing else, showing persistent contractionary values throughout much of the year.

Employment Levels were:

Period	Higher	Same	Lower	Index	Prior Yr
December 2016	33.3%	44.4%	22.2%	55.6	50.0
November 2016	11.1%	77.8%	11.1%	50.0	63.6
October 2016	12.5%	75.0%	12.5%	50.0	50.0

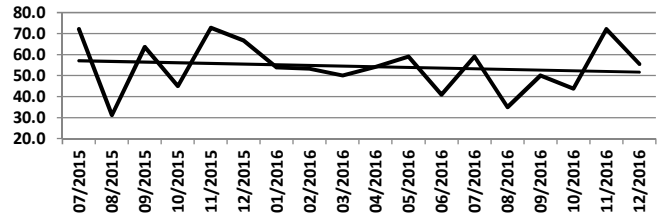
The non-seasonally adjusted Employment index moved above the 50.0 mark in December after two straight months at that value. This signals increasing employment relative to November levels. One third of respondents reported greater employment levels relative to prior month.

Vendor Deliveries were:

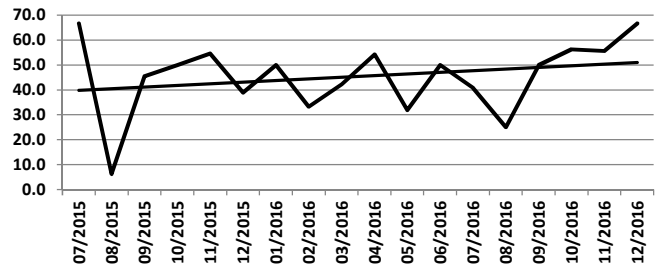
Period	Faster	Same	Slower	Index	Prior Yr
December 2016	22.2%	77.8%	0.0%	61.1	55.6
November 2016	33.3%	66.7%	0.0%	66.7	50.0
October 2016	25.0%	75.0%	0.0%	62.5	45.0

The Vendor Deliveries index registered a value of 61.1 in December, off slightly from November's 66.7 value. We converged to the long term trend line in December, with vendors continuing to generally perform well in their deliveries arriving on time or faster than promise date.

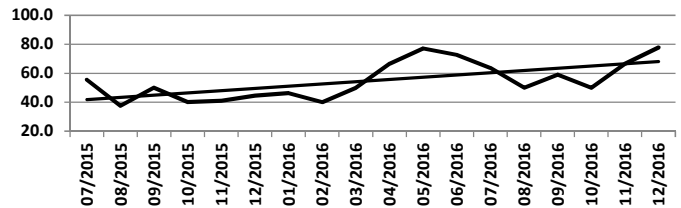
Production - Diffusion Index



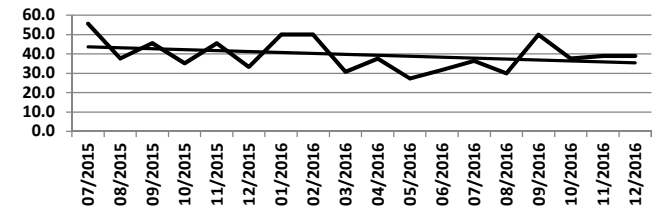
New Orders - Diffusion Index



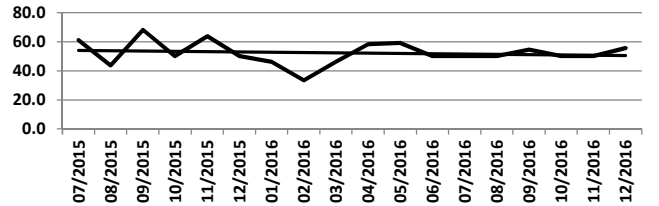
Commodity Pricing - Diffusion Index



Inventories - Diffusion Index



Employment - Diffusion Index



Vendor Deliveries - Diffusion Index

