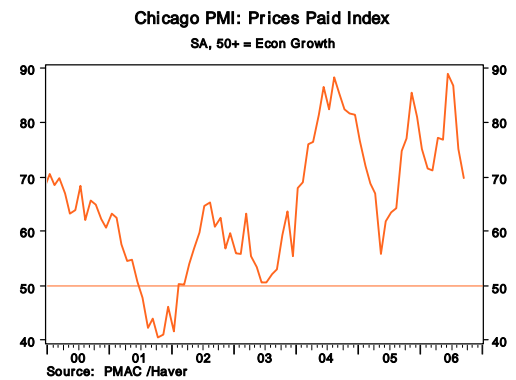
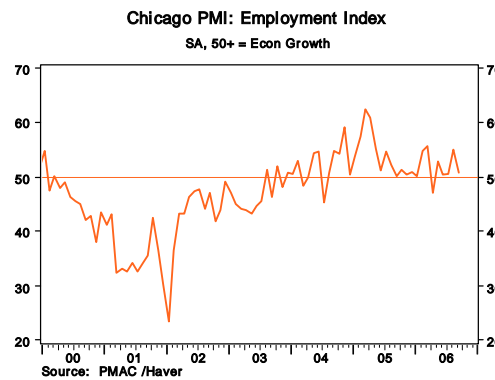
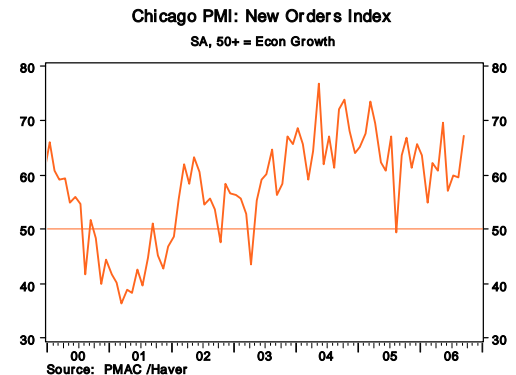
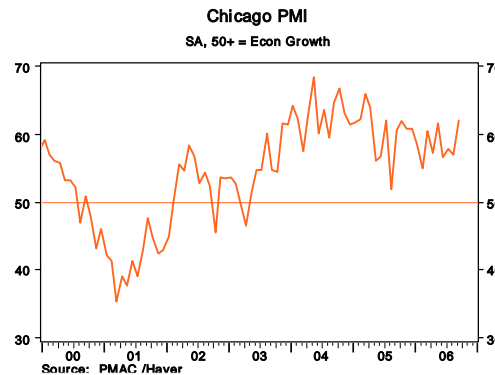


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SEPTEMBER CHICAGO PMI

- The Chicago Purchasing Managers' Index (PMI) jumped to 62.1 in September, the highest level since July 2005. The Chicago PMI has averaged 59.1 in the last 12-months, well above the 30-year average of 54.7.
- The production component increased to 67.4 in September, while the new orders component rose to 67.3. Employment pulled back to 50.8 in September.
- The prices paid component was 69.8 in September versus 75.2 in August; the first time the prices paid component has dropped below 70 in the past year

Implications: The Chicago PMI surged to 62.1 in August, the 40th consecutive month above 50. Business surveys such as the Chicago PMI are one of the earliest pieces of economic data each month and thus, have added prestige. For example, many pounced on last week's Philly Fed survey falling into negative territory (-0.4) to suggest that the economy weakened further in September. The 10-year treasury fell by 10 bps the day the Philly Fed was released. Yet this weakness appears to be an aberration, not a trend. The Chicago PMI, Richmond Fed Index, and NY Fed Index all showed strong growth during September. As a result, we expect the economy to regain its momentum in September and register a 3.0%-3.5% real GDP growth rate during the second half of 2006. Real GDP should accelerate in early 2007 to the 3.5%-4.0% range.



Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i>	Sep-06	Aug-06	Jul-06	6 month <i>moving avg</i>	12 month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	62.1	57.1	57.9	58.7	59.1	60.6
Production	67.4	61.7	64.1	62.2	62.4	64.5
New Orders	67.3	59.6	60.0	62.4	62.4	63.6
Order Backlog	51.0	44.1	48.2	50.3	52.0	54.0
Inventories	63.5	51.3	48.7	54.0	54.5	52.7
Employment	50.8	55.1	50.5	51.1	51.7	50.1
Deliveries	56.8	58.2	55.5	56.2	58.6	57.7
Prices Paid	69.8	75.2	86.8	79.2	78.1	74.9

Source: Purchasing Management Assoc. of Chicago

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