



Economics Group

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ISM Shows Manufacturing Growth Continues

Sustained gains in new orders, production, employment and vendor deliveries suggest continued growth in the manufacturing sector and economy. The rise in export orders reflects dollar and global growth influences.

ISM at 53.6 in November, up Last Four Months

Sustained improvement in the manufacturing sector is reflected in the Institute for Supply Management (ISM) Index which has been over the breakeven 50 level for the last four months. During this period there have been gains in orders, production, vendor performance and, most recently, employment. This broad-based improvement suggests good support for continued growth in the manufacturing sector ahead.

Our outlook is for a 5-6 percent gain in industrial production in the second half of this year after a decline of more than 10 percent in the first half of this year. The improvement in orders is particularly important as a leading indicator for growth. The recent gains in the employment index are also important as they signal a turn in the jobs situation that has been such an economic issue for household incomes and confidence as well as a political hot potato.

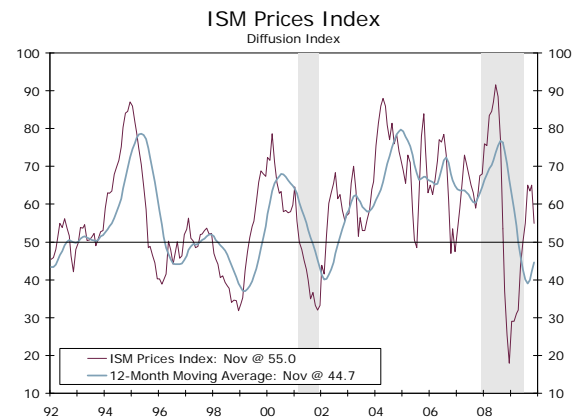
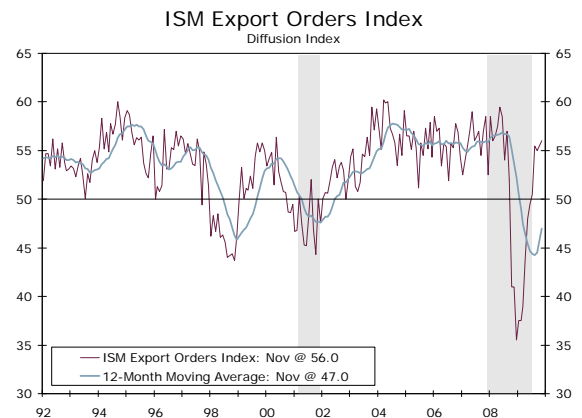
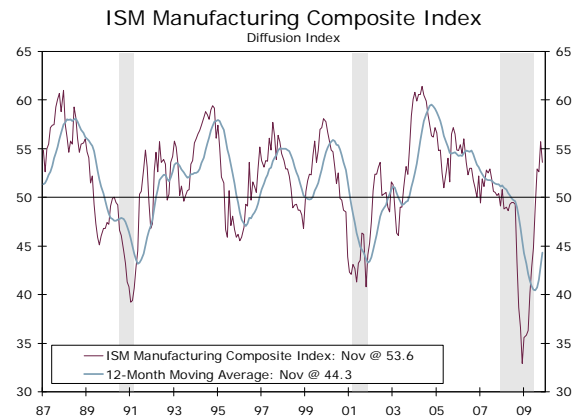
Export Orders: Global Recovery, Dollar Work Their Magic

Since July, the export orders index (middle graph) has exceeded the 50 breakeven point. This is a big plus for the U.S. economy and supports the recovery. Our outlook is for net exports to add about one-half of a percent to U.S. growth in the first half of next year. Our expectation is that global growth will turn positive in 2010 led by recoveries in Canada, the Euro zone, Japan and continued growth in China. This suggests continued growth in export orders and therefore export-oriented manufacturing as well. Export order gains have also been boosted by the weaker dollar in recent months. The weaker currency will probably help U.S. trade competitiveness in price sensitive sectors such as food, beverages and machinery. Overall, the thrust of global growth and the dollar will continue to aid exporters and overall U.S. growth in the year ahead. This is a welcome relief for an economy short on domestic private demand.

Prices Paid: Rising but Not Accelerating

Input costs, as described by the prices paid index, continue to rise as implied by an index reading above the 50 breakeven. Prices paid have exceeded the breakeven since June, yet in recent months the index has not accelerated. Periods of economic expansion are associated with a rising index and so the recent rise in prices is not necessarily a bad sign for the economy.

Moderation in the rise in prices actually can be a very good sign when economic recovery is also present. What we then have is a recovery in top line sales with modest, but not accelerating price pressures on the cost of goods sold side. This combination is good for profits and positive for economic growth as well. Our outlook is for modest producer price gains of roughly two percent for the year ahead.



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