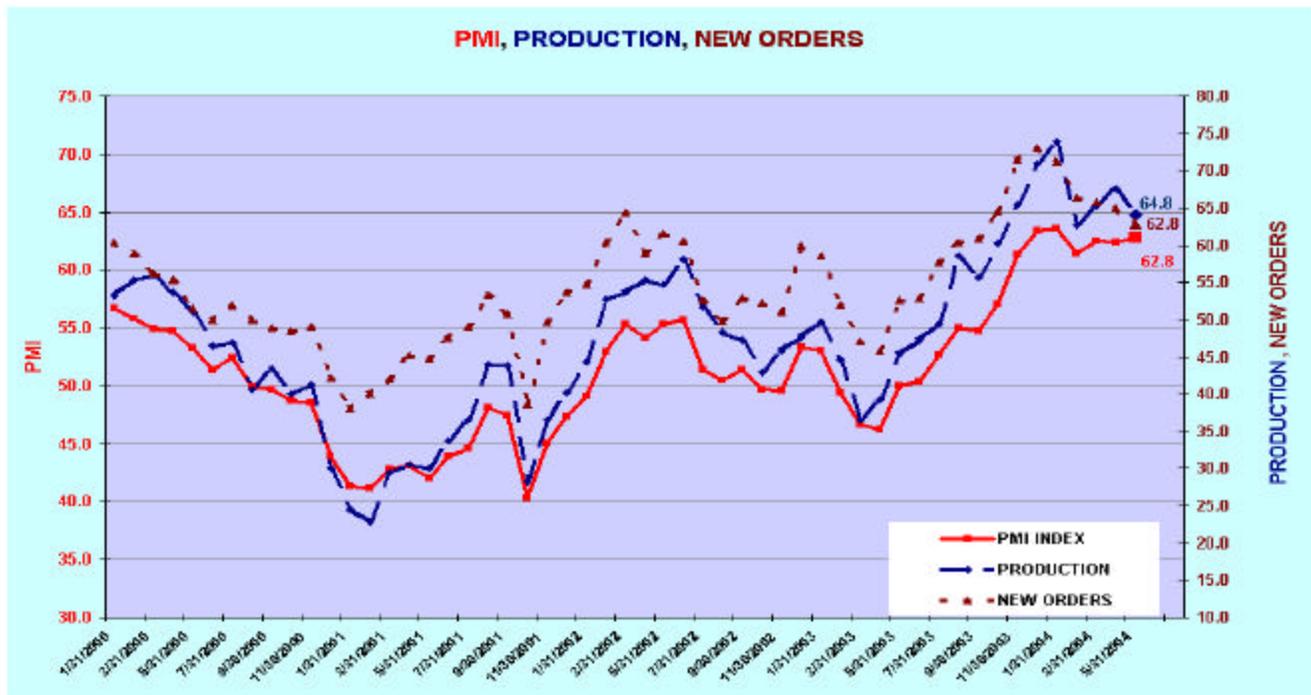




## The Nothing Is Easy Survey

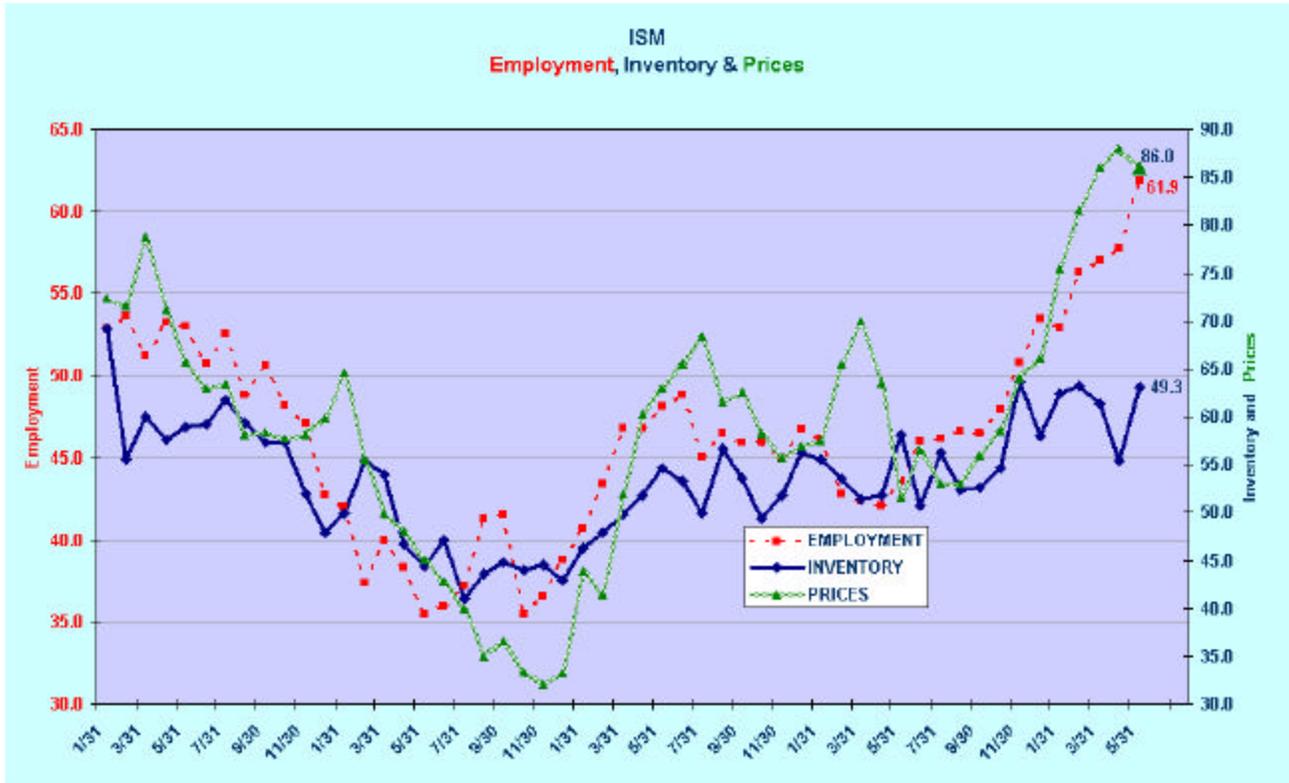
The ISM top line number moved upward (consistent but not comparable to the Chicago PMI last week), but the internal component numbers gave mixed readings. The positive internals were supplier delivery times, employment and imports. The negative internals were production, new orders, customer inventories, prices and export orders. The picture that emerges is one of firms' hiring to fill existing orders by their own production and through the imports (possibly of components). Production, new orders, export orders slowing suggests continued but not accelerated expansion, placing further emphasis on the somewhat atypical character of the Chicago PMI survey. The ISM seems more in line with earlier surveys from the Empire and Philly Fed's earlier in the month.



The rapid build in producer inventories and the slowing build in customer inventories hints at a slowing, going forward, of the pace of expansion. The issue for the economy as a whole will be whether the employment gains that are strongly suggested by the acceleration of employment in this survey (as well as the other, earlier surveys) can continue. The current month's readings are surely only one data point, not a trend.



# ECOMENTARY™



Employment growth and inventory expansion are generally not consistent trends, once an optimal level of inventory is acquired by producing firms. Inventory/Sales ratios have fallen far below their declining secular trends that may allow the expansion of employment and inventories to coexist for a while—but not indefinitely. Either new orders at home or abroad have to increase or production (and thus, employment) will have to ease.

Finally, supplier delivery times have shot up, although there was some marginal fall off in the long acceleration of prices. Is inflation picking up? Clearly, the best readings on inflation are behind us, but how much of the long months of ISM price increases is due to a commodity price surge is not yet clear. A break in the price trend would be helpful to the Fed, but they will look at more comprehensive price data.