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DAILY GLOBAL COMMENTARY

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ISM Manufacturing Survey – Details Point to Growing Loss of Momentum

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The ISM manufacturing survey results for March present a grim picture of the factory sector. The composite index rose slightly to 48.6 from 48.3 in February. Indexes tracking supplier deliveries (53.6 vs. 50.1 in February) and employment (49.2 vs. 46 in February) helped to offset the sharp declines of indexes measuring new orders (46.5 vs. 49.1 in February) and production (48.7 vs. 50.7 in February) and the small decline in the inventories index. The sharp drop in production and new orders indexes send an important signal that underlying conditions in the factory sector are weak. On a quarterly basis, the ISM composite index (49.2 in 2008:Q1) is the lowest since the second quarter of 2003 (see chart 1).

Chart 1

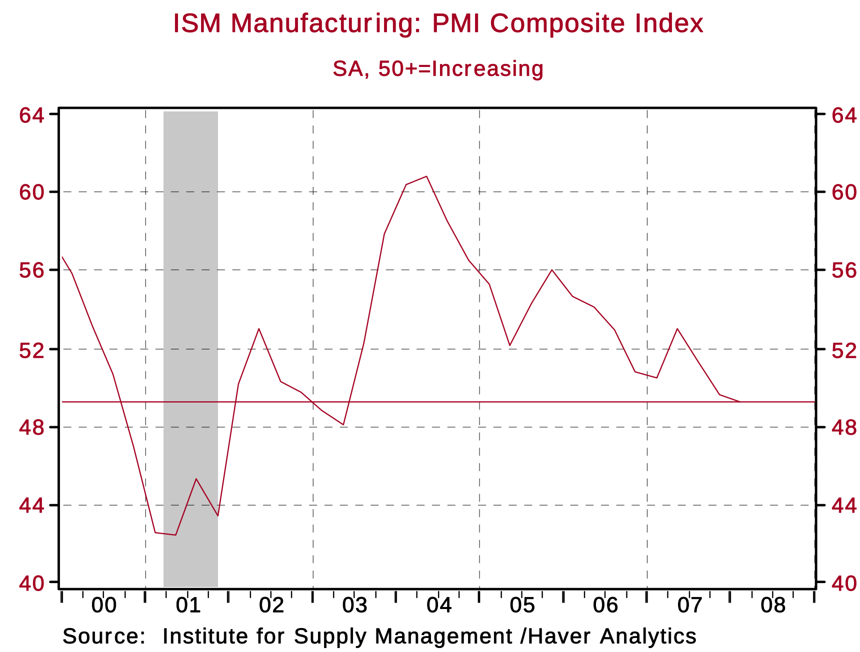
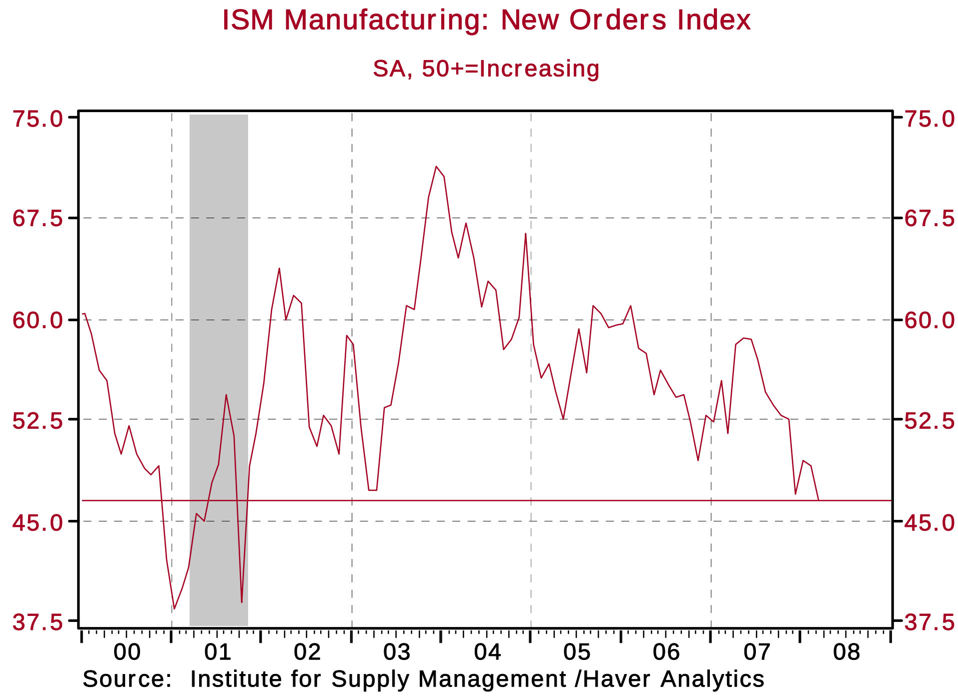


