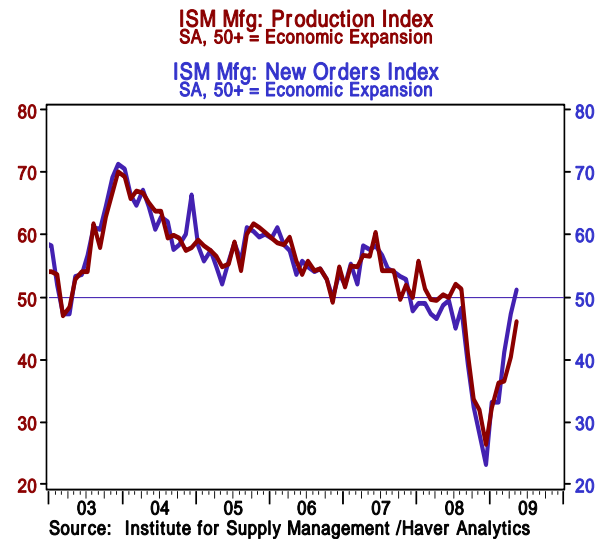
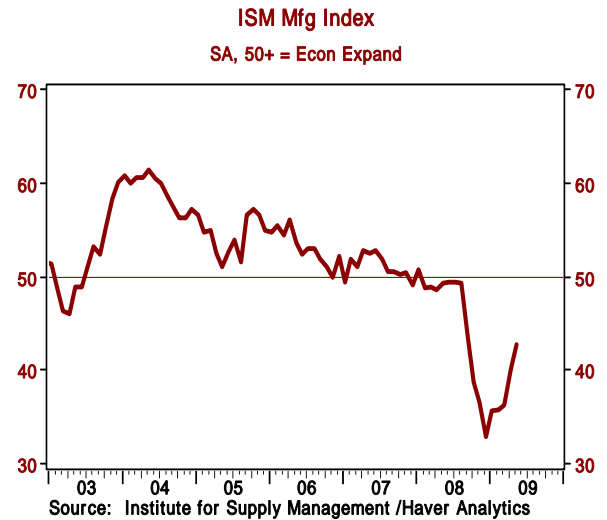


MAY ISM MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The ISM Manufacturing index increased to 42.8 in May from 40.1 in April, beating the consensus expected increase to 42.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The output components of the overall index almost all improved. The new orders index increased into positive territory to 51.1 from 47.2, the production index increased to 46.0 from 40.4, and the supplier deliveries index increased to 49.8 from 44.9. The one decline was the employment index, which ticked down slightly to 34.3 from 34.4.
- The prices paid index increased to 43.5 in May from 32.0 in April, the highest reading since the collapse of Lehman Brothers in September 2008.

Implications: Today's reports on manufacturing and construction have V-shaped recovery written all over them. The new orders index broke into positive territory in May at 51.1, the highest in 18 months. Meanwhile, at 42.8, the overall ISM is now above the 41.2 level that the Institute for Supply Management says signals overall economic expansion. Meanwhile, the inflation threat is percolating as the ISM prices paid index increased 11.5 points in May to 43.5. With the Federal Reserve perhaps looser than it has ever been in its 96 year history – and monetary velocity now reviving – rising inflation, not slow growth, is going to be the key economic problem of 2010. In other news this morning, construction increased 0.8% in April, demolishing the consensus expected drop of 1.5%. The increase in construction was led by business-related buildings, particularly power plants and manufacturing facilities. However, even home building increased due to a spike in home improvements.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-09	Apr-09	Mar-09	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	42.8	40.1	36.3	39.7	37.3	49.3
New Orders	51.1	47.2	41.2	46.5	38.2	48.6
Production	46.0	40.4	36.4	40.9	36.3	50.4
Inventories	32.9	33.6	32.2	32.9	35.5	48.0
Employment	34.3	34.4	28.1	32.3	30.5	46.2
Supplier Deliveries	49.8	44.9	43.6	46.1	46.0	53.2
Order Backlog (NSA)	48.0	40.5	35.5	41.3	34.6	46.0
Prices Paid (NSA)	43.5	32.0	31.0	35.5	30.4	87.0
New Export Orders	48.0	44.0	39.0	43.7	40.3	59.5

Source: National Association of Purchasing Management