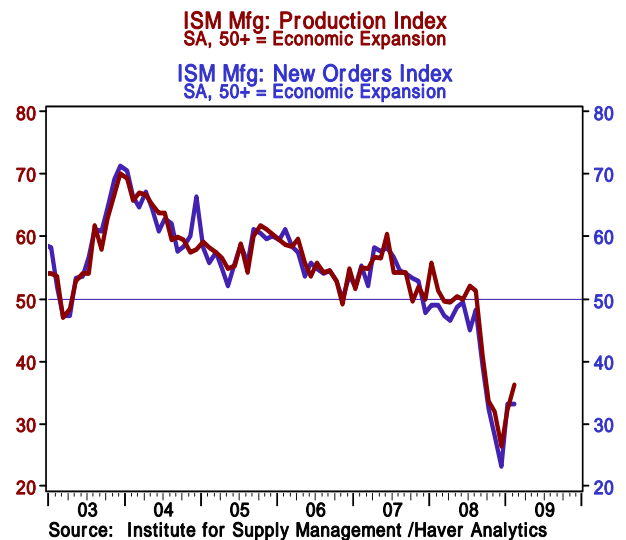
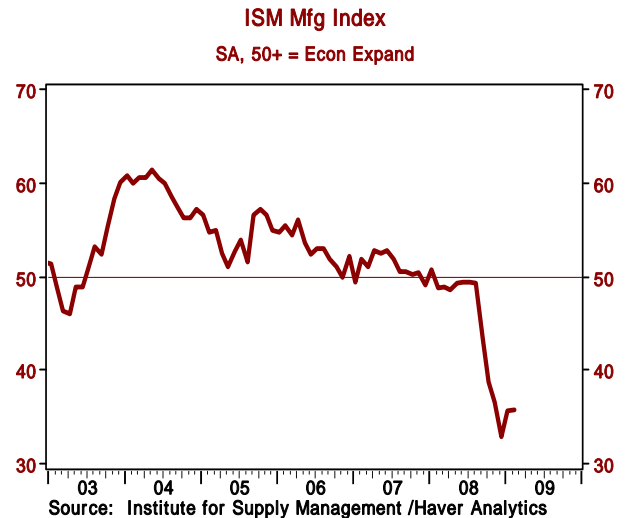


FEBRUARY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 35.8 in February from 35.6 in January. The consensus had expected a decline to 33.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were mixed. The production index increased to 36.3 from 32.1 and the supplier deliveries index rose to 46.7 from 45.3. The index for new orders decreased to 33.1 from 33.2 and the employment index declined to 26.1 (a record low, dating back to 1948) from 29.9.
- The prices paid index was unchanged at 29.0.

Implications: The ISM manufacturing index remains substantially below 50 but rose for the second month in a row. This signals that although the manufacturing sector continues to contract it is not doing so quite as intensely as it did in late 2008. There is also a qualitative difference between the recession in late 2008 and now. In late 2008 consumption fell off a cliff; now, consumption is no longer dropping but firms are cutting production rapidly so they can work off excess inventories. Once excess inventories get whittled down to acceptable levels by mid-year, production will start to rise again. In other news this morning, construction activity was very weak in January, declining 3.3% versus a consensus expected -1.5%. The weakest component of construction was commercial building (led by power plants). Government construction was also weak (led by power plants, sewage/waste facilities, paving roads, and water supply) as was home building (led by new single-family homes). In addition, construction was revised down for November and December. As a result, Friday's report that real GDP fell at a 6.2% annual rate could be revised down to -6.5%.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Feb-09	Jan-09	Dec-08	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	35.8	35.6	32.9	34.8	37.2	48.8
New Orders	33.1	33.2	23.1	29.8	31.5	48.9
Production	36.3	32.1	26.3	31.6	33.6	51.3
Inventories	37.0	37.5	39.6	38.0	40.4	45.8
Employment	26.1	29.9	29.9	28.6	32.6	47.0
Supplier Deliveries	46.7	45.3	45.7	45.9	47.9	51.2
Order Backlog (NSA)	31.0	29.5	23.0	27.8	29.2	45.0
Prices Paid (NSA)	29.0	29.0	18.0	25.3	32.0	75.5
New Export Orders	37.5	37.5	35.5	36.8	40.8	56.0

Source: National Association of Purchasing Management