

ISM Manufacturing (February)

- The ISM manufacturing index was about in line with consensus expectations, dropping to 48.3 in February from 50.7 in January. The ISM noted that the “past relationship between the PMI and the overall economy indicates that the average PMI for January and February (49.5 percent) corresponds to a 2.6 percent increase in real gross domestic product (GDP). In addition, if the PMI for February (48.3 percent) is annualized, it corresponds to a 2.3 percent increase in real GDP annually.”
- New orders slipped to 49.1 in February (the third straight month below 50) from 49.5 in January, and employment declined to 46.0 from 47.1. Production fell to 50.7 from 55.2—though weaker, this index suggests that output was still growing marginally in February.
- There was some good news in the inventory data as inventories appear to be under control. The inventory index fell to 45.4 in February from 49.1 in January, and a balance of 2% of respondents noted that inventories were “too low” in the month (in October 2007, 8% of respondents noted that inventories were “too high”).
- The new export orders index fell to a still very solid 56.0 in February from 58.5 in January, but imports dropped to 47.5 from 52.5. As a result, the net reading on external orders rose to +8.5 in February from +6.0 in January.
- Priced paid remained very elevated at 75.5 in February (down only slightly from 76.0 in January), although the vendor performance index fell to 50.1 from 52.8.

| | <i><u>Feb</u></i> | <i><u>Jan</u></i> | <i><u>Dec</u></i> | <i><u>07Q4</u></i> <i><u>avg</u></i> | <i><u>07Q3</u></i> <i><u>avg</u></i> | <i><u>12-mo</u></i> <i><u>ago</u></i> |
|---------------|-------------------|-------------------|-------------------|---|---|--|
| Overall Index | 48.3 | 50.7 | 48.4 | 49.6 | 51.3 | 51.5 |
| New Orders | 49.1 | 49.5 | 46.9 | 50.7 | 55.0 | 55.4 |
| Prices Paid | 75.5 | 76.0 | 68.0 | 66.2 | 62.3 | 59.0 |
| Vendor | | | | | | |
| Performance | 50.1 | 52.8 | 52.6 | 51.6 | 51.2 | 51.1 |
| Production | 50.7 | 55.2 | 48.6 | 50.0 | 54.6 | 54.6 |
| Employment | 46.0 | 47.1 | 48.7 | 49.6 | 50.9 | 50.9 |
| Inventories | 45.4 | 49.1 | 45.4 | 46.1 | 44.9 | 45.3 |
| Backlogs | 45.0 | 44.0 | 43.0 | 43.5 | 51.2 | 51.5 |
| Exports | 56.0 | 58.5 | 52.5 | 56.0 | 56.0 | 54.0 |
| Imports | 47.5 | 52.5 | 48.0 | 47.7 | 53.3 | 61.5 |

BOTTOM LINE: Although weak, this report was not as weak as we had feared and still leaves us shy of making a call that the economy has already slipped into recession. The two pockets of good news are that inventory levels are contained and the global economy continues to support growth. The bad news is that new order levels have fallen for three straight months, which has not happened since the 2001 recession.

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March 3, 2008