



Non Manufacturing ISM Slows but still growing

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INSTITUTE FOR SUPPLY MANAGE				Page 1/2		
Source		Current		Previous	01/31/04	Pct
Institute for Supply Management		Value	Date	Value	Date	Chng
1) INST FOR SUP MAN PMI	NAPMPMI	61.40	02/04	63.60	01/04	-3.46
2) INST FOR SUP MAN PRODUCTION	NAPMPROD	63.90	02/04	71.10	01/04	-10.13
3) INST FOR SUP MAN NEW ORDERS	NAPMNEWO	66.40	02/04	71.10	01/04	-6.61
4) INST FOR SUP MAN BACKLOG OR	NAPMBACK	62.00	02/04	60.50	01/04	2.48
5) INST FOR SUP MAN SUPPLIER	NAPMSUPL	62.10	02/04	60.40	01/04	2.81
6) INST FOR SUP MAN INVENTORY	NAPMINV	49.40	02/04	48.90	01/04	1.02
7) INST FOR SUP MAN CUST. INVE	NAPMCINV	38.50	02/04	40.00	01/04	-3.75
8) INST FOR SUP MAN EMPLOYMENT	NAPMEMPL	56.30	02/04	52.90	01/04	6.43
9) INST FOR SUP MAN PRICES	NAPMPRIC	81.50	02/04	75.50	01/04	7.95
10) INST FOR SUP MAN EXPORT ORD	NAPMEXPT	54.90	02/04	57.50	01/04	-4.52
11) INST FOR SUP MAN IMPORTS	NAPMIMPT	60.20	02/04	59.50	01/04	1.18
12) INST FOR SUP MAN NM BUS ACT	NAPNMNAN	60.80	02/04	65.70	01/04	-7.46
13) INST FOR SUP MAN NM NEW ORD	NAPMNNO	60.30	02/04	64.90	01/04	-7.09
14) INST FOR SUP MAN NM BACKORD	NAPMNBO	53.00	02/04	53.50	01/04	-0.93
15) INST FOR SUP MAN NM DELIVER	NAPMNSD	55.50	02/04	56.50	01/04	-1.77
16) INST FOR SUP MAN NM INV CHG	NAPMNIC	49.00	02/04	49.50	01/04	-1.01
17) INST FOR SUP MAN NM INV SET	NAPMNIS	58.00	02/04	59.00	01/04	-1.69
18) INST FOR SUP MAN NM EMPLOY	NAPMNEMP	52.70	02/04	53.40	01/04	-1.31
19) INST FOR SUP MAN NM PRICES	NAPMNPRC	57.30	02/04	59.70	01/04	-4.02
20) INST FOR SUP MAN NM XPRT OD	NAPMNNEO	55.50	02/04	51.00	01/04	8.82

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A quick glance at the table above shows that except for the “trade sector,” the rates of expansion in all of the survey series declined. The exceptions were export orders and imports (not shown in the table above). The key employment survey question shows a slight deterioration in the rate of expansion (but still above 50%) in contrast to the manufacturing survey. New orders also slowed while prices in the non manufacturing sector appeared to slow their rate of increase. This is in sharp contrast to the manufacturing survey.

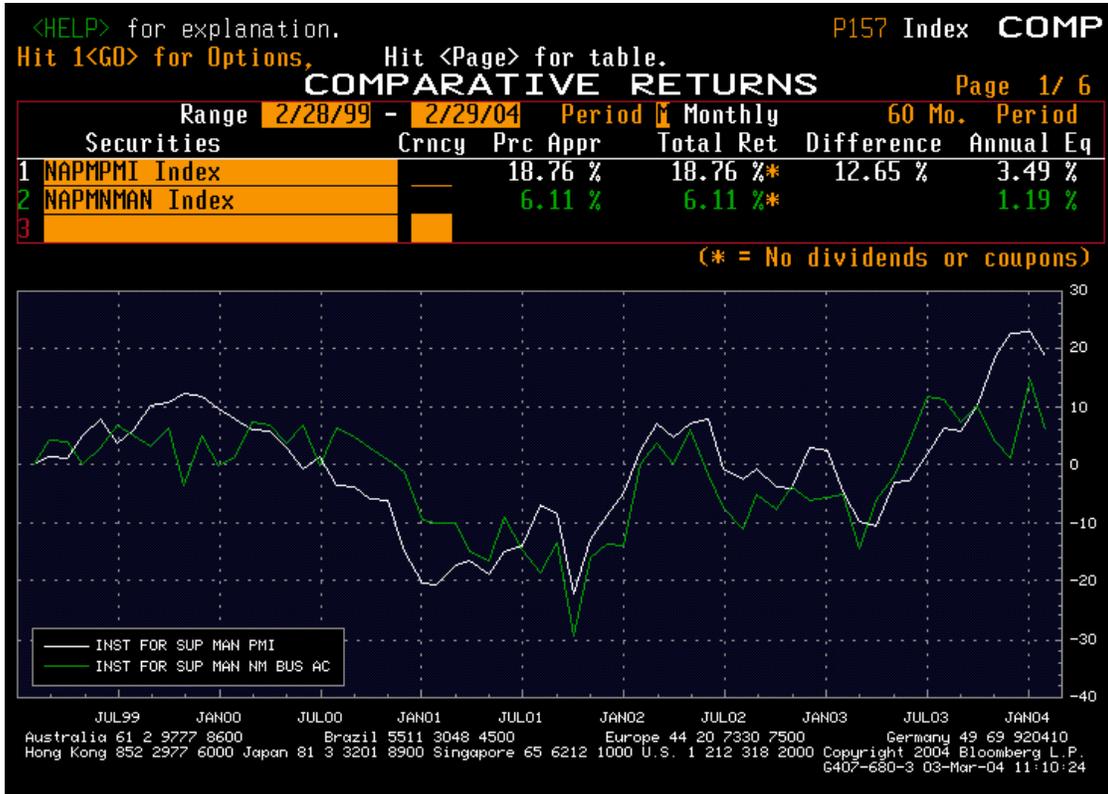
How to read these data?

