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UNITED STATES

The ISM manufacturing index heads up again

HIGHLIGHTS

- In October, the ISM manufacturing index rose to 55.7 from September's 52.6.
- Five of the ten sub-indexes are up. The biggest gains occurred in current production and employment. The new orders component is down, however, as are import orders and customers' inventories.
- After declining in September, the prices component regained the lost ground, returning to where it was in August, at 65.0.

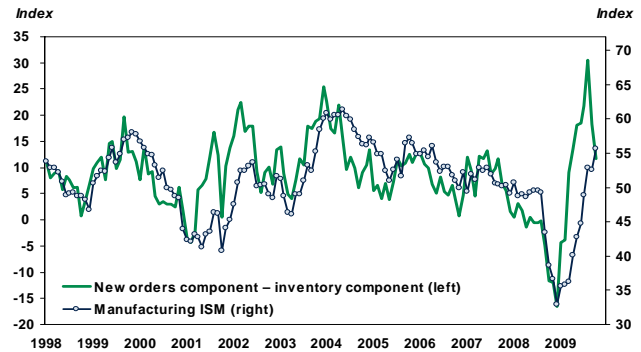
COMMENTS

Today's results from the ISM manufacturing index for October are indeed good news. After pulling back by a slight 0.3 points in September, one of the statistics that raised doubts about the strength of the economic recovery, the index is back at its highest point since January 2005. Its performance helps to build confidence about the American economy's condition.

One of the most encouraging factors is the 6.9-point gain in the employment component. A monthly increase of this size was also recorded in July 2008. Before that, however, we have to look back to 1983 for an improvement of this magnitude. Moreover, the "Employment" index is now back over the 50 mark. We can therefore assume that the coming months will not be as tough for manufacturing sector workers. Note that this sector has shed about 2.5 million jobs in the last three years. It remains to be seen whether the ISM non-manufacturing index will show this big an upswing by employment when the figures for October are released on Wednesday. If it does, and if both sub-indexes manage to achieve a sustained performance, we could see job losses end more quickly than forecast.

However, this is some concern as to this morning's figures. The 2.3-point drop by the new orders component adds to the 4.1 points recorded in September. During this time, the component associated with manufacturers' inventories rose by 12.5 points. The latest trend for these two components suggests that the ISM manufacturing index's growth could be ending and that the index could now crest. Manufacturers

The ISM manufacturing index swings up nicely, but movement by orders and inventories is suggestive of cresting



Sources: Institute for Supply Management and Desjardins, Economic Studies

can still be happy about the fact that clients' inventories continue to decline.

Implications: The ISM manufacturing index's increase is good news, easing the concerns prompted by September's slight decline. However, it is likely that the bulk of the ISM's up trend is now behind us and that it will start to crest. The best news comes from the employment sector, with this sub-index up sharply. If we also see a gain in the non-manufacturing index and in the official figures on the employment market, the financial markets could get another wind of optimism.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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