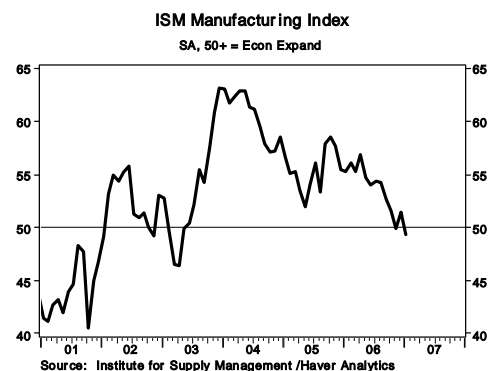




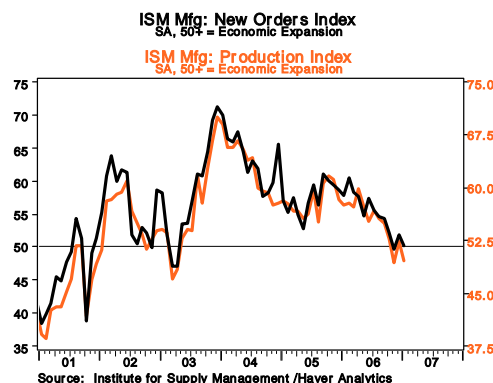
JANUARY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index declined to 49.3 in January from 51.4 in December (the consensus expected 51.7).
- Almost all non-price components of the index fell, including new orders, production, inventories, the backlog of orders, and new export orders. The employment index was the exception, ticking up to 49.5 from a downwardly revised 49.4.
- The prices paid index increased to 53.0 from 47.5. The consensus had expected a drop to 47.0.



Implications: Don't be fooled by the weak headline number from the January ISM report. The most important news in the report was that the inventory index fell 8.6 points to 39.9, the largest one-month drop since 1984. This kind of drop is consistent with an economy that is ready to roar, not whimper. It's a signal that manufacturing firms put too much stock into the now-discredited theory that the economy was quickly slowing and they had to draw down inventories to meet demand. We believe that in the months ahead firms will replenish their inventories by accelerating production.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jan-07	Dec-06	Nov-06	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	49.3	51.4	49.9	50.2	51.5	55.3
New Orders	50.3	51.9	49.7	50.6	52.1	57.9
Production	49.6	52.4	49.3	50.4	52.4	57.6
Inventories	39.9	48.5	49.1	45.8	47.3	46.8
Employment	49.5	49.4	48.9	49.3	50.3	52.6
Supplier Deliveries	52.7	53.3	52.8	52.9	53.1	55.3
Order Backlog (NSA)	43.5	45.0	46.5	45.0	46.3	53.5
Prices Paid (NSA)	53.0	47.5	53.5	51.3	55.8	65.0
New Export Orders	52.5	54.3	56.9	54.6	55.4	58.5

Source: National Association of Purchasing Management