

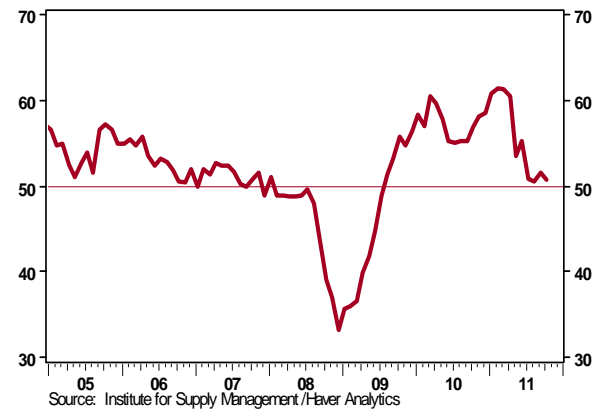
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## October ISM Manufacturing Index

- The ISM manufacturing index declined to 50.8 in October from 51.6 in September. The consensus expected a slight gain to 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in October, but all were above 50. The production index fell to 50.1 from 51.2 and the employment index slipped to 53.5 from 53.8. The supplier deliveries index also declined to 51.3 from 51.4, but the new orders index rose to 52.4 from 49.6.
- The prices paid index fell to 41.0 in October from 56.0 in September.

**Implications:** Manufacturing continued to grow in October, although more slowly than the consensus expected. The main reason for the decline in the overall manufacturing index was a drop in the sub-index for inventories to the lowest level in more than a year. The reluctance of manufacturers to accumulate inventories may stifle the growth rate in the short term, but should add to growth in the future. Supporting the case for more rapid growth in coming months was a bounce in the new orders index to 52.4 from 49.6 in September. On the inflation front, the prices paid index fell to 41.0 in October, the lowest level since April 2009. This is a welcome decline but we don't expect it to last. Monetary policy is very loose and the drop in the prices paid index in October resembles the drop in early 2010 that was reversed later that year. In other news this morning, construction spending increased 0.2% in September, but was down 1.5% including revisions to prior months. The downward revisions to prior months were mainly home improvements. The gain in construction in September itself was led by home improvements and private hospitals. Weekly data on chain store sales show no let up by consumers. Sales are up 3% from a year ago according to the International Council of Shopping Centers and 5.2% according to Redbook Research.

**ISM Mfg: PMI Composite Index**  
 SA, 50+ = Econ Expand



**ISM Mfg: Production Index**  
 SA, 50+ = Econ Expand  
**ISM Mfg: New Orders Index**  
 SA, 50+ = Econ Expand



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Oct-11	Sep-11	Aug-11	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	<b>50.8</b>	51.6	50.6	51.0	52.1	56.9
<i>New Orders</i>	<b>52.4</b>	49.6	49.6	50.5	50.6	59.9
<i>Production</i>	<b>50.1</b>	51.2	48.6	50.0	51.8	61.4
<i>Inventories</i>	<b>46.7</b>	52.0	52.3	50.3	50.5	53.2
<i>Employment</i>	<b>53.5</b>	53.8	51.8	53.0	55.1	57.9
<i>Supplier Deliveries</i>	<b>51.3</b>	51.4	50.6	51.1	52.6	52.3
<i>Order Backlog (NSA)</i>	<b>47.5</b>	41.5	46.0	45.0	46.6	46.0
<i>Prices Paid (NSA)</i>	<b>41.0</b>	56.0	55.5	50.8	59.3	71.0
<i>New Export Orders</i>	<b>50.0</b>	53.5	50.5	51.3	52.8	60.5

Source: National Association of Purchasing Management