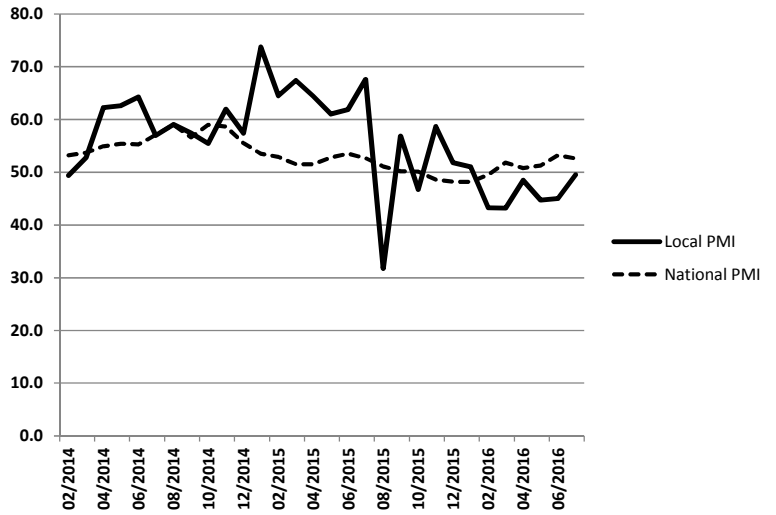


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The PMI Index

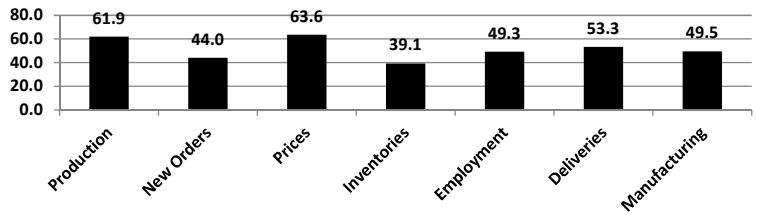
The local Buffalo-Niagara Manufacturing index registered a sixth straight contractionary result in July with a value of 49.5. This was very near breaking into increasing territory, where values greater than 50.0 demarcate where manufacturing activity is expanding. The national ISM manufacturing index trailed slightly to 52.6 in July relative to June which registered a 53.2. Regionally, the NY Fed's Empire State Manufacturing Survey, which surveys manufacturers statewide, registered a flat result (essentially no change) relative to June. After the initial drop to contractionary territory in January the index has slowly crept upward locally, with this month's move I am hoping we will converge with the national trend into expansionary territory in August.

Looking to the other local results, Production rebounded into positive territory in July after decreasing in June. New Orders slid into contractionary territory to 44.0 from June's 51.4 mark. Commodity prices again increased with an index value of 63.6, off from June's 72.7 index value. Respondents again reported Inventories to have declined in July relative to June levels, a consistent trend of late. Overall this month's results seem mixed. I'm heartened that the local manufacturing index is flirting with expansionary levels but there remain weak spots in this month's report. Production increased relative to June levels but most other indices registered middling results.



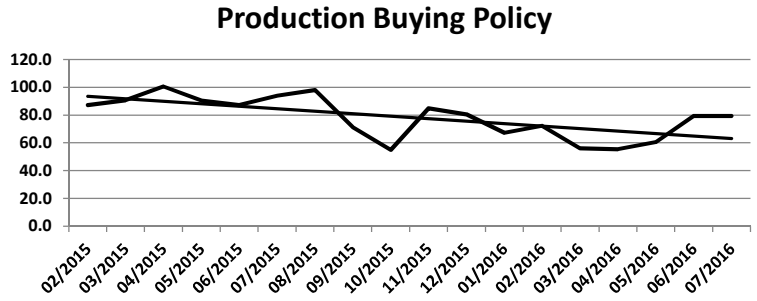
This month (Seasonally Adjusted)

| Index | Index | Direction | Rate of Change |
|---------------|-------|------------|----------------|
| Production | 61.9 | Increasing | Increasing |
| New Orders | 44.0 | Decreasing | Increasing |
| Prices | 63.6 | Increasing | Decreasing |
| Inventories | 39.1 | Decreasing | Decreasing |
| Employment | 49.3 | Decreasing | Flat |
| Deliveries | 53.3 | Faster | Flat |
| Manufacturing | 49.5 | Decreasing | Decreasing |



