U.S. Institute for Supply Management Index (October)

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November 2, 2009—10:00 am

ECONOMIC RESEARCH

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U.S. ISM: Another Recovery Signpost

The U.S. manufacturing ISM index rose more than expected to 55.7 in October, suggesting the sector grew for the third straight month and at the fastest rate in 3½ years. The improvement reflects an upturn in exports and auto production, and further inventory rebuilding. For the second month in a row, 13 of 18 industries reported growth, suggesting the recovery is broadening beyond the auto industry. Rising output has reduced the rate of inventory drawdown, a plus for GDP. Notably, the employment index rose to its highest level in 3½ years, implying an outright expansion in factory jobs. This raises an upside risk for Friday's nonfarm payrolls report (though the non-manufacturing ISM, due Wednesday, is a better gauge of job trends). The report cited a pickup in temporary help services, a leading indicator of employment. The one wrinkle in the survey is some slowing in new orders after two very strong months. This was cited by the transportation equipment sector (autos) as a source of concern. However, the orders backlog appears stable, flagging support for future production.

(percent reporting)	Oct	Sep	Aug	09q3	09q2	Oct 08
ISM (formerly NAPM)	55.7	52.6	52.9	51.5	42.6	38.7
New Orders	58.5	60.8	64.9	60.3	49.2	32.4
Production	63.3	55.7	61.9	58.5	46.3	33.6
Supplier Delivery Delays	56.9	58.0	57.1	55.7	48.4	49.3
Inventories	46.9	42.5	34.4	36.8	32.4	44.0
Employment	53.1	46.2	46.4	46.1	36.5	34.2
Prices Paid	65.0	63.5	65.0	61.2	41.8	37.0
Exports	55.5	55.0	55.5	53.7	47.2	41.0
Imports	51.0	52.0	49.5	50.5	43.5	41.0
Eurozone PMI	50.7	49.3	48.2	47.9	40.0	41.1
United Kingdom PMI	53.7	49.5	49.7	49.8	45.3	40.7

The Bottom Line: The strong ISM survey means that real GDP will likely hold up well in the fourth quarter, growing an estimated 3% annualized. The recovery appears durable, though its speed next year will likely be hampered by household financial deleveraging.

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