

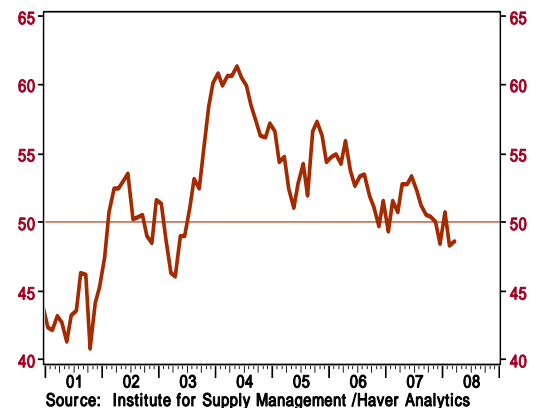
MARCH ISM MANUFACTURING INDEX

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

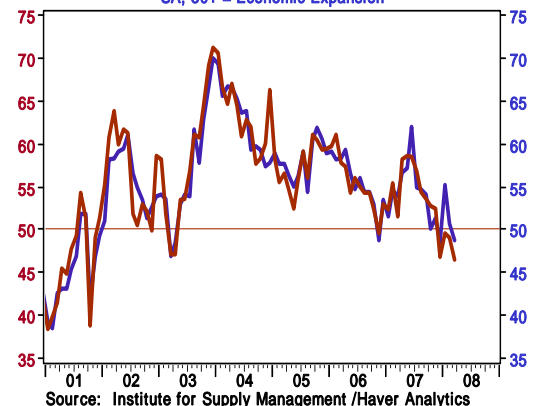
- The ISM Manufacturing index increased to 48.6 in March from 48.3 in February. The consensus had expected a decline to 47.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The output-related components of the index were mixed. The production index fell to 48.7 from 50.7 and the new orders index declined to 46.5 from 49.1. The employment index increased to 49.2 from 46.0 last month and the new export orders index rose to 56.5 from 56.0. The import index declined to 45.0, the lowest since 1995.
- The prices paid index spiked to 83.5 versus 75.5 last month.

Implications: The ISM manufacturing index continues to signal restrained growth, not recession. For the last five recessions – dating back to 1973 – the ISM index has always been lower before the recession or dropped much more steeply than it has so far. The Institute of Supply Management, which publishes the report, says an index level of 49.2, which is the Q1 average, is consistent with a real GDP growth rate of 2.5%. Our forecast for Q1 remains 2%. One of the largest contributions to Q1 GDP will be trade. This is buttressed by the ISM data as the new export orders index is at 56.5 and the import index is at 45.0. The gap between the indexes for exports and imports is the largest since 1990. Meanwhile, the inflation news today was not good. The prices paid index spiked to 83.5, the highest since the aftermath of Hurricanes Katrina/Rita in 2005. In other news today, construction fell 0.3% in February but came in higher than expected, while January construction was revised upward. All of the decline in construction in February can be attributed to home building, which is an old story. Private non-residential building declined, but only 0.1%.

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>	Mar-08	Feb-08	Jan-08	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	48.6	48.3	50.7	49.2	49.4	50.7
New Orders	46.5	49.1	49.5	48.4	49.6	51.5
Production	48.7	50.7	55.2	51.5	50.8	54.0
Inventories	44.9	45.4	49.1	46.5	46.3	47.3
Employment	49.2	46.0	47.1	47.4	48.5	49.2
Supplier Deliveries	53.6	50.1	52.8	52.2	51.9	51.4
Order Backlog (NSA)	47.5	45.0	44.0	45.5	44.5	47.0
Prices Paid (NSA)	83.5	75.5	76.0	78.3	72.3	65.5
New Export Orders	56.5	56.0	58.5	57.0	56.5	55.5

Source: National Association of Purchasing Management