The obvious comment is that the two series (manufacturing and non manufacturing) don't necessarily move in tandem, even within the special survey questions. The broad trends in the economy show through both sets of data, but the timing of the “moves” can differ.



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The graphs only show “relative” moves, but it is clear that in late 2003 and early 2004, it was the “return of the



Jedi” performance of the manufacturing sector that dominated, at least until the recent slowing. In 2003, it was the reverse with non manufacturing showing leadership.

The comparison of the New Orders series is interesting, less for direction but more for timing. The inherent volatility of manufacturing shows through both in timing and directional moves. What probably can be read from the New Orders series is that there has been a slowing in the acceleration of growth in Q12004.



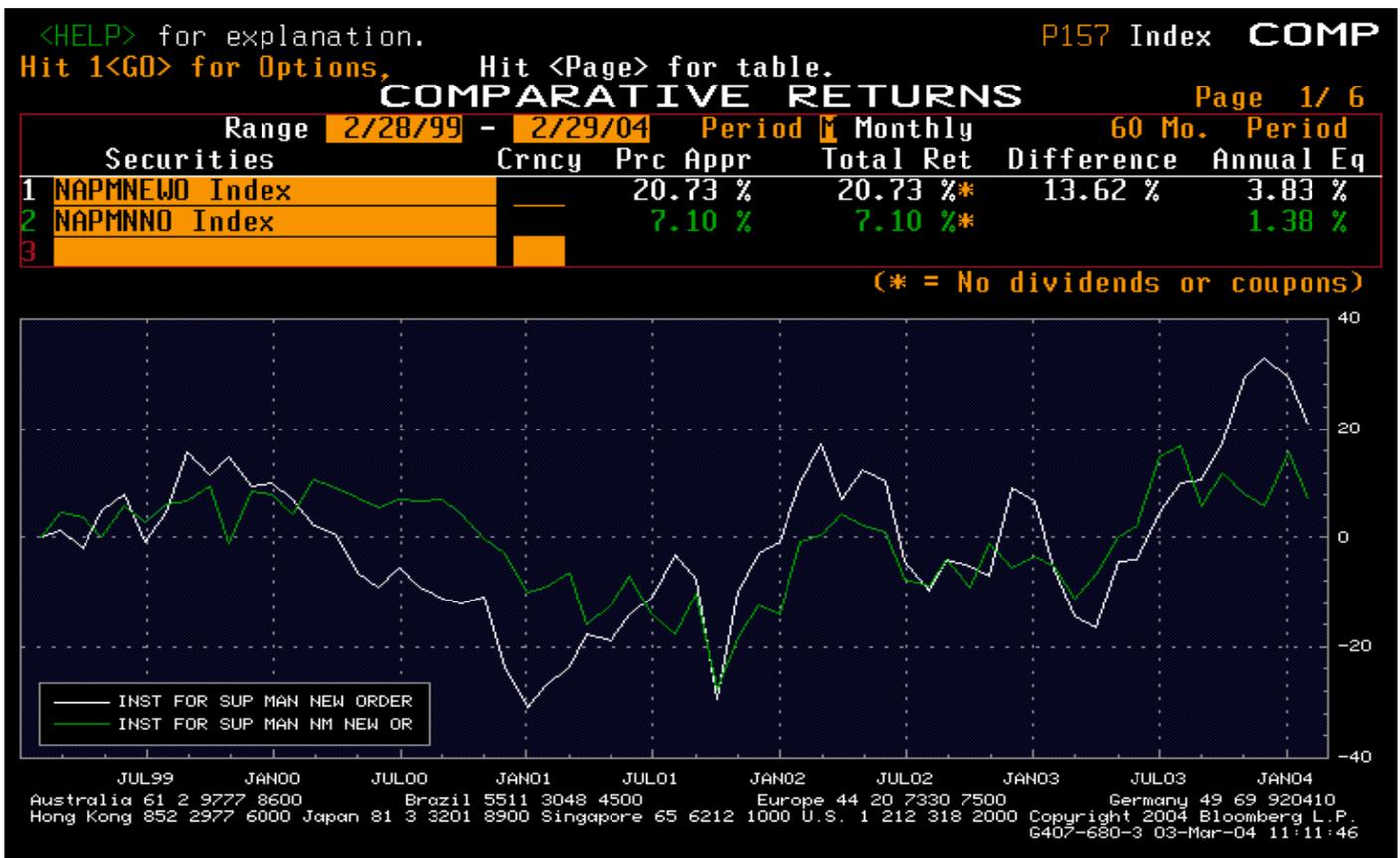
Price Trends:

