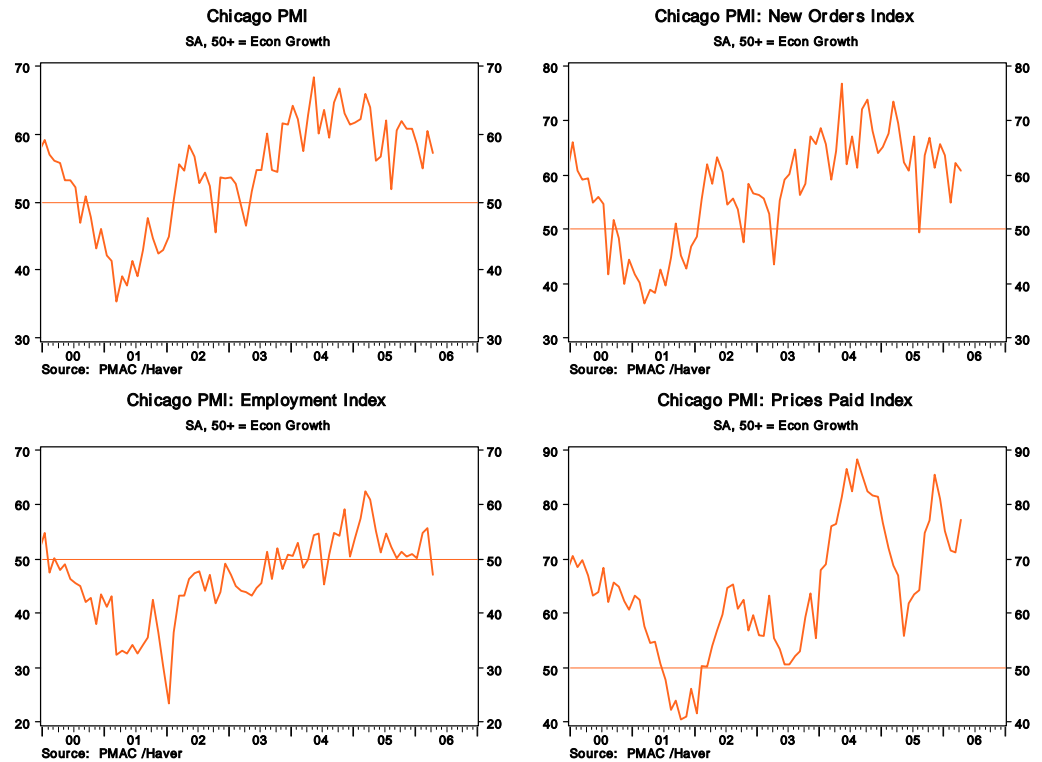


APRIL CHICAGO PMI

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- The Chicago Purchasing Managers' Index (PMI) pulled back to 57.2 in April versus 60.4 in March. The index has been above 50 for 36 consecutive months.
- The employment component fell to 47.2 in April following an 11-month high of 55.6 in March. This is the first time the employment component has been below 50 since July 2004.
- The prices paid component jumped to 77.2 in April from 71.1 in March. The prices paid index has been above 70 for eight consecutive months.



Implications: Despite pulling back, the Chicago PMI showed that manufacturing activity remained robust in April. The new orders index was 60.8 (March 62.2), while the production component was 66.6 (March 65.1). The employment component of the Chicago survey fell below 50 for the first time in 21 months. We will be watching the employment component of both the ISM manufacturing and ISM non-manufacturing surveys next week to see if this weakness holds across the country but we suspect that the pull-back was temporary and isolated. On the other hand, the increase in the prices paid component suggests that price pressures are neither temporary nor isolated. The prices paid component has averaged 75.6 over the last two years, the highest two-year average since September 1989. Price pressures will remain elevated as long as the Fed is accommodative. Nonetheless, massive gains in productivity are allowing US manufactures to thrive even with an inflationary Fed and a growing China.

Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i>	Apr-06	Mar-06	Feb-06	6 month <i>moving avg</i>	12 month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	57.2	60.4	54.9	58.8	58.5	64.0
Production	66.6	65.1	56.0	62.5	62.6	68.7
New Orders	60.8	62.2	54.9	61.5	61.6	69.4
Order Backlog	44.8	51.6	50.6	51.7	51.3	52.2
Inventories	53.7	53.0	56.0	55.2	54.2	54.1
Employment	47.2	55.6	54.9	51.5	52.0	60.8
Deliveries	52.7	61.9	59.2	59.4	56.5	57.5
Prices Paid	77.2	71.1	71.6	77.0	71.6	66.9

Source: Purchasing Management Assoc. of Chicago