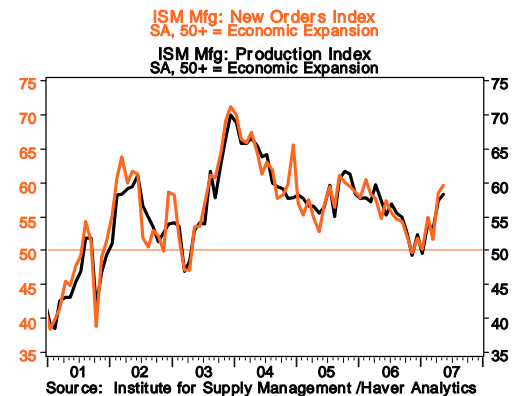
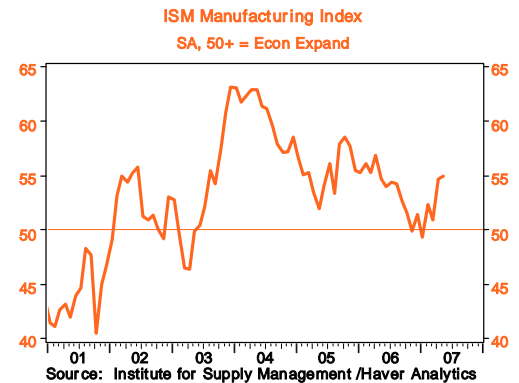


MAY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 55.0 in May from 54.7 in April. The consensus expected a drop to 54.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The index was driven upward by increases of 1.1 in the new orders component, 1.0 in the production component, and 2.0 in the new export orders component. The new orders index is the highest in fifteen months; the production index is the highest in thirteen months; the new export orders component is the highest in twenty-nine months.
- The prices paid index declined to 71.0 from 73.0, but remains at high levels.



Implications: Today's ISM index report adds to the wide array of data signaling the US economy has cleared the temporary hurdle posed by weakness in the housing market and an inventory adjustment. Real GDP grew 1.9% in the year ending in the first quarter of 2007 but looks like it is growing at a 3.5% annual rate in the second quarter and 3% - 3.5% in the second half of 2007 and into 2008. The temporary slowdown in growth in this business cycle is similar what happened in the 1990s. The economy grew only 2.2% in 1995 (Q4/Q4), followed by much faster growth in 1996 and beyond. With faster growth ahead and, we believe, little reason to expect inflation to ease, our long-held call that the Federal Reserve's next move will be to raise rates looks better every week.

| Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | May-07 | Apr-07 | Mar-07 | 3-month <i>moving avg</i> | 6-month <i>moving avg</i> | Year-ago <i>level</i> |
|---|-------------|--------|--------|------------------------------|------------------------------|--------------------------|
| Business Barometer | 55.0 | 54.7 | 50.9 | 53.5 | 52.3 | 54.7 |
| New Orders | 59.6 | 58.5 | 51.6 | 56.6 | 54.5 | 54.8 |
| Production | 58.3 | 57.3 | 53.0 | 56.2 | 54.1 | 57.3 |
| Inventories | 46.1 | 46.3 | 47.5 | 46.6 | 45.5 | 48.4 |
| Employment | 51.9 | 53.1 | 48.7 | 51.2 | 50.6 | 52.7 |
| Supplier Deliveries | 50.3 | 50.2 | 51.3 | 50.6 | 51.4 | 57.1 |
| Order Backlog (NSA) | 52.5 | 54.5 | 47.0 | 51.3 | 49.0 | 53.0 |
| Prices Paid (NSA) | 71.0 | 73.0 | 65.5 | 69.8 | 61.5 | 77.0 |
| New Export Orders | 59.0 | 57.0 | 55.5 | 57.2 | 55.4 | 55.7 |

Source: National Association of Purchasing Management