

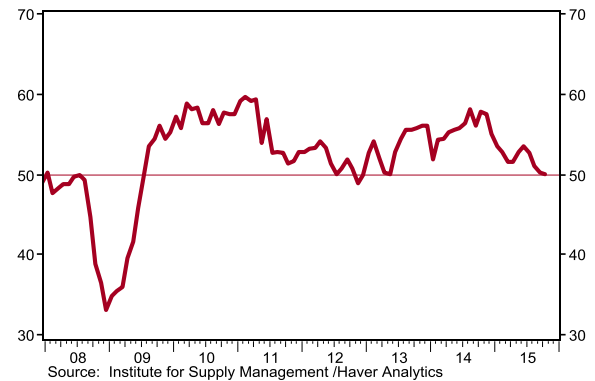
October ISM Manufacturing Index

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- The ISM manufacturing index declined to 50.1 in October, slightly above the consensus expected level of 50.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in October. The new orders index rose to 52.9 from 50.1, while the production index moved higher to 52.9 from 51.8. The supplier deliveries index increased to 50.4 from 50.2. The employment index declined to 47.6 from 50.5.
- The prices paid index rose to 39.0 in October from 38.0 in September.

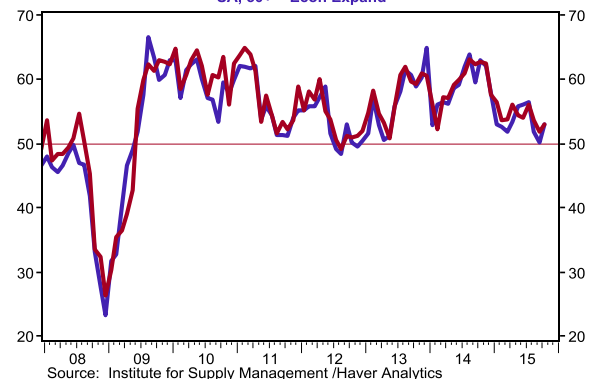
Implications: The ISM manufacturing report showed a slower pace of growth in October, but the details of the report were better than the headline, suggesting more growth ahead. Survey respondents cited the strong dollar as a headwind to global sales, while low energy prices continue to impact companies in the energy sector. Despite this, MNI reported this morning that ISM chief Bradley Holcomb believes US manufacturing is having a good year, but stated the energy sector is mainly to blame for clouding the picture. The two most forward looking measures in the report, new orders and production, both showed a faster pace of growth in October, suggesting activity is picking up. It's also important to remember that levels above 50 represent expansion, so while October's reading of 50.1 is lower than September's reading of 50.2, that doesn't mean that activity has declined. Instead, it continues to expand, just at a slightly slower pace than in recent months. It should also be noted that the October reading represents a 34th consecutive month above 50. On the inflation front, the prices paid index moved to 39.0 in October from 38.0 in September, representing a twelfth consecutive month of declining prices. The worst news in today's report was the decline in the employment index to 47.6 from 50.5. But manufacturing represents only a small portion of overall employment. Manufacturing jobs increased an average of just 1,900 jobs a month through the first nine months of the year, while nonfarm payrolls averaged gains of 198,000. In other words, soft ISM manufacturing employment data do not have a large effect on the overall jobs picture. We still expect a gain of more than 200,000 in private payrolls for October when the employment report comes out this Friday. Taken as a whole, today's report continues to show the plow horse trudging forward. The modest readings from the ISM manufacturing report in 2015, after peaking at 58.1 in August 2014, have given some pessimists reason to cheer, but we see no broad-based evidence of a significant slowdown in economic activity. Data on employment, housing, and consumer spending continue to show strength. And remember the ISM is a survey which can reflect sentiment as much as actual economic activity. When looking at the fundamentals of the broader economy, there remains no recession in sight. In other news this morning, construction increased a solid 0.6% in September (0.7% including revisions to prior months). The gain in September was led by a broad leap upward in home building, both new single-family and multi-family units, plus improvements to existing homes. Government projects also rose, led by the construction of public schools. Commercial construction declined in September, led by power plants.

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	Oct-15	Sep-15	Aug-15	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	50.1	50.2	51.1	50.5	51.7	57.9
New Orders	52.9	50.1	51.7	51.6	53.8	63.0
Production	52.9	51.8	53.6	52.8	53.8	62.8
Inventories	46.5	48.5	48.5	47.8	49.6	52.5
Employment	47.6	50.5	51.2	49.8	51.5	55.2
Supplier Deliveries	50.4	50.2	50.7	50.4	50.0	56.1
Order Backlog (NSA)	42.5	41.5	46.5	43.5	45.6	53.0
Prices Paid (NSA)	39.0	38.0	39.0	38.7	43.2	53.5
New Export Orders	47.5	46.5	46.5	46.8	48.0	51.5

Source: National Association of Purchasing Management