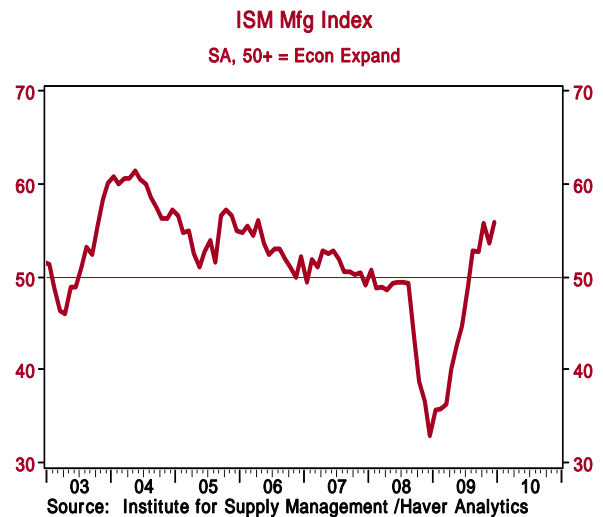


DECEMBER ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 55.9 in December from 53.6 in November. The consensus expected 54.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major components of the overall index all increased and remained above 50, signaling expansion. The new orders index increased to 65.5 from 60.3. The production index increased to 61.8 from 59.9. The employment index increased to 52.0 from 50.8.
- The prices paid index rose to 61.5 in December from 55.0 in November.

Implications: The ISM Manufacturing report blew away consensus expectations and is more evidence the V-shaped recovery is stronger than the conventional wisdom believes. The index surged ahead in December to 55.9, the highest level since April 2006 and, according to the Institute for Supply Management, consistent with real economic growth at a 4.6% annual rate. The index has now been solidly above 50 (the level which signals expansion in the industrial sector) for five straight months. Even more impressive than the headline number were the sub-indexes for new orders and production, which were both above 60. The new orders index is the highest in more than five years and is a recipe for continued growth in production in the months ahead. One cautionary note in today's report was the prices paid index, which increased to 61.5 in December from 55.0 last month. Higher prices for companies will translate into more inflation for consumers. In other news this morning, construction fell 0.6% in November, in-line with what the consensus expected. However, construction fell 1.2% if we include downward revisions for October, which were mostly due to less construction of commercial buildings. Home building fell in November but was revised up substantially for October. In other recent news, the Labor Department reported last week that new claims for unemployment insurance fell 22,000 to 432,000, the lowest level since July 2008. Meanwhile, continuing claims for regular state benefits fell 57,000 to 4.98 million.



| Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | Dec-09 | Nov-09 | Oct-09 | 3-month moving avg | 6-month moving avg | Year-ago level |
|---|-------------|--------|--------|-----------------------|-----------------------|-------------------|
| Business Barometer | 55.9 | 53.6 | 55.7 | 55.1 | 53.3 | 32.9 |
| New Orders | 65.5 | 60.3 | 58.5 | 61.4 | 60.9 | 23.1 |
| Production | 61.8 | 59.9 | 63.3 | 61.7 | 60.1 | 26.3 |
| Inventories | 43.4 | 41.3 | 46.9 | 43.9 | 40.3 | 39.6 |
| Employment | 52.0 | 50.8 | 53.1 | 52.0 | 49.0 | 29.9 |
| Supplier Deliveries | 56.6 | 55.7 | 56.9 | 56.4 | 56.1 | 45.7 |
| Order Backlog (NSA) | 50.0 | 52.0 | 53.5 | 51.8 | 51.9 | 23.0 |
| Prices Paid (NSA) | 61.5 | 55.0 | 65.0 | 60.5 | 60.8 | 18.0 |
| New Export Orders | 54.5 | 56.0 | 55.5 | 55.3 | 54.5 | 35.5 |

Source: National Association of Purchasing Management