Production Buying Policy

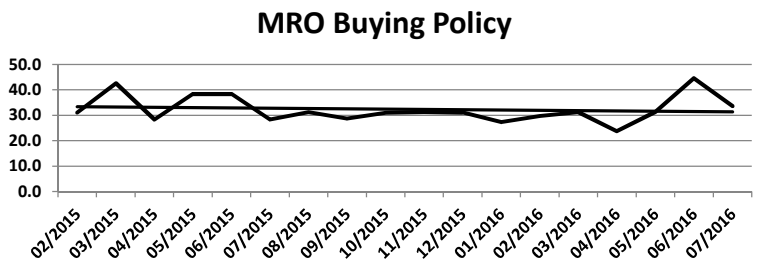
Days ahead production commitments among respondents registered 79.5 days in July, holding steady to June's 79.5 days. With the second straight month at this level, it makes me believe we possibly did have a break last month from what has been a generally downward trend over the past 18 months. Again, greater lengths of days ahead in production buying commitments could be construed as a sign of future strength to the extent it signals increased future activity.



MRO Buying Policy

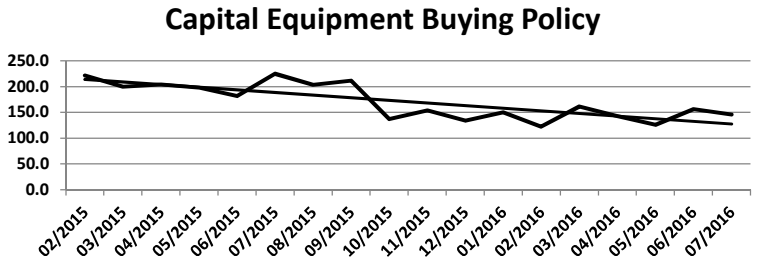
(Maintenance, Repair, and Operating)

Maintenance, Repair, and Operating (MRO) supplies on hand fell to 33.6 days in July, off from 44.5 days during June. In light of the highly consistent range of values over the past 18 months below the 40 range, I remain confident last month may have been an aberration from more "normal" levels of MRO on hand.



Capital Equipment Buying Policy

Manufacturers report making capital equipment buying commitments an average of 145.9 days in July off from 156.4 days in June. Although below June's monthly result, we are maintaining within the buying policy ranges seen locally since October of last year.



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The Production level was:

| Period | Higher | Same | Lower | Index | Prior Yr |
|-----------|--------|-------|-------|-------|----------|
| July 2016 | 54.5% | 9.1% | 36.4% | 59.1 | 72.2 |
| June 2016 | 27.3% | 27.3% | 45.5% | 40.9 | 61.1 |
| May 2016 | 45.5% | 27.3% | 27.3% | 59.1 | 77.8 |

The Production diffusion index registered an index value of 59.1 in July, a sharp increase from June's 40.9 value. Even though we show an overall increase we had a dichotomy in terms of the responses, over half at 54.5% reported higher production levels to prior month while over 1/3rd (36.4%) reported lower production levels. Things were not all positive among local respondents in terms of production.

New Orders were reported:

| Period | Higher | Same | Lower | Index | Prior Yr |
|-----------|--------|-------|-------|-------|----------|
| July 2016 | 36.4% | 9.1% | 54.5% | 40.9 | 66.7 |
| June 2016 | 36.4% | 27.3% | 36.4% | 50.0 | 55.6 |
| May 2016 | 9.1% | 45.5% | 45.5% | 31.8 | 50.0 |

The non-seasonally adjusted New Orders index fell into contractionary territory in July, off from June's 50.0 value which was a (weak) expansionary value. We continue to see large amounts of variation in terms of index values, and we can again note a dichotomy in terms of responses with a split of respondents reporting higher and lower levels of new orders.

Commodity Prices are:

| Period | Higher | Same | Lower | Index | Prior Yr |
|-----------|--------|-------|-------|-------|----------|
| July 2016 | 36.4% | 54.5% | 9.1% | 63.6 | 55.6 |
| June 2016 | 45.5% | 54.5% | 0.0% | 72.7 | 38.9 |
| May 2016 | 63.6% | 27.3% | 9.1% | 77.3 | 50.0 |

The Commodity Price diffusion index registered a value of 63.6 in July, we remain in positive territory but may be easing off the notably higher index values we witnessed with the large movement in oil and gas prices earlier in the year.

