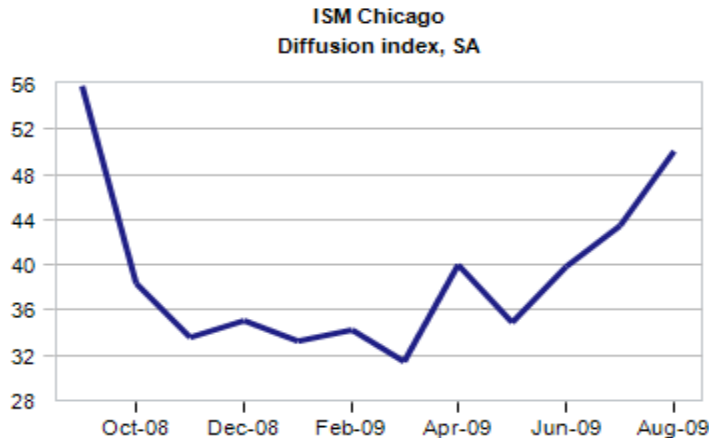


Structural Logic

Tuesday, September 29, 2009

Economists' Raised Expectations for the Sept Chicago-ISM Report May be Too High

Normally, I look past the Chicago ISM reports, but that may not be so wise to do this time as tomorrow's number may give us a big clue as to what to expect from the Sept ISM report as well as the Sept NFP report. Moreover, a rotten Chicago ISM for September can give a nice kick in the head to equities and a shot in the arm for treasuries.



The Chicago ISM report shot up to 50 in August, beating the previous month by more than 6 points and two points more than 48 points that economists expected. Moody's Economy.com noted that [“manufacturing in the Midwest got a much-needed boost by the success of the so-called cash for clunkers program.”](#)

Economists expect the Chicago ISM will improve over August. August printed 50, and now economists expect a print of 52. Last month, the Chicago ISM got a huge boost in production, order backlog, new orders, prices paid, and supplier deliveries precisely because of the cash-for-clunkers. To achieve further gains month over month in the Sept Chicago ISM index, there will have to be further month over month gains in production, prices paid, order backlog, and even new orders. Anyone want the under? As I said in this mornings Consumer Confidence report, economists' “raised expectations” for September data inputs are “striking out.”

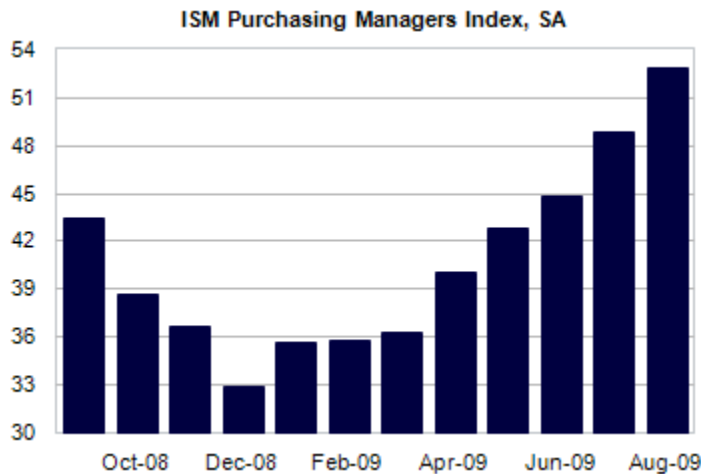
Chicago PMI (Diffusion Index)								
	Aug 09	Jul 09	Jun 09	May 09	Apr 09	Mar 09	Feb 09	Jan 09
Business Barometer	50.0	43.4	39.9	34.9	40.1	31.4	34.2	33.3
Production	52.9	43.3	39.3	38.1	38.1	32.7	34.7	29.7
Employment	38.7	35.3	28.9	25.0	31.8	28.1	25.2	34.8
Prices paid	50.0	35.0	36.3	29.8	28.4	34.1	37.8	39.8
New Orders	52.5	48.0	41.6	37.3	42.1	30.9	30.6	30.7
Order backlog	45.8	32.1	37.6	26.3	36.9	21.3	29.3	26.5
Inventories	27.5	25.4	34.2	31.5	30.6	34.9	33.0	38.0
Supplier deliveries	54.6	49.6	43.1	43.0	45.4	48.4	51.0	51.9

In response to cash for clunkers, the pace of layoffs in the Chicago ISM slowed month over month in August, upticking 3 points from 35.3 to 38.7. This was the best reading since the 48.8 print in Sept 2008.

cash-for-clunkers spurred negative job growth. What will the September job component do without the August cash-for-clunkers program? Hmm...

Also worth bearing in mind, a decrease in vehicle sales to a record 28 year low in September as estimated by Edmunds.com and GS, will not bode well for supporting further production in the future Q4 Chi-ISM or national ISM reports. I mean, what will be the rush to do an inventory rebuild and replenish their stockpiles if the final demand in August was artificial, fleeting and transitory because the cash-for-clunkers came to an end on August 24? There won't be any need for manufacturers to rush to rebuild if the only takeaway from the September Consumer Confidence report if as expressed by Moody's Economy.com is "[consumers remain deeply depressed.](#)"

Next up is the Sept ISM report on Thursday Oct 1. Here again, economists are apt to overshoot their expectations on the upside. August ISM improved to 52.9 beating economist expectations of a 50.5 print. With the cash-for-clunkers program in July and August, we saw somewhat of a parabolic curve in the recent ISM index to the upside.



So, what did economists do for the Sept ISM report? Why they raised their expectations to 54.0, so as to get ahead of the parabolic emerging green-shoot curve. God forbid, they be behind the curve as emerging-green-shoots story takes place.

Green-Shoots Interrupted

They see manufacturing's parabolic curve, but fail to understand why it has been parabolic in the short run. Never mind that the green-shoot growth curb is about to come to screeching temporary halt with the dying of the cash-for-clunkers program on August 24. I'll take the under once again on the Sept ISM, thank you very much. From Moody's Economy.com summary of the August ISM report

["New orders increased from 55.3 to 64.9... This is the third time in four months that new orders have been above their expansionary threshold of 50. The improvement in final demand, freer credit, and the rise in business sentiment are boosting new orders... The downturn in manufacturing is giving way to a recovery, supported by slower inventory liquidation, increased vehicle production, freer credit, and increased foreign demand... Motor vehicle production is providing a big boost to manufacturing in the current quarter. The success of the so-called cash for clunkers program... should ensure that motor vehicle production is strong into the final three months of this year.](#)

It remains yet to be seen if motor vehicle production will remain strong in the final quarter. Anyone want the over?