

November 4, 2009



UNITED STATES

The non-manufacturing ISM ticks down

HIGHLIGHTS

- In October, the ISM non-manufacturing index fell to 50.6 from September's 50.9.
- Most of the sub-indexes are up, however, including current production, new orders and the backlog of orders. There were substantial declines in employment, inventories and imports.

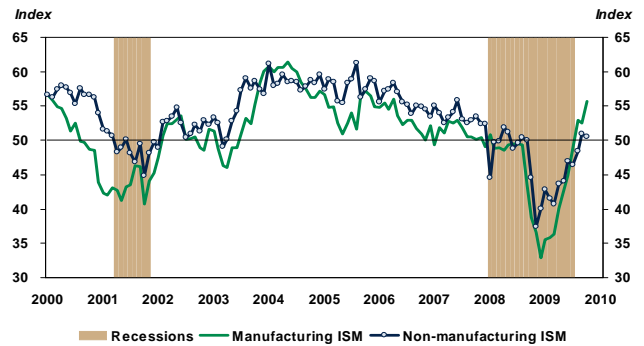
COMMENTS

After gaining a total of 4.5 points in August and September, the ISM non-manufacturing index now seems to be taking a break. Thus, in line with the previous month's drop by the manufacturing index, it fell 0.3 points. The pullback is a disappointment, as the consensus had been expecting it to rise to 51.5, but it is still quite slight. The fact that the index remains over the 50 mark is also a source of comfort. We will thus have to wait for the results for the next few months to see if October's decline is a real sign of weakness, or if the upward trend returns. For now, the pause must be read as a sign that the recovery remains modest.

The slight dip by the ISM non-manufacturing index takes the edge off the 3.1-point gain posted by the ISM manufacturing index for October. In fact, the performance by each of the indexes' components is even sometimes outright contradictory. While, in manufacturing, new orders fell in October, they continue to rise in the non-manufacturing sector. There are also contrary movements for inventories and employment. In the latter case, the employment component's 3.2-point drop in the non-manufacturing sector offsets the 6.9-point rise posted by this same component in the manufacturing sector. Note that manufacturing only accounts for 10% of the total work force. Despite the recession's end, we can therefore expect job losses to continue in the United States, which will impact the figures for October that are scheduled to come out on Friday.

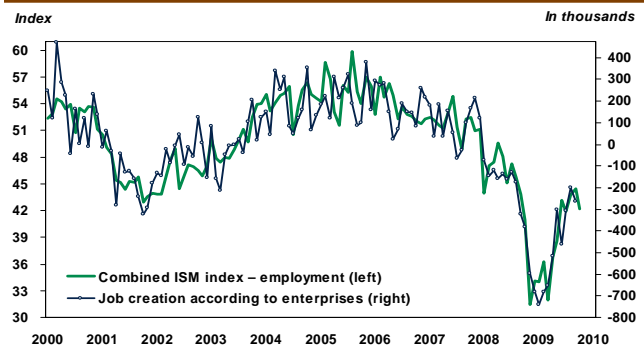
Implications: The ISM non-manufacturing index's decline is quite modest, especially when compared with the simultaneously gain made by the manufacturing index. However, it still suggests that the recovery could be slow,

It is the non-manufacturing index's turn for a break



Sources: Institute for Supply Management and Desjardins, Economic Studies

The ISM indexes are still not pointing to job creation



Sources: Institute for Supply Management, Bureau of Labor Statistics and Desjardins, Economic Studies

especially for the labour market. A result that will not bother Federal Reserve leaders in the meeting that is ending this afternoon.

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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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