

## A Bad Case Of Jobless Recovery *ISM*

The U.S. ISM non-manufacturing index unexpectedly fell slightly to 50.6 in October, suggesting the broad economy has lost some momentum (following the end of the cash-for-clunkers program) and is growing only modestly (and likely slower than the more export-driven manufacturing sector). The news wasn't all bad though, as only one of the four sub-components declined in the month. Unfortunately, it was the most important one (employment) for consumers, and highlights a modest downside risk to our -170,000 estimate for nonfarm payrolls (due Friday). Only three out of eighteen industries reported an increase in jobs in October. That said, business activity grew for the third straight month, and at the fastest rate since before the recession began. As well, a growing number of industries reported growth in October (nine versus five the prior month, including construction).

There is every reason to believe that the expansion will continue, as both new orders and the backlog of unfilled orders rose for the second straight month, and at a faster rate than in September. An upturn in exports (arising from the weak greenback and global recovery) has boosted overall orders, while import orders have been restrained by still-soft domestic demand.

(percent reporting)	Oct	Sep	Aug	09q3	09q2	Oct 08
<b>Non-Mfg ISM</b>	50.6	50.9	48.4	48.6	44.9	44.6
<b>Business Activity</b>	55.2	55.1	51.3	50.8	45.8	44.5
<b>Employment</b>	41.1	44.3	43.5	43.1	39.8	41.7
<b>New Orders</b>	55.6	54.2	49.9	50.7	46.7	44.3
<b>Prices Paid</b>	53.0	48.8	63.1	51.1	46.9	53.3
<b>Backlog of Orders *</b>	53.5	51.5	41.0	44.8	43.3	44.0
<b>Supplier Deliveries *</b>	50.5	50.0	49.0	49.7	47.2	48.0
<b>New Export Orders *</b>	53.5	48.5	54.0	50.0	50.0	50.0

\* not seasonally adjusted

**The Bottom Line:** The ISM nonmanufacturing report supports our view that the recovery is sustainable but will be sluggish and “jobless” for a while. All the more reason for the Fed to keep rates “exceptionally low” for “an extended period” at the conclusion of today’s policy meeting.

Sal Guatieri, 416-359-5295

The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal (“BMO”) and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. “BMO Capital Markets” is a trade name used by the Bank of Montreal Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal, BMO Nesbitt Burns Inc., BMO Nesbitt Burns Ltée/Ltd., BMO Capital Markets Corp. and Harris N.A., and BMO Capital Markets Limited. **TO U.S. RESIDENTS:** BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd. **TO U.K. RESIDENTS:** The contents hereof are not directed at investors located in the U.K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

™ - “BMO (M-bar roundel symbol) Capital Markets” and “BMO (M-bar roundel symbol) Nesbitt Burns” are trade-marks of Bank of Montreal, used under licence. © Copyright Bank of Montreal. Harris™ is a trade name used by Harris N.A. and its affiliates. Member FDIC.