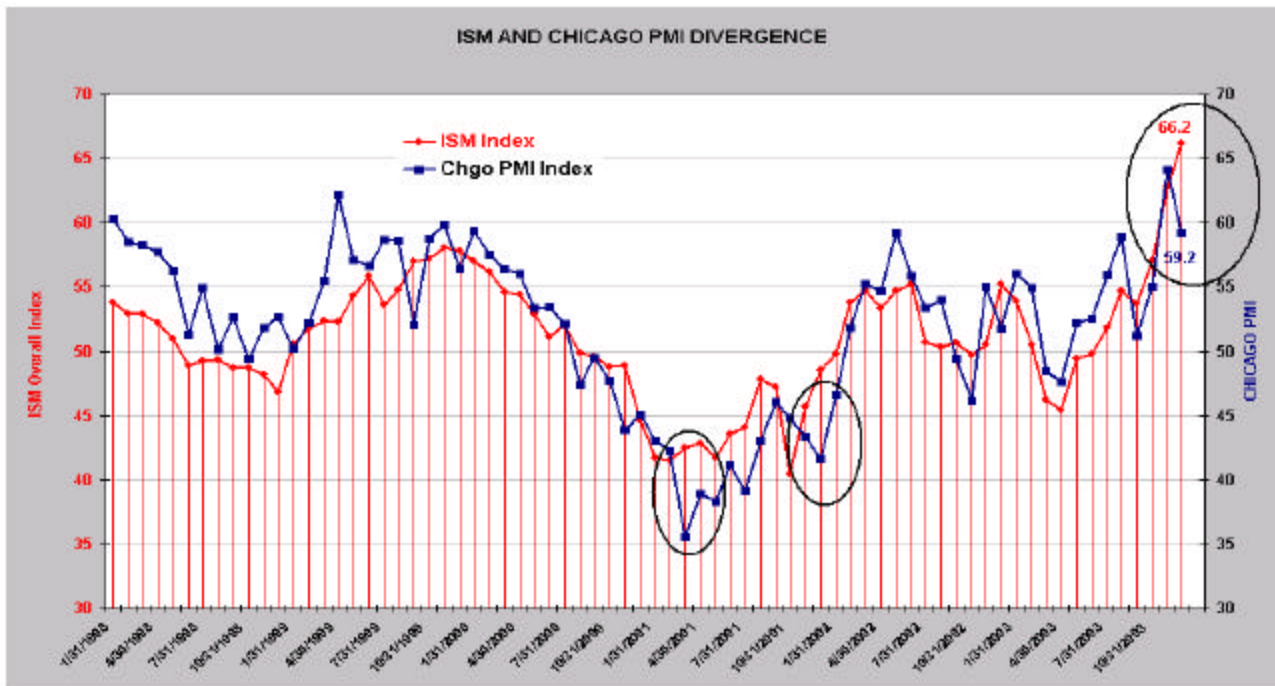
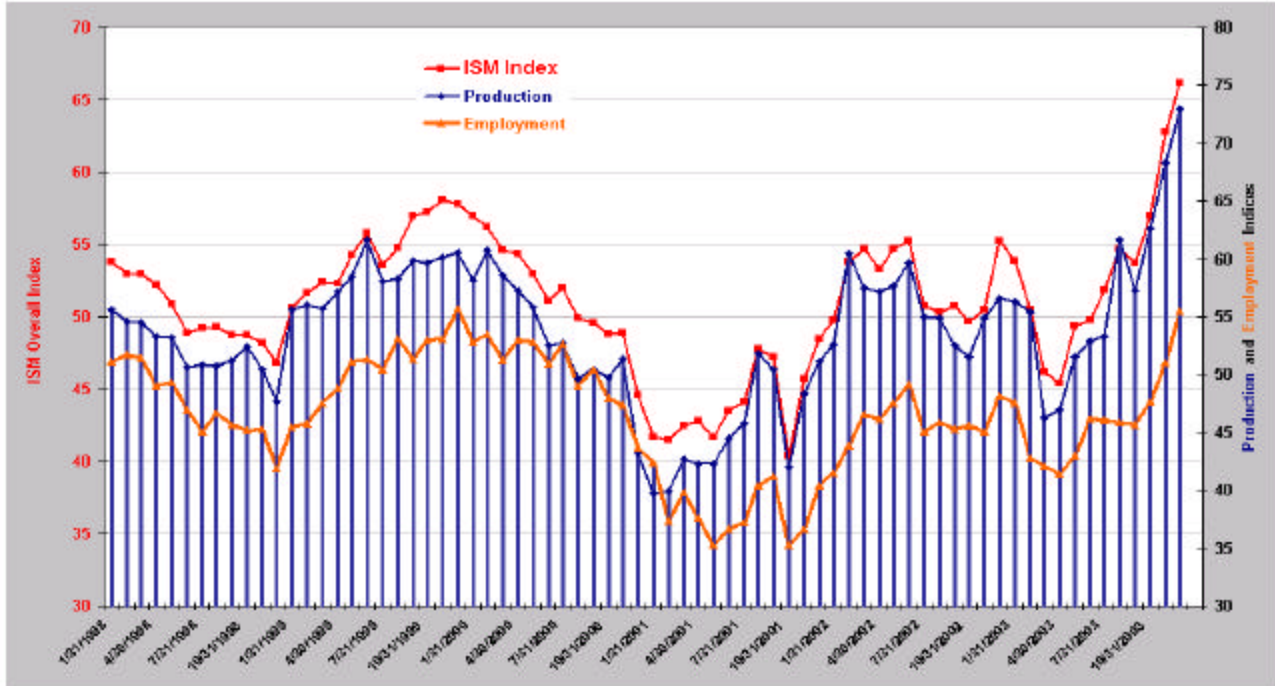