If there is a real difference between the “sectors,” it appears to stem from the importance in total cost of raw materials. Here the surge in commodity inputs no doubt has created a relative acceleration of prices in manufacturing over non-manufacturing. This will continue to be the case until labor markets tighten sufficiently to allow for strong nominal wage growth.

Summary:

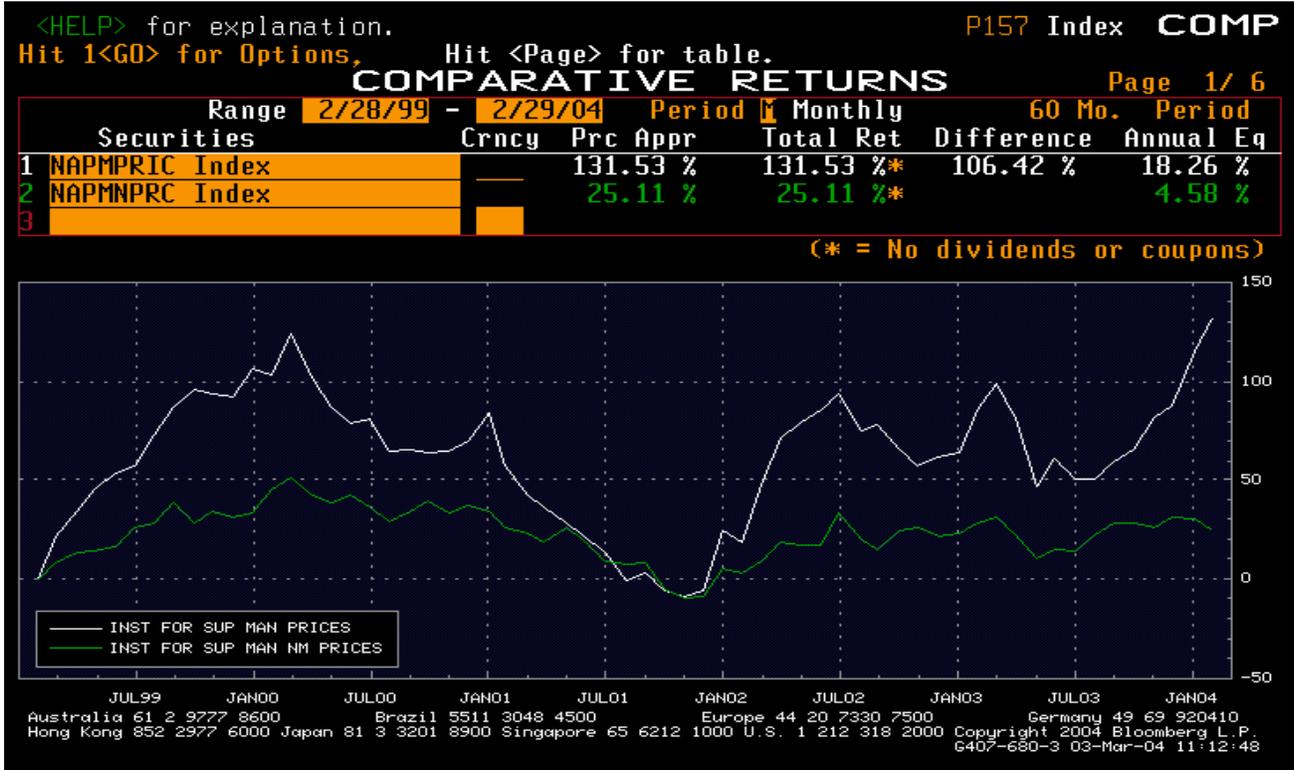
Even if the data in the two series don't provide parallel movements in magnitude and direction, the two series tend to be broadly similar. However, as we approach more typical full employment conditions, we should begin to experience much more divergence.

Comparison of New Orders





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Comparison of Price Trends