

Monitor

US: ISM preview, August

- **In July** the US manufacturing ISM index declined moderately – for the third month in a row. Though it fell less than expected, it still revealed weaker details, as both production and new orders continued to deteriorate. Hence, the ‘new order’ vs. ‘inventories’ suggested a further slowdown in the growth rate for manufacturing production in the pipeline.
- **The local surveys** have been rather grim in August, particularly early on in the month as both Empire and Philly Fed figures dropped considerably. Overall the local surveys are now signalling that the ISM will fall below 50 for the first time since late last year.
- **Tomorrow** we expect the ISM to continue its decline, landing at 53.6, as both forward looking details of the previous report and dropping local surveys, point downward. Since our fundamentals based models point towards a somewhat weaker drop in ISM than the local surveys we are left slightly above consensus of 53.0.
- **In the coming months** we expect the ISM to continue moving lower, as fundamentals now suggest a further slowdown in manufacturing growth in H2 2010. As doubts spread, of whether the labour market is able to recover sufficiently to drive a demand based recovery, we expect ISM to reach a year-end level around 51.

ISM (August)

	DB	Cons	Last
ISM	53.6	53.0	55.5
Prices	57.5	56.0	57.5

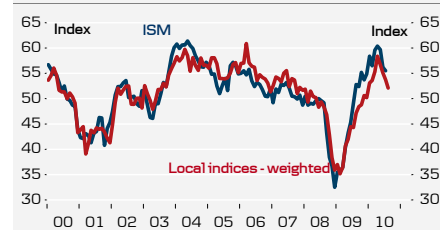
Bloomberg and Danske Markets

Danske Markets' ISM targets

	Today	Nov	Feb
ISM	53.6	51.0	50.0

Danske Markets

Local indices



Source: Reuters Ecowin and Danske Markets

Local indices (ISM weighted and volatility adjusted)

	This month	Last month	Change 1 mth	Change 3 mths	Change 6 mths
Empire	49.9	52.0	↓ -2.2	↓ -4.4	↓ -2.2
Philly Fed	45.9	50.7	↓ -4.8	↓ -6.8	↓ -11.3
Richmond	55.6	57.0	↓ -1.4	↓ -5.9	↑ 4.8
Dallas	48.3	47.9	↑ 0.5	↓ -7.9	↓ -2.9
Kansas	47.1	52.3	↓ -5.2	↓ -4.8	↓ -6.5
Chicago	53.8	57.1	↓ -3.3	↓ -3.0	↓ -1.6
Cincinnati	56.8	51.2	↑ 5.6	↓ -2.1	↑ 3.9
Milwaukee	61.5	62.2	↓ -0.8	↓ -0.1	↑ 5.2
Weighted	52.1	53.8	↓ -1.7	↓ -4.6	↓ -1.5
Actual ISM		55.5		↓ -4.9	↓ -2.9
Prices					
Weighted	57.7	56.0	↑ 1.7	↓ -10.2	↓ -7.0
Actual prices		57.5	↑ 0.5	↓ -20.5	↓ -12.5

Source: Reuters Ecowin and Danske Markets

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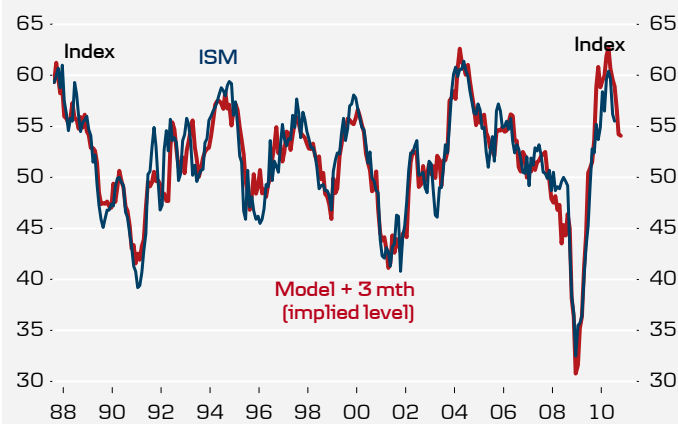
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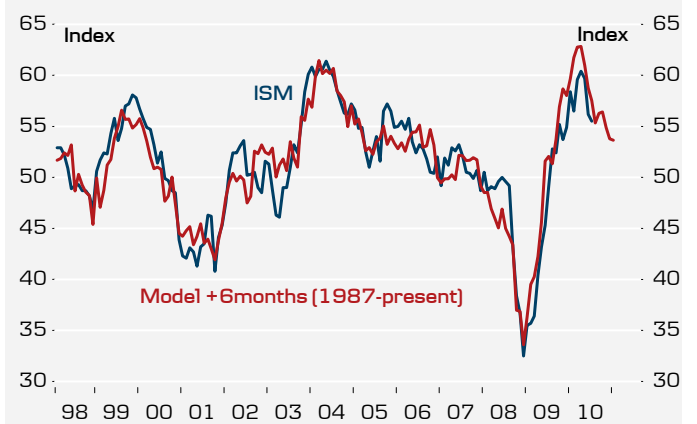
Charts

