

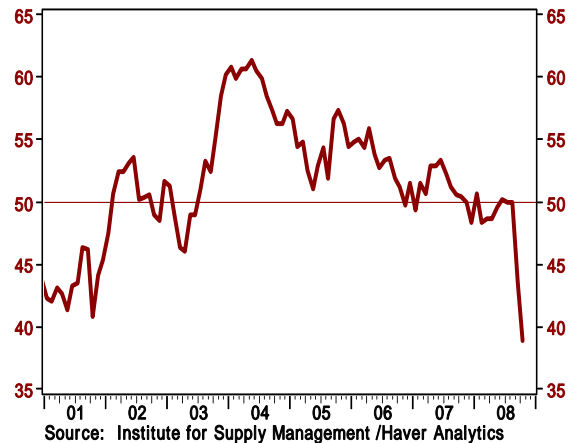
OCTOBER ISM MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

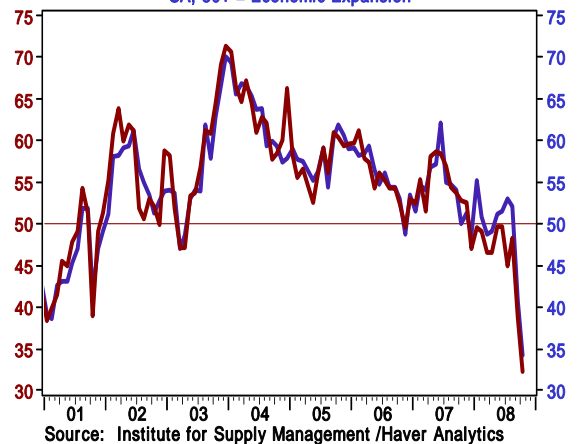
- The ISM Manufacturing index declined to 38.9 in October from 43.5 in September. The consensus had expected a slight decline to 41.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were weak across the board: the index for new orders fell to 32.2 from 38.8; the production index fell to 34.1 from 40.8; and the employment index fell to 34.6 from 41.8. The new orders and production indexes are the lowest since 1980; the employment index is the lowest since 1991.
- The prices paid index declined to 37.0 from 53.5, and is now at and the lowest level since 2001, a reflection of lower energy and materials costs.

Implications: Like consumer confidence, the ISM Manufacturing index got walloped in October, falling to its lowest level since 1982. However, this is no reason to panic. The general crisis of economic confidence has taken a toll on industrial output, but the arteries of business finance are already becoming unclogged. As a result, almost all the pain of the recession will occur in the fourth quarter, with rapid improvement in the growth rate in 2009. Overall, today's ISM figures reflect a slowdown in monetary velocity – the speed with which money makes its way through the economy – resulting in less business activity and (temporarily) lower inflation. Consumers and businesses seemed to literally freeze in place. In other news today, construction spending declined 0.3% in September, better than the consensus expected decrease of 0.8%. Public construction and private building of new single-family homes were both down. The construction of business-related buildings increased, led by manufacturing plants and electric power plants.

ISM Manufacturing Index
SA, 50+ = Econ Expand



ISM Mfg: New Orders Index
SA, 50+ = Economic Expansion
ISM Mfg: Production Index
SA, 50+ = Economic Expansion



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Oct-08	Sep-08	Aug-08	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	38.9	43.5	49.9	44.1	47.0	50.4
New Orders	32.2	38.8	48.3	39.8	43.9	52.8
Production	34.1	40.8	52.1	42.3	47.1	50.1
Inventories	44.3	43.4	49.3	45.7	46.9	46.5
Employment	34.6	41.8	49.7	42.0	44.5	51.8
Supplier Deliveries	49.2	52.5	50.3	50.7	52.7	50.7
Order Backlog (NSA)	29.5	35.0	43.5	36.0	40.8	46.0
Prices Paid (NSA)	37.0	53.5	77.0	55.8	72.4	63.0
New Export Orders	41.0	52.0	57.0	50.0	53.7	57.0

Source: National Association of Purchasing Management