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UNITED STATES

The ISM manufacturing index signals that the economy is still deteriorating

HIGHLIGHTS

- In November, the ISM manufacturing index fell to 36.2 from October's 38.9.
- Eight of ten components declined. The biggest drops occurred in production, new orders, inventories and imports. The two components that did not slide—exports and customers' inventories—remained stable. No component rose.
- The drop in energy costs is still pulling down the prices paid component, which went from 37.0 to 25.5.
- The employment component ticked down from 34.6 to 34.2.

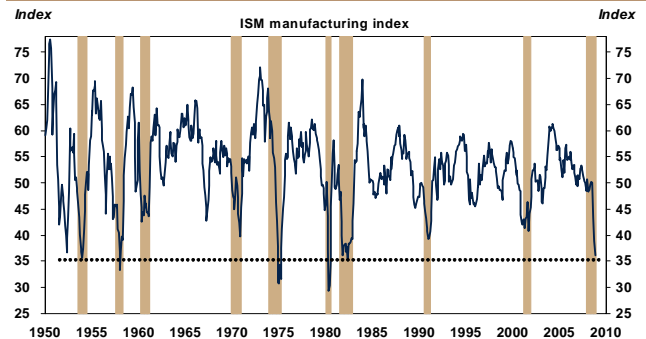
COMMENTS

Clearly, the signs that the American economic situation is deteriorating are mounting. The information provided by the Institute for Supply Management (ISM) does not provide any glimpse of recovery. On the contrary, the tumble by most of the components attests that economic activity will likely decline even more severely in the next few months.

Among the most negative factors in November's results is the decline and, in particular, low level of the new orders component. This index is at 27.9. It has only been this low during the 1982 recession. A deterioration of this magnitude in new orders combined with a drastic decline in the backlog of orders can only augur further declines in production in the near future. The situation is especially problematic as the only component that is still on the growth side is customers' inventories. If customers are unable to sell off their own merchandise, it would be surprising for new orders to turn around soon. A drop in manufacturing orders is also symptomatic of a drop in business investment.

Other components of the ISM index are not much better. In manufacturing, employment should once again retreat substantially, adding more layoffs to the 920,000 layoffs that have already occurred in this downward cycle. For prices, this summer's upside pressure, which put the index over the 90 mark, has quickly evaporated; the index is now at 25.5, its lowest point since the statistics began in 1950. This clearly

The ISM manufacturing index continues to slide



Sources: Institute for Supply Management and Desjardins, Economic Studies

reflects the decline in energy prices, as well as prices for other commodities, and the American dollar's recent rise.

Implications: The recession is not showing any signs of easing. The ISM manufacturing index, a good barometer for the economic situation, is instead signalling that the situation will deteriorate further. There is thus a crying need for even more aggressive assistance from government authorities, including the Federal Reserve. The economic problems also mean that inflation pressures, even with oil excluded, are moderating substantially.

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