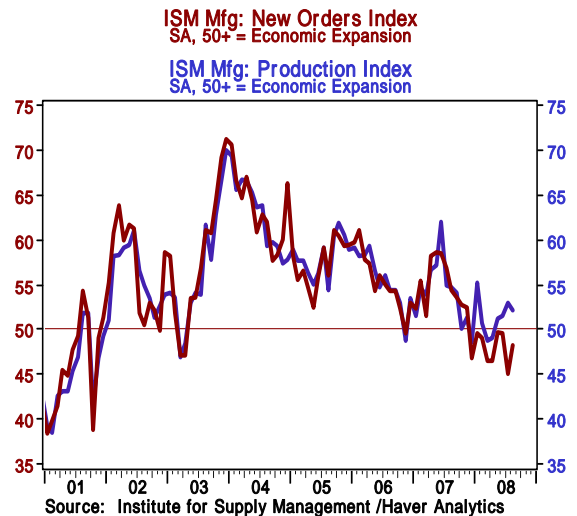


AUGUST ISM MANUFACTURING INDEX

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- The ISM Manufacturing index ticked down to 49.9 in August from 50.0 in July. The consensus had expected no change at 50.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were mixed. Stronger components included new orders, which increased to 48.3 from 45.0, and new export orders, which increased to 57.0 from 54.0. The backlog of orders index increased to 43.5 from 43.0.
- Weaker components included supplier deliveries, which fell to 50.3 from 55.1, employment, which declined to 49.7 from 51.9, and production, which declined to 52.1 from 52.9.
- The prices paid index declined to 77.0 from 88.5, but remains extremely high.

Implications: The overall ISM Manufacturing index was basically unchanged in August and signals roughly zero growth in the manufacturing sector. According to the Institute for Supply Management, which publishes the report, an index of 49.9 is consistent with real GDP growing at a 2.8% annual rate, well above the consensus economic forecast of about a 1% growth rate in Q3. Due to the decline in oil, the prices paid index fell substantially in August but is still in a range suggesting accelerating inflation. In other news today, construction spending fell 0.6% in July, slightly weaker than the consensus expected. The drop was mainly due to single family homes, but private non-residential construction (business structures) declined 0.7% in July, the first contraction in seven months. This decline is understandable given the 4.9% increase in the previous two months. Also, construction growth was revised upward for May and June. These revisions suggest real GDP grew at an annual rate of 3.4% or 3.5% in Q2, not the 3.3% figure released last week.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-08	Jul-08	Jun-08	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	49.9	50.0	50.2	50.0	49.5	51.2
New Orders	48.3	45.0	49.6	47.6	47.6	54.5
Production	52.1	52.9	51.5	52.2	50.9	54.8
Inventories	49.3	45.0	51.2	48.5	47.8	45.4
Employment	49.7	51.9	43.7	48.4	47.6	50.9
Supplier Deliveries	50.3	55.1	55.1	53.5	53.6	50.3
Order Backlog (NSA)	43.5	43.0	47.5	44.7	46.5	50.5
Prices Paid (NSA)	77.0	88.5	91.5	85.7	85.3	63.0
New Export Orders	57.0	54.0	58.5	56.5	57.2	57.0

Source: National Association of Purchasing Management