

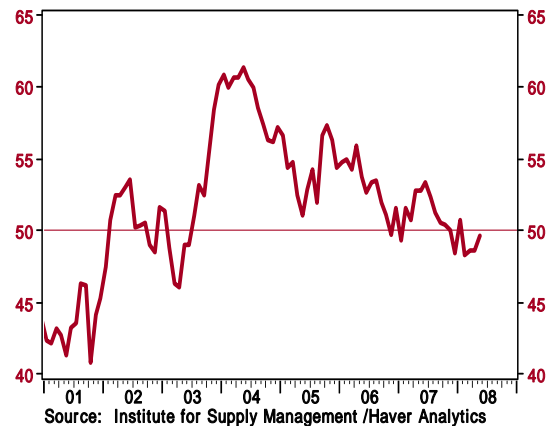
MAY ISM MANUFACTURING INDEX

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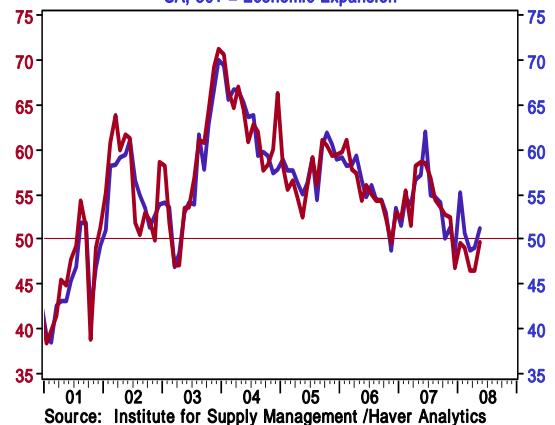
- The ISM Manufacturing index increased to 49.6 in May from 48.6 in April, beating the consensus expected drop to 48.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were all stronger than last month. The production index increased to 51.2 from 49.1, the new orders index rose to 49.7 from 46.5, the new export orders index increased to 59.5 from 57.5, and the employment index ticked up to 45.5 from 45.4.
- The prices paid index increased to 87.0, the third highest monthly reading since 1980.

Implications: Today's ISM manufacturing report was better than the consensus expected and is consistent with continued overall economic growth. The Institute for Supply Management, which publishes the report, says an index level of 49.6 is consistent with a real GDP growth rate of 2.7%. The average so far this year is 49.2, which corresponds to a growth rate of 2.5%. Meanwhile, the inflation news went from bad to worse. The prices paid index hit 87.0, which is the third highest monthly reading since 1980. In other news today, construction fell 0.4% in April, which was better than the consensus expected. The drop in construction in April was all due to home building, which is nothing new. Private non-residential construction (business structures) increased 1.6% in April, the strongest gain in seven months, and is up 15.4% versus last year. The strength in business construction was widespread, with strong increases for hotels, commercial buildings (such as shopping malls, warehouses, and auto service facilities), power plants, and manufacturing plants (particularly for chemicals and fabricated metals). This report bolsters our forecast that real GDP will grow at a 1.5% rate in Q2.

ISM Manufacturing Index
SA, 50+ = Econ Expand



ISM Mfg: New Orders Index
SA, 50+ = Economic Expansion
ISM Mfg: Production Index
SA, 50+ = Economic Expansion



| Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | May-08 | Apr-08 | Mar-08 | 3-month <i>moving avg</i> | 6-month <i>moving avg</i> | Year-ago <i>level</i> |
|---|-------------|--------|--------|------------------------------|------------------------------|--------------------------|
| Business Barometer | 49.6 | 48.6 | 48.6 | 48.9 | 49.0 | 52.8 |
| New Orders | 49.7 | 46.5 | 46.5 | 47.6 | 48.0 | 58.6 |
| Production | 51.2 | 49.1 | 48.7 | 49.7 | 50.6 | 57.2 |
| Inventories | 48.0 | 48.1 | 44.9 | 47.0 | 46.8 | 46.1 |
| Employment | 45.5 | 45.4 | 49.2 | 46.7 | 47.0 | 51.4 |
| Supplier Deliveries | 53.7 | 54.0 | 53.6 | 53.8 | 52.8 | 50.7 |
| Order Backlog (NSA) | 46.0 | 51.5 | 47.5 | 48.3 | 46.2 | 52.5 |
| Prices Paid (NSA) | 87.0 | 84.5 | 83.5 | 85.0 | 79.1 | 71.0 |
| New Export Orders | 59.5 | 57.5 | 56.5 | 57.8 | 56.8 | 59.0 |

Source: National Association of Purchasing Management