ISM: NATIONAL PMI REVERSES CHICAGO PMI



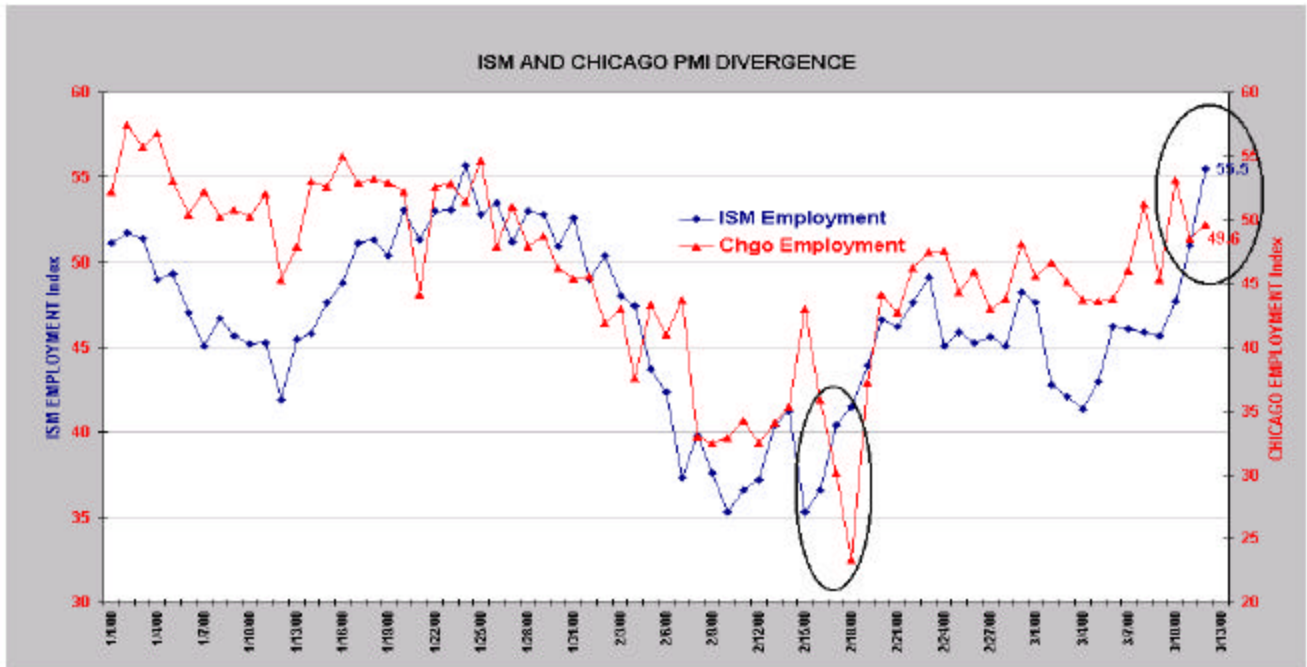
ECOMENTARY² is published for clients of **Munk Advisory Services, LLC**
 955 Mt. Moro Road, Villanova, PA 19085. tel (610) 527 5368 fax (610) 527 5068
 Reproduction or quotation by permission only.
 Website www.ecomentary.com. Contact: munkb@ecomentary.com



