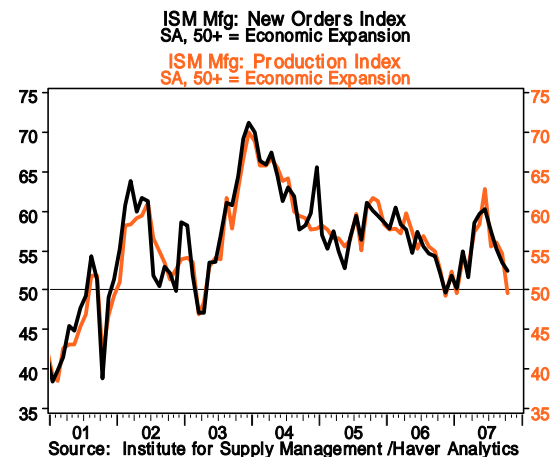
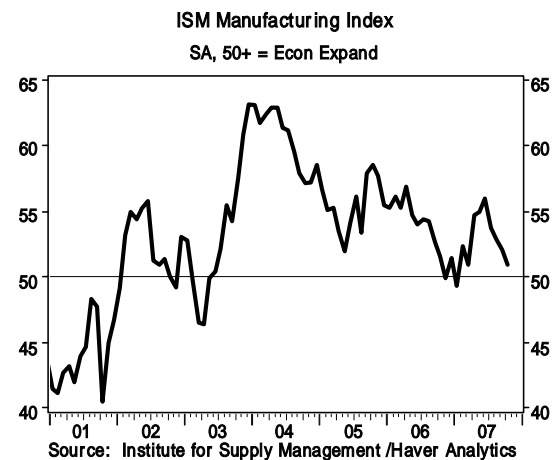


OCTOBER ISM MANUFACTURING INDEX

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- The ISM Manufacturing index declined to 50.9 in October from 52.0 in September. The consensus expected a decline to 51.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Most output-related components of the index declined including new orders, production, and the backlog of orders. However, the new orders component remains above 50, signaling expansion, and the order backlog component, which is not seasonally adjusted, is higher than October 2006. The employment index increased to 52.0, the highest in six months, and the index for new export orders increased to 57.0
- The prices paid index increased to 63.0 from 59.0 last month, suggesting continued upward pressure on inflation.

Implications: Today's ISM index suggests continued moderate growth in the manufacturing sector. The Institute for Supply Management says a level of 50.9 is consistent with real GDP growing at a 2.8% annual rate, which is very close to our 3% forecast for all of Q4. We note that the new export orders index is at 57.0, suggesting strong expansion, while the index for import orders is at 47.5, the lowest in six years and signaling contraction. Combined, these figures bode extremely well for continued declines in the trade deficit that will roughly offset the drag on the economy from the housing sector.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Oct-07	Sep-07	Aug-07	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	50.9	52.0	52.9	51.9	53.4	51.5
New Orders	52.5	53.4	55.3	53.7	56.4	52.1
Production	49.6	54.6	56.1	53.4	56.2	52.7
Inventories	47.2	41.6	45.4	44.7	45.7	49.3
Employment	52.0	51.7	51.3	51.7	51.4	50.6
Supplier Deliveries	50.6	51.9	50.0	50.8	50.8	50.6
Order Backlog (NSA)	46.0	51.0	50.5	49.2	50.9	44.5
Prices Paid (NSA)	63.0	59.0	63.0	61.7	64.8	47.0
New Export Orders	57.0	54.5	57.0	56.2	56.7	57.8

Source: National Association of Purchasing Management