

Chicago PMI (February)

- The Chicago purchasing managers' index was weaker than expected, falling to 44.5 in February from 51.5 in January.
- New orders fell at a slower rate as the index rose to 48.8 in February from 44.7 in January. However, employment plunged to 33.5 in February from 47.0 in January, and production dropped to 46.5 from 51.3.
- The inventory index fell to 46.0 in February from 51.1 in January, while order backlogs plunged to 38.3 from 48.0.
- Prices paid showed continued significant inflation pressures as the index remained elevated at 79.4 (though this is down from 81.7 in January). However, the vendor performance index plunged to 39.6 in February from 61.7 in January.

	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>07Q4</u> <u>avg</u>	<u>07Q3</u> <u>avg</u>	<u>Feb-06</u>
Business activity	44.5	51.5	56.4	53.6	53.7	49.4
Production	46.5	51.3	62.0	57.9	58.3	49.9
New orders	48.8	44.7	56.7	52.5	59.0	47.7
Order backlog	38.3	48.0	60.7	48.9	42.9	45.4
Inventories	46.0	51.1	44.3	45.9	46.2	53.6
Employment	33.5	47.0	49.3	50.7	55.0	50.2
Vendor deliveries	39.6	61.7	48.7	48.6	51.7	46.8
Prices paid	79.4	81.7	67.4	71.8	66.4	63.2

BOTTOM LINE: The plunge in the Chicago purchasing managers' index and broad based nature of the weakness increases our concerns about recession. Based on the New York Fed's Empire State index, the Philly Fed, and this report, we expect the ISM manufacturing index to have fallen to 47.0 in February from 50.7 in January (released on Monday, March 3rd). However, if the extent of the weakness in this report is shown in the national ISM index, it would be a strong indication (when viewed together with the jobless claims data) that the economy has already gone into recession. The weak economy and high inflation signals from this report continue to feed into our macro strategy theme of yield curve steepening.

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