

## U.S. ISM Falls But Manufacturing Still Growing

The U.S. manufacturing ISM index fell slightly to 52.6 in September, well below the consensus call of 54.0. Despite the decline, the index held above 50 for a second straight month, indicating continued expansion after 18 consecutive below-50 readings. Also, 13 of 18 industries, the most this year, reported growth. The weakness came from a good-sized drop in both the production and new orders sub-indexes (though both remained well above 50). The employment sub-index pulled back a tad to 46.2, and highlights potential downside to tomorrow's nonfarm payrolls report.

In a separate release, U.S. pending home sales surged 6.4% in August, extending its winning streak to seven months. Sales are now up nearly 30% from the low hit in January. This bodes well for both September and October existing home sales, and is consistent with the view that the housing market has bottomed. However, with the new home buyer tax credit expiring December 1<sup>st</sup>, the staying power of the bounce back in sales remains somewhat questionable. Even so, stronger sales should boost prices which will encourage hesitant buyers to come off the sidelines, providing further support to the market. Meantime, construction spending rose 0.8% in August, well above expectations due to a big rise in residential construction (another sign housing has bottomed), though the previous month was revised down offsetting much of the good news.

(percent reporting)	Sep	Aug	Jul	09q3	09q2	Sep 08
<b>ISM (formerly NAPM)</b>	52.6	52.9	48.9	51.5	42.6	43.4
<b>New Orders</b>	60.8	64.9	55.3	60.3	49.2	39.2
<b>Production</b>	55.7	61.9	57.9	58.5	46.3	41.0
<b>Supplier Delivery Delays</b>	58.0	57.1	52.0	55.7	48.4	51.8
<b>Inventories</b>	42.5	34.4	33.5	36.8	32.4	44.0
<b>Employment</b>	46.2	46.4	45.6	46.1	36.5	40.9
<b>Prices Paid</b>	63.5	65.0	55.0	61.2	41.8	53.5
<b>Exports</b>	55.0	55.5	50.5	53.7	47.2	52.0
<b>Imports</b>	52.0	49.5	50.0	50.5	43.5	44.0
<b>Eurozone PMI</b>	49.3	48.2	46.3	47.9	40.0	45.0
<b>United Kingdom PMI</b>	49.5	49.7	50.2	49.8	45.3	41.0

**The Bottom Line:** Despite the downtick in ISM, the manufacturing sector continued to expand in September. The bumpy road to recovery continues.

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