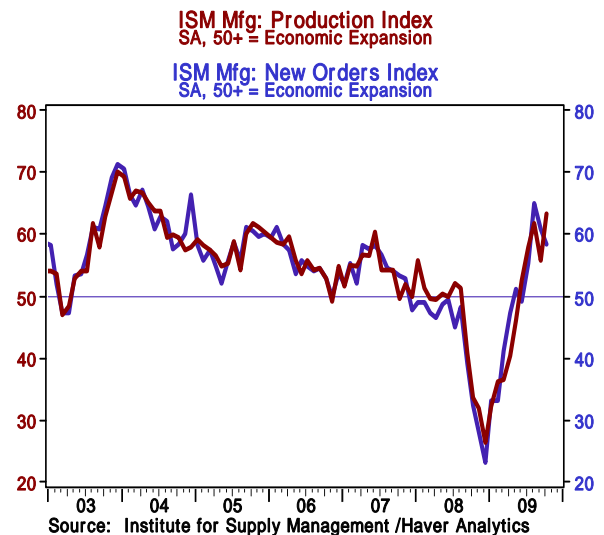
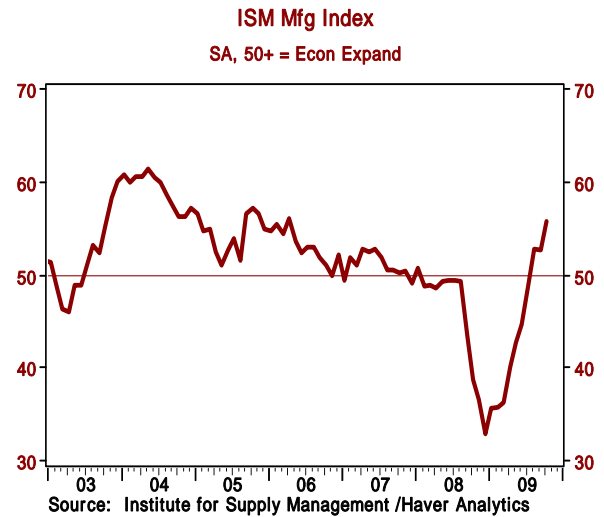


# OCTOBER ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 55.7 in October from 52.6 in September. The consensus expected an increase to 53.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The output components of the overall index were all strong in October. The production index was 63.3 (the highest since 2004), the new orders index was 58.5, and the supplier deliveries index was 56.9. The employment index increased to 53.1 in October (the highest since early 2006) from 46.2 in September.
- The prices paid index increased to 65.0 in October from 63.5 in September.

**Implications:** The ISM Manufacturing index blasted through consensus expectations in October, coming in at 55.7. This is the highest level since mid-2006 and, according to the Institute for Supply Management, consistent with an annualized real GDP growth rate of 4.5%, matching our forecast for the fourth quarter. The most surprising and bullish signal from the report was that the employment index increased by 6.9 points to 53.1. The 6.9 point increase tied the largest monthly gain since the huge economic recovery in the early 1980s; the level of the index, significantly above 50, suggests payroll gains should start sometime in the next couple of months. On the inflation front, the prices paid index increased in October to 65.0, signaling higher inflation ahead. In other news this morning, pending home sales increased 6.1% in September, on top of a 6.4% gain in August, signaling that existing home sales will rise again in October. Construction increased 0.8% in September, primarily due to improvements of older homes, single-family home building, and a widespread increase in state and local construction. Business-related construction fell 1.8% in September, largely due to less building of power plants and manufacturing facilities. Construction in previous months was revised downward, with business-related buildings the primary reason. Home building is now up three months in a row while business construction is down six months in a row. We expect these trends to continue in the quarters ahead.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Oct-09	Sep-09	Aug-09	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>55.7</b>	52.6	52.9	53.7	49.6	38.7
New Orders	<b>58.5</b>	60.8	64.9	61.4	56.6	32.4
Production	<b>63.3</b>	55.7	61.9	60.3	56.2	33.6
Inventories	<b>46.9</b>	42.5	34.4	41.3	36.8	44.0
<b>Employment</b>	<b>53.1</b>	46.2	46.4	48.6	44.4	34.2
Supplier Deliveries	<b>56.9</b>	58.0	57.1	57.3	54.1	49.3
Order Backlog (NSA)	<b>53.5</b>	53.5	52.5	53.2	50.8	29.5
Prices Paid (NSA)	<b>65.0</b>	63.5	65.0	64.5	57.0	37.0
New Export Orders	<b>55.5</b>	55.0	55.5	55.3	52.3	41.0

Source: National Association of Purchasing Management