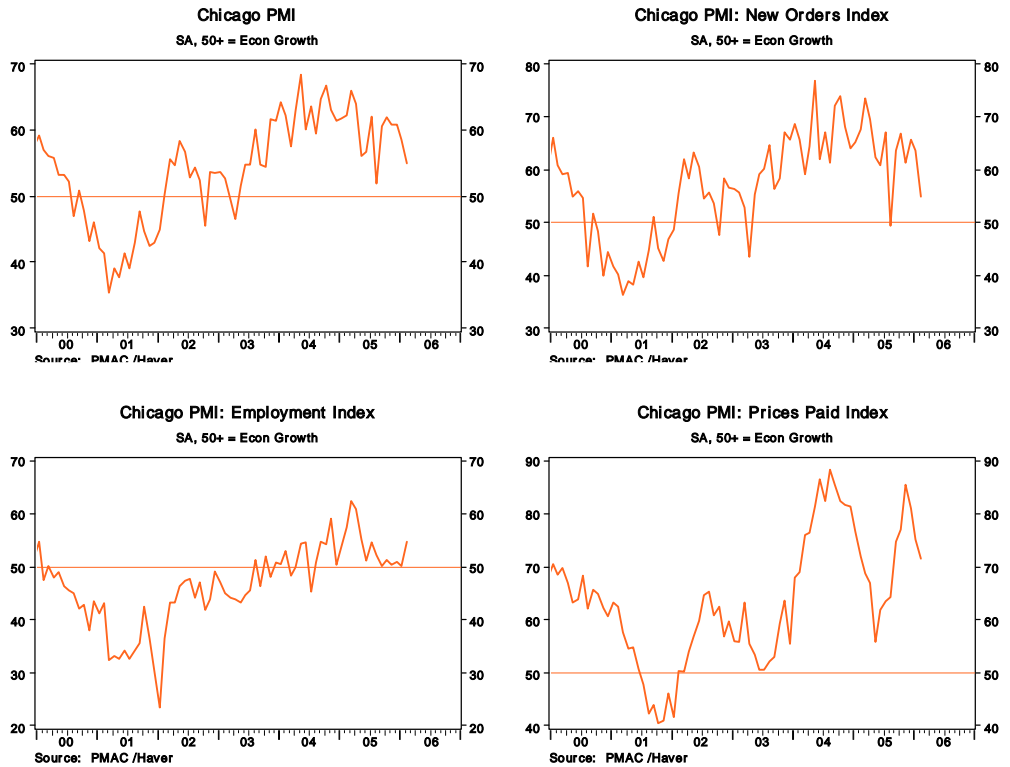


Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

FEBRUARY CHICAGO PMI

- The Chicago Purchasing Managers' Index (PMI) pulled back to 54.9 in February versus 58.5 in January. The index has been above 50 for three consecutive years.
- The employment component rose to 54.9 in February, its highest level in nine months.
- The prices paid component retreated to 71.6 in February from 75.3 in January. Nonetheless, the prices paid index has been above 70 for six consecutive months.



Implications: The Chicago PMI stumbled a bit in February, pulling back to 54.9 versus 58.5 in January. The decline was unexpected, as the consensus expected a reading of 58.8. Nonetheless, any reading above 50 signals expansion in the Chicago area manufacturing sector. The new orders index dropped to 54.9 (from 63.7), while the production component fell to 56.0 (from 60.6). On the stronger side, the employment component of the Chicago survey rose to 54.9 in February – the highest level in nine months. This concurs with recent initial claims data that shows the labor market strengthening in the early part of 2006. The prices paid index was 71.6 in February – the sixth consecutive month above 70. Despite mild increases in government statistical measures of inflation, anecdotal evidence (business surveys) and market indicators (gold) continue to reflect elevated inflationary pressures.

Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i>	Feb-06	Jan-06	Dec-05	6 month moving avg	12 month moving avg	Year-ago level
Business Barometer	54.9	58.5	60.8	59.6	59.5	62.3
Production	56.0	60.6	63.1	62.6	63.5	66.9
New Orders	54.9	63.7	65.7	62.7	63.2	67.7
Order Backlog	50.6	48.3	54.7	54.0	52.1	54.0
Inventories	56.0	53.9	59.8	54.9	53.9	53.6
Employment	54.9	50.2	50.9	51.3	53.7	57.4
Deliveries	59.2	57.8	61.6	60.4	56.1	53.5
Prices Paid	71.6	75.3	81.1	77.6	70.6	71.9

Source: Purchasing Management Assoc. of Chicago