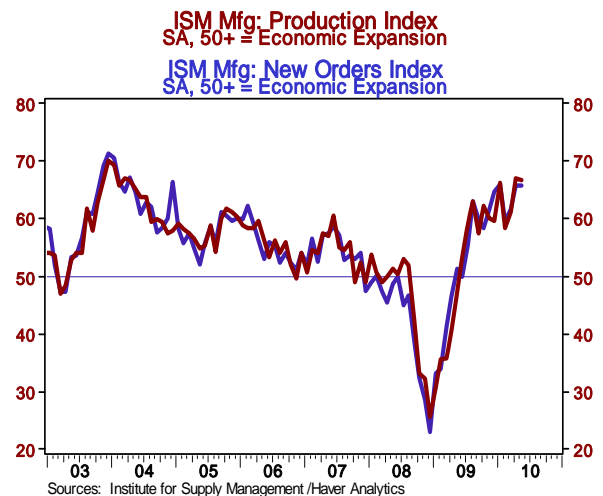
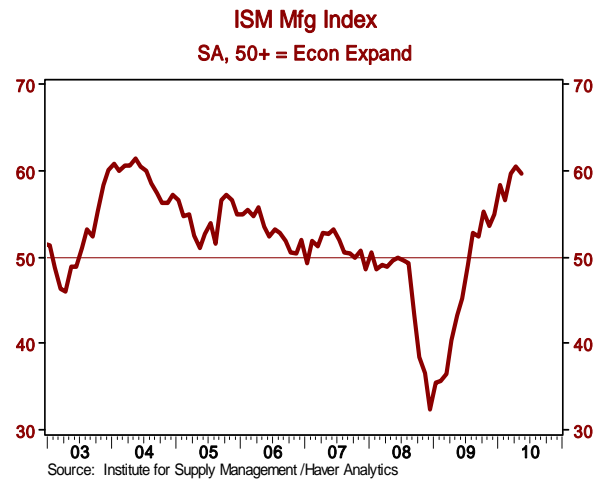


MAY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index dipped to a still strong 59.7 in May from 60.4 in April, beating the consensus expected level of 59.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- All of the major measures of activity either increased or remained at high levels, signaling rapid growth. The new orders index stayed at 65.7 while the production index fell slightly to 66.6. The employment index increased to 59.8, the second highest level since 1983. The supplier deliveries index fell to 61.0 from 61.3, but is at a level still well above 50, signaling a need to build out capacity.
- The prices paid index ticked down to 77.5 in May from 78.0 in April.

Implications: The factory sector continues to boom and is leading the V-shaped recovery. Although the ISM index declined slightly in May, it is still at levels last seen in 2004 and, according to the Institute for Supply Management, May's index of 59.7 is consistent with real GDP growth of 6% annually, the same as we are forecasting for Q2. Future prospects for manufacturing look promising as well, with the new orders index at 65.7. Meanwhile, the employment index hit the highest level since 2004 and the second highest level since 1983. This suggests manufacturing payrolls probably grew for the fifth straight month in May (reported Friday). Unfortunately, the prices paid index continues to show inflation. Although the index fell to 77.5, it is still elevated to levels last seen in the summer of 2008, when oil prices spiked dramatically. In other news this morning, construction increased 2.7% in April, the fastest gain in a decade. The increase in construction was widespread, including home building, commercial construction, and government. The gain in residential construction was led by home improvements, while new single-family homes also increased. Commercial construction, which increased for the first time in more than a year, was led by electric power plants and manufacturing structures. Government construction was led by bridges, water supply, and parks/camps.



Institute for Supply Management Index	May-10	Apr-10	Mar-10	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	59.7	60.4	59.6	59.9	58.3	43.2
New Orders	65.7	65.7	61.5	64.3	63.9	51.4
Production	66.6	66.9	61.1	64.9	63.2	47.0
Inventories	45.6	49.4	55.3	50.1	47.9	32.7
Employment	59.8	58.5	55.1	57.8	55.5	35.1
Supplier Deliveries	61.0	61.3	64.9	62.4	60.9	50.0
Order Backlog (NSA)	59.5	57.5	58.0	58.3	57.0	48.0
Prices Paid (NSA)	77.5	78.0	75.0	76.8	71.5	43.5
New Export Orders	62.0	61.0	61.5	61.5	59.0	48.0

Source: National Association of Purchasing Management