3-mth model - implied level



Source: Reuters Ecowin and Danske Markets

6-mth model - levels



Source: Reuters Ecowin and Danske Markets

Tables

Local indices detailed

Empire	Aug 10	Jul 10	Jun 10	May 10
Shipments	-11.5	6.3	19.7	11.3
New Orders	-2.7	10.1	17.5	14.3
Employment	14.3	7.9	12.4	22.4
Delivery time	0.0	-7.9	9.9	-6.6
Inventories	2.9	6.4	-1.2	1.3
ISM Weighted	50.6	54.6	61.6	58.5
Volatility adjusted	49.9	52.0	55.9	54.2
Philly Fed	Aug 10	Jul 10	Jun 10	May 10
General business activity	-4.5	4.0	14.2	15.8
New orders	-7.1	-4.3	9.0	6.1
Number of employees	-2.7	4.0	-1.5	3.2
Delivery time	-11.0	-8.1	6.8	-1.2
Inventories	-11.6	4.5	4.6	-7.9
ISM weighted	42.6	50.0	56.6	53.2
Volatility adjusted	45.9	50.7	54.9	52.7
Richmond	Aug 10	Jul 10	Jun 10	May 10
Shipments	11.0	22.0	31.0	32.0
New orders	10.0	13.0	25.0	36.0
Employment	12.0	15.0	9.0	4.0
Vendor	8.0	4.0	17.0	14.0
Inventories	11.0	8.0	7.0	9.0
ISM weighted	60.4	62.4	67.8	69.0
Volatility adjusted	55.6	57.0	60.7	61.5

Source: Reuters Ecowin

Local indices detailed (cont.)				
Dallas	Aug 10	Jul 10	Jun 10	May 10
Production	6.1	-3.0	7.7	28.5
Growth rate of orders	-16.1	-20.2	-2.0	12.0
Number of employees	-5.0	4.0	9.6	20.4
Delivery time	-4.0	-6.0	-2.9	6.4
Finished goods inventories	-8.2	-7.0	-8.6	-8.3
ISM weighted	44.6	43.6	50.8	61.8
Volatility adjusted	48.3	47.9	51.2	56.2
Kansas	Aug 10	Jul 10	Jun 10	May 10
Production index	0.0	14.0	3.0	5.0
Volume of new orders	-13.0	9.0	0.0	-2.0
Number of employees	-2.0	5.0	-1.0	1.0
Delivery time	3.0	0.0	5.0	15.0
Inventories, finished goods	2.0	0.0	1.0	6.0
ISM weighted	48.0	55.6	51.6	55.0
Volatility adjusted	47.1	52.3	49.6	51.9
Chicago PMI	Aug 10	Jul 10	Jun 10	May 10
Production	57.6	65.0	64.2	61.0
New orders	55.0	64.6	59.1	62.7
Employment	55.5	56.6	54.2	49.2
Supplier deliveries	61.2	59.4	60.7	65.1
Inventories	46.5	50.8	46.5	56.4
ISM weighted	55.2	59.3	56.9	58.9
Volatility adjusted	53.8	57.1	55.2	56.8
Cincinnati	Aug 10	Jul 10	Jun 10	May 10
Production	38.0	20.0	34.0	43.0
New orders	36.0	17.0	23.0	43.0
Employment	14.0	13.0	20.0	23.0
Deliveries	-14.0	-19.0	-28.0	-31.0
Inventories	-21.0	-24.0	-3.0	-8.0
ISM weighted	10.6	1.4	9.2	14.0
Volatility adjusted	56.8	51.2	55.9	58.8
Milwaukee	Aug 10	Jul 10	Jun 10	May 10
Production	74.0	69.0	67.0	74.0
New orders	66.0	69.0	69.0	71.0
Blue collar employment	63.0	65.0	62.0	63.0
White collar employment	60.0	56.0	56.0	53.0
Deliveries	32.0	29.0	28.0	24.0
Inventories	57.0	66.0	63.0	64.0
ISM weighted	58.1	58.7	57.2	58.2
Volatility adjusted	61.5	62.2	60.4	61.6

Source: Reuters Ecowin

Local price indices detailed

	Aug 10	Jul 10	Jun 10	May 10
Empire	20.0	25.4	27.2	44.7
Philly	2.9	6.4	-1.2	1.3
Richmond	2.2	1.6	2.3	2.3
Dallas	20.2	10.1	29.5	42.2
Kansas	14.0	14.0	14.0	37.0
Chicago	57.2	58.1	61.9	64.0
Cincinnati	61.2	61.4	63.4	72.9
Milwaukee	63.1	58.1	56.4	73.1
Weighted and volatility adjusted	57.7	56.0	60.0	67.9

Source: Reuters Ecowin

Disclosure

This research report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. The authors of this report are Peter Possing Andersen, Senior Analyst and Signe Roed Frederiksen, Senior Analyst.

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