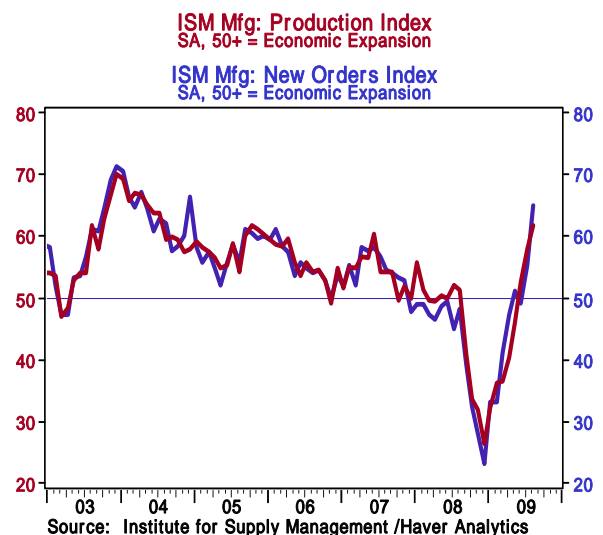
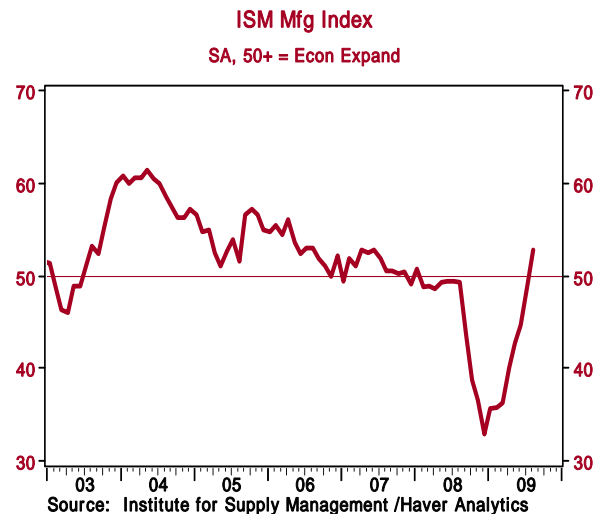


AUGUST ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 52.9 in August from 48.9 in July, easily beating the consensus expected increase to 50.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- All of the output components of the overall index improved in August. The new orders index increased to 64.9 from 55.3, the production index increased to 61.9 from 57.9, and the employment index increased to 46.4 from 45.6. The new orders and production indexes hit the highest levels since 2004.
- The prices paid index increased to 65.0 in August from 55.0 in July, the highest reading in a year, when oil was \$115/barrel.

Implications: Today’s data should end, once and for all, any notion that the US is still in recession. At 52.9, the ISM index blew through consensus expectations and, according to the Institute for Supply Management, is consistent with an annual rate of real GDP growth of 3.7%. The sub-indexes for new orders and production were stellar, with both above 60.0 for the first time since 2004. Much of this is due to recent increases in auto production, increases that were scheduled even before “cash for clunkers.” In the months ahead, auto production should continue to grow despite a temporary drop-back in sales, as dealers need to replenish inventories and consumers eventually return to showrooms even without special government incentives. Unfortunately, the prices paid index spiked to 65.0, up from 55.0 last month. The recovery in monetary velocity is bringing with it not only a revival in output growth but also a resurgence in inflation. In other news this morning, pending home sales increased 3.2% in July, the sixth straight monthly gain, suggesting another increase in existing homes sales in August. Elsewhere, construction fell 0.2% in July, with all the losses due to business-related buildings (primarily slower hotel building) and state and local government (fewer high schools being built). Single-family home building increased 7%, the largest increase in any month since 1983, as housing boomed coming out of the 1981-82 recession.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-09	Jul-09	Jun-09	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	52.9	48.9	44.8	48.9	44.3	49.3
New Orders	64.9	55.3	49.2	56.5	51.5	48.2
Production	61.9	57.9	52.5	57.4	49.2	51.3
Inventories	34.4	33.5	30.8	32.9	32.9	48.4
Employment	46.4	45.6	40.7	44.2	38.3	48.0
Supplier Deliveries	57.1	52.0	50.6	53.2	49.7	50.5
Order Backlog (NSA)	52.5	50.0	47.5	50.0	45.7	43.5
Prices Paid (NSA)	65.0	55.0	50.0	56.7	46.1	77.0
New Export Orders	55.5	50.5	49.5	51.8	47.8	57.0

Source: National Association of Purchasing Management