Table 1 ISM Manufacturing Survey - March 2008

	Oct-2007	Nov-2007	Dec-2007	Jan-2008	Feb-2008	Mar-2008
Composite Index	50.4	50.0	48.4	50.7	48.3	**48.6**
New Orders	52.8	52.5	46.9	49.5	49.1	**46.5**
Production	50.1	51.3	48.6	55.2	50.7	**48.7**
Employment	51.8	48.4	48.7	47.1	46.0	**49.2**
Vendor Deliveries	50.7	51.5	52.6	52.8	50.1	**53.6**
Inventories	46.5	46.4	45.4	49.1	45.4	**44.9**
Prices	63.0	67.5	68.0	76.0	75.5	**83.5**
Backlog of Orders	46.0	41.5	43.0	44.0	45.0	**47.5**
New Export Orders	57.0	58.5	52.5	58.5	56.0	**56.5**
Imports	47.5	47.5	48.0	52.5	47.5	**45.0**

The new orders index at 46.5 is the lowest since June 2001; on a quarterly basis, this index (48.4) is the lowest in nearly five years. The forward looking aspect of the new orders index is an important feature that makes the index relatively more useful to gauge conditions in the factory sector. The production index is also indicative of noteworthy weakness, with the exception of three monthly readings (December 2007, November 2006, and March-April 2003) that are close to the February mark (48.8), a comparable measure of soft conditions was last reported in 2001. The gain in the export orders index is the silver lining in the cloudy picture of the factory sector.

Chart 2



Private Construction Outlays Remain Weak

Total constructions spending declined 0.3% in February after falling during each of the prior four months. In October and November 2007, strength in non-residential construction outlays helped to trim the weakness in construction spending. In the three months ended February, non-residential investment expenditures have dropped (see table 2 and chart 3). The main message from this report is that non-residential investment expenditures are unlikely to add meaningfully to real GDP in the first quarter following a 6.0% annualized increase in the fourth quarter. Residential investment expenditures in the first quarter should post an equally significant drop compared with that of the fourth quarter (-25.2%).

Chart 3

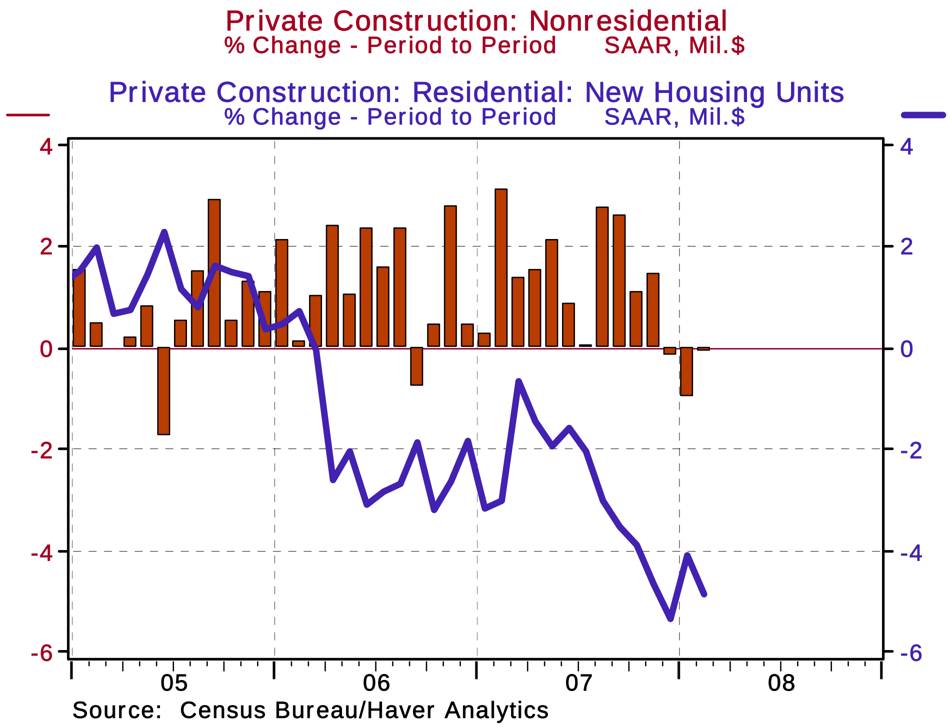


Table 2 Construction Spending (percent change from prior month, millions of $) – February 2008

	Total	Private	Residential	Non-residential	Public
Aug-2007	0.4	0.2	-1.5	2.7	1.0
Sep-2007	0.3	-0.2	-2.1	2.6	1.7
Oct-2007	-0.9	-1.7	-3.7	1.1	1.4
Nov-2007	-0.1	-0.3	-1.6	1.4	0.4
Dec-2007	-1.7	-1.4	-2.4	-0.2	-2.3
Jan-2008	-1.0	-1.5	-1.9	-1.0	0.4
Feb-2008	-0.3	-0.5	-0.9	-0.1	0.4