

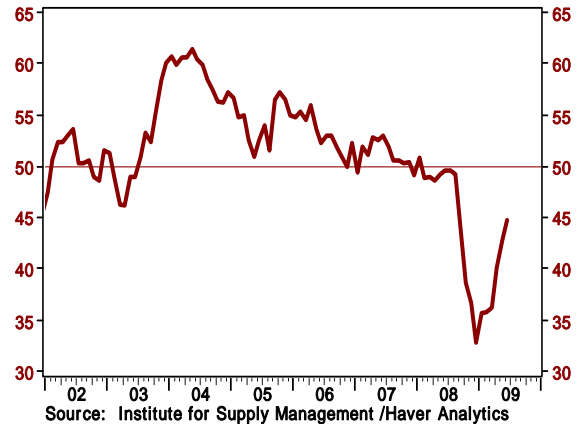
JUNE ISM MANUFACTURING INDEX

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

- The ISM manufacturing index increased to 44.8 in June from 42.8 in May, a tick below the consensus expected increase to 44.9. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Almost all of the output components of the overall index improved. The production index increased into positive territory to 52.5 from 46.0, the employment index increased to 40.7 from 34.3, and the supplier deliveries index increased to 50.6 from 49.8. The declines were in the new orders index, which fell to 49.2 from 51.1 and the inventories index which fell to 30.8 from 32.9.
- The prices paid index increased to 50.0 in June from 43.5 in May, the highest reading since the collapse of Lehman Brothers in September 2008.

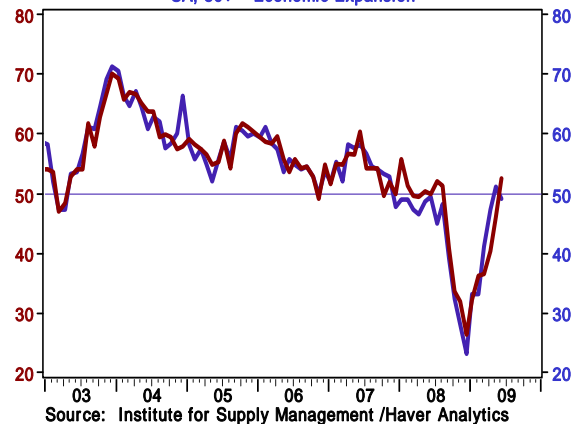
Implications: The ISM report for June is consistent with a “V” shaped recovery. The Institute for Supply Management, which publishes the report, says the overall reading of 44.8 in June is consistent with 1.1% real GDP growth at an annual rate, a far cry from the 6% rate of economic contraction in late 2008 and early this year. The ISM production index increased 6.5 points to 52.5, the highest reading since January 2008. The prices paid index also increased 6.5 points to 50.0, the highest since September. We expect both the overall ISM index and the prices paid index to move into positive territory (above 50) over the next few months. In other news this morning, the ADP Employment index showed a loss of 473,000 private sector jobs in June, more losses than expected but the smallest decline in eight months. Meanwhile, pending home sales were up 0.1% in May on top of a 7.1% increase in April, suggesting existing home sales increased about 3% in June. Construction fell 0.9% in May, with all the losses attributable to home building. The construction of business-related buildings increased (due to power plants and manufacturing facilities), offsetting a decline in government construction (less paving of roads and highways). In other recent news, yesterday’s Case-Shiller index showed home prices fell 0.9% (seasonally-adjusted) in April in 20 major metro areas around the country, the smallest price decline in 20 months and much smaller than the average decline of 2% in the previous seven months. Home prices actually increased in 4 of the 20 metro areas (Denver, Dallas, Cleveland, Washington, DC). Home prices in most of the country are already at or very close to fair value (excluding California, Arizona, Florida, and Nevada). Expect some further price declines as excess inventories get reduced, but that means homes are becoming “cheap” on a fundamental basis. Consumer confidence fell to 49.3 in June from 54.8 in May but this follows a 14 point gain last month.

ISM Manufacturing Index
SA, 50+ = Econ Expand



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

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



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jun-09	May-09	Apr-09	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	44.8	42.8	40.1	42.6	39.2	49.5
New Orders	49.2	51.1	47.2	49.2	42.5	49.3
Production	52.5	46.0	40.4	46.3	40.6	49.9
Inventories	30.8	32.9	33.6	32.4	34.0	49.8
Employment	40.7	34.3	34.4	36.5	32.3	44.1
Supplier Deliveries	50.6	49.8	44.9	48.4	46.8	54.5
Order Backlog (NSA)	47.5	48.0	40.5	45.3	38.7	47.5
Prices Paid (NSA)	50.0	43.5	32.0	41.8	35.8	91.5
New Export Orders	49.5	48.0	44.0	47.2	42.6	58.5

Source: National Association of Purchasing Management