Inventories of Purchased Goods were:

| Period | Higher | Same | Lower | Index | Prior Yr |
|-----------|--------|-------|-------|-------|----------|
| July 2016 | 27.3% | 18.2% | 54.5% | 36.4 | 55.6 |
| June 2016 | 9.1% | 45.5% | 45.5% | 31.8 | 66.7 |
| May 2016 | 0.0% | 54.5% | 45.5% | 27.3 | 55.6 |

The Inventories of Purchased Goods index increased slightly again in July to 31.8 after registering a 31.8 and 27.3 in June and May, respectively. The decreases in inventory levels continue relative to prior month, although the index may have found its bottom with the past two months. After the continued inventory decreases in recent months, it seems intuitive it would eventually rebound.

Employment Levels were:

| Period | Higher | Same | Lower | Index | Prior Yr |
|-----------|--------|-------|-------|-------|----------|
| July 2016 | 18.2% | 63.6% | 18.2% | 50.0 | 61.1 |
| June 2016 | 18.2% | 63.6% | 18.2% | 50.0 | 61.1 |
| May 2016 | 36.4% | 45.5% | 18.2% | 59.1 | 72.2 |

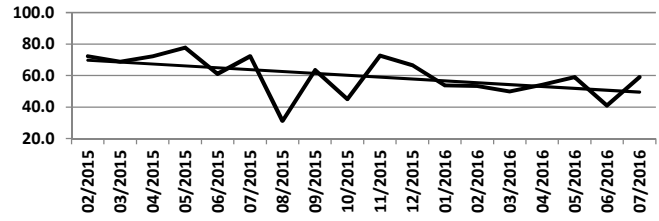
The non-seasonally adjusted Employment index remained just in expansionary territory at 50.0 in July, holding steady to June's index value. The majority of respondents report no changes relative to prior month.

Vendor Deliveries were:

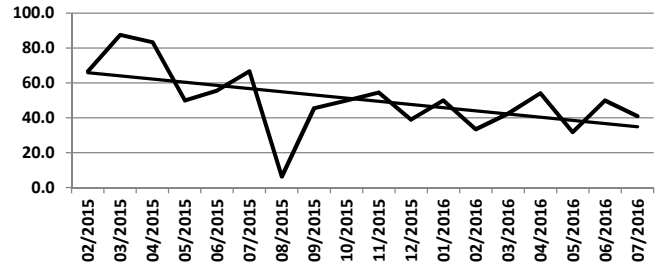
| Period | Faster | Same | Slower | Index | Prior Yr |
|-----------|--------|--------|--------|-------|----------|
| July 2016 | 9.1% | 90.9% | 0.0% | 54.5 | 72.2 |
| June 2016 | 0.0% | 100.0% | 0.0% | 50.0 | 61.1 |
| May 2016 | 9.1% | 90.9% | 0.0% | 54.5 | 61.1 |

The Vendor Deliveries index registered a value of 54.5 in July, bouncing back to May's index value from June's 50.0 in June. The index relates faster deliveries relative to prior month with no respondents reporting slower deliveries and the vast majority relating the same speed as during June.

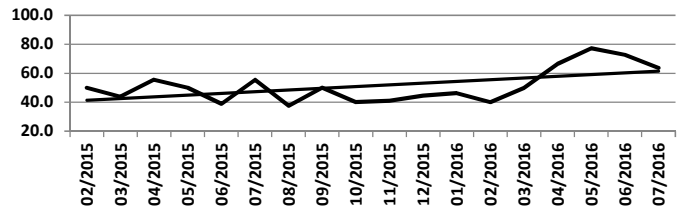
Production - Diffusion Index



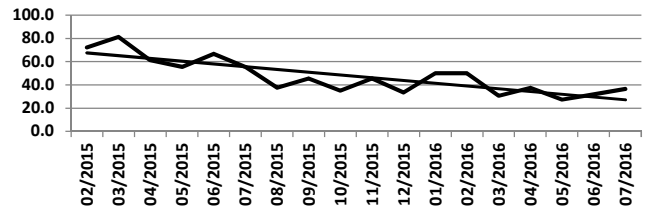
New Orders - Diffusion Index



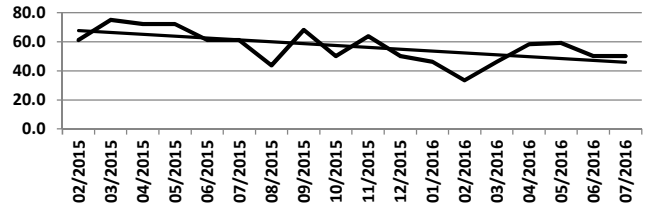
Commodity Pricing - Diffusion Index



Inventories - Diffusion Index



Employment - Diffusion Index



Vendor Deliveries - Diffusion Index

