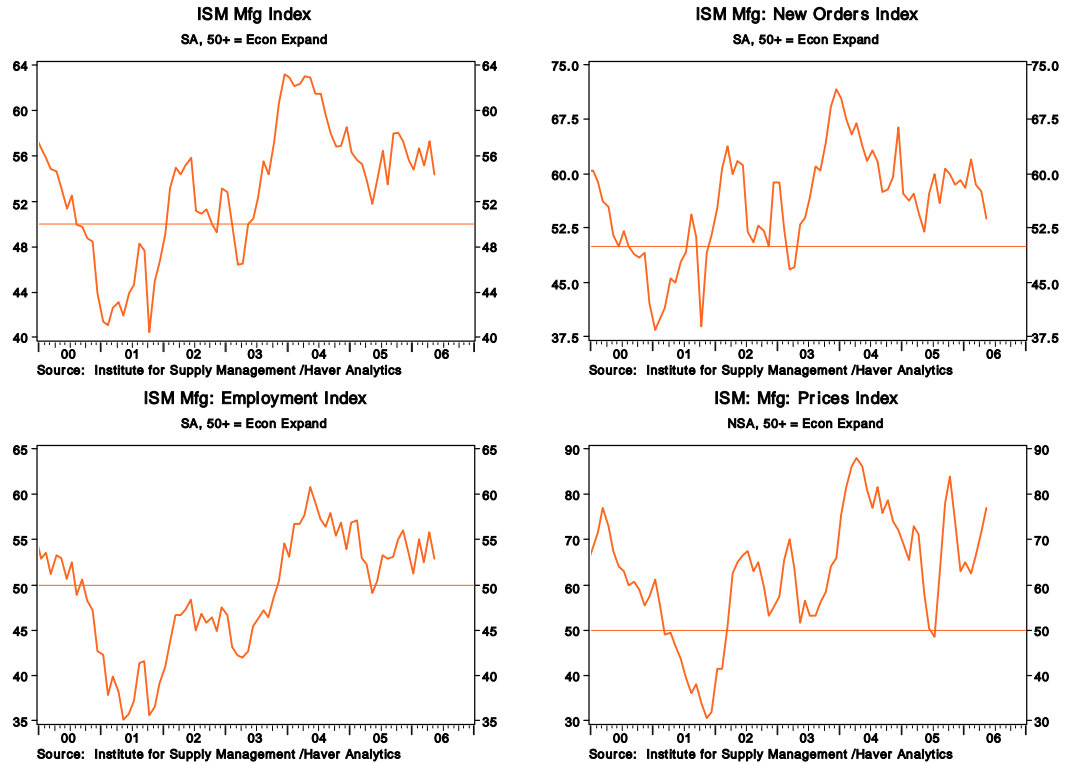


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MAY ISM MANUFACTURING INDEX

- The ISM Manufacturing index pulled back to 54.4 in May versus 57.3 in April. This was below consensus estimates of a 55.6 level.
- The new orders component fell to 53.7 last month from 57.6 in April. The production index weakened to 57.2 from 60.4. The employment component pulled back to 52.9 in May after reaching a 13-month high of 55.8 in April.
- The prices paid component increased to 77.0 in May from 71.5 in April. The supplier deliveries index was nearly unchanged at 57.6 last month versus 57.7 in April.

Implications: The ISM manufacturing index weakened in May but continues to signal a healthy manufacturing sector. The ISM manufacturing index has been above 50 (a reading above 50 signals expansion) for 36 consecutive months, the longest stretch of above 50 readings in 25 years. Contrary to conventional wisdom, the US manufacturing sector is experiencing a renaissance. The US has never produced or exported more “stuff.” The biggest threat to this renaissance comes not from China or India but from the debilitating impact of high inflation. The prices paid component jumped to 77.0 last month and is well above the 58.0 level of a year ago. This offers further evidence that inflationary pressures are accelerating. With manufacturing activity steady and price pressures building, we continue to expect the Fed to raise the fed funds rate to 5.25% in June. Separately, initial claims for unemployment benefits rose 7,000 to 336,000 last week. The less volatile four-week moving average increased to 333,500. The bulge in initial claims over the past few weeks has likely been caused by the temporary increase in layoffs from Puerto Rico and the auto industry. We anticipate claims will fall back to the 300,000-range and remain confident that the employment market is strong.



Institute for Supply Management Index <i>Data seasonally adjusted unless noted; 50+ = Econ Growth</i>	May-06	Apr-06	Mar-06	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	54.4	57.3	55.2	55.6	55.7	51.8
New Orders	53.7	57.6	58.4	56.6	58.1	51.9
Production	57.2	60.4	57.5	58.4	57.8	55.7
Inventories	48.0	51.3	48.7	49.3	48.6	47.8
Employment	52.9	55.8	52.5	53.7	53.5	49.1
Supplier Deliveries	57.6	57.7	53.1	56.1	54.8	51.2
Order Backlog (NSA)	53.0	57.0	59.5	56.5	54.5	51.0
Prices Paid (NSA)	77.0	71.5	66.5	71.7	67.6	58.0
New Export Orders (NSA)	55.7	53.4	57.3	55.5	56.0	55.3

Source: National Association of Purchasing Management

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