ECOMENTARY™

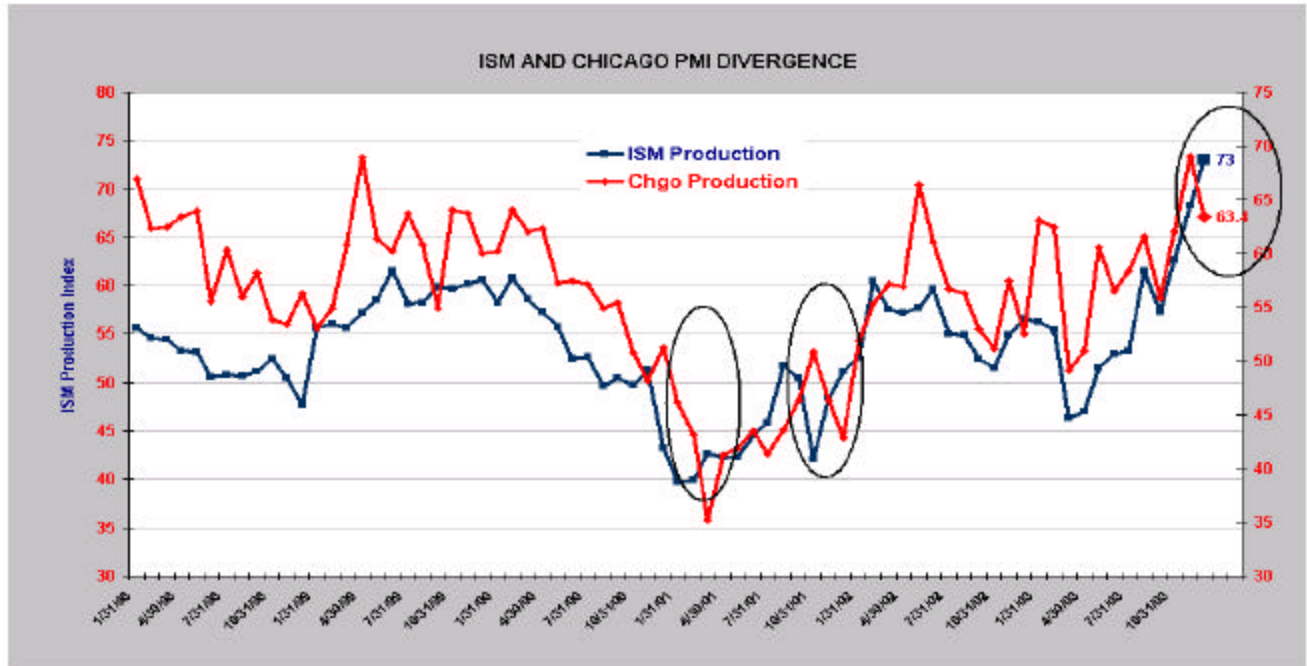
The ISM data today reversed the “negative” connotations of the Chicago PMI from last week with the ISM overall index soaring to a level of 66.2 from the prior month’s 62.8. These data reversed the report from the Chicago purchasing managers that showed their overall index falling to 59.2 from 64.1. Such divergences have been seen before as illustrated in the second graph above. In both surveys, expansion is occurring, however the national ISM shows it occurring at a faster rate.

Despite the divergence in the overall indicators, employment conditions seem better in both surveys. The



National ISM registered a strong change rising to 55.5 from 51. Again, expansion at a faster rate on the national survey was better than the Chicago survey that was still below 50 (49.6), having suffered a setback in November.

Divergence: It is not entirely surprising that a region, such as Chicago, should have more volatility than a national index and particularly the Chicago region that is the home of much of the “heavy” manufacture often relating to the automotive industry. Casual inspection of the some of the component indices suggests higher volatility and also some month-to-month ‘reversal’ from the National ISM. “On average, as we have noted before, there is a reasonable correlation between the two, but often actual divergent movements take place. We have “circled” a few of the notable ones and below show a comparison between the production indices for both surveys. The inventory data also provide a continuing illustration of JIT management, since both surveys are still below 50, and both fell during the month of December.



Notwithstanding some of these divergences, the economy's manufacturing sector is clearly expanding and it appears that employment will begin to expand more substantially since New Orders and Backlogs also expanded at an accelerating rate. In fact, the New Orders component at 77.60 was a new high for the series, exceeding even the boom conditions of 1999.



ECOMENTARY™