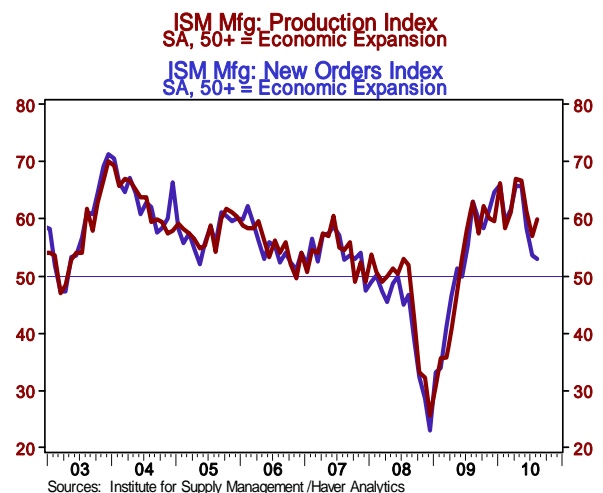
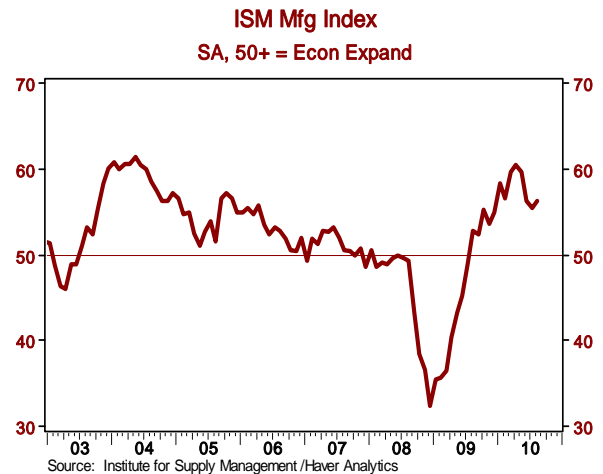


AUGUST ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 56.3 in August from 55.5 in July, crushing the consensus expected drop to 52.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in July but all are above 50.0, signaling growth. The employment index increased to 60.4 from 58.6 and the production index increased to 59.9 from 57.0. The supplier deliveries index fell to 56.6 from 58.3, but still continues to signal a need to build out capacity, and the new orders index declined to 53.1 from 53.5.
- The prices paid index increased to 61.5 in August from 57.5 in July.

Implications: Today's ISM report severely undermines the case for a double-dip. The factory sector blew away consensus expectations in August, accelerating its expansion and growing for the 13th straight month. The ISM's employment index came in at 60.4, the highest since 1983. On the inflation front, the prices paid index rose to 61.5, signaling that inflation, not deflation, is the more likely threat. In other news this morning, the ADP Employment index, a measure of private sector payrolls, declined 10,000 in August, the first loss in seven months. However, ADP's measure of payrolls typically underestimates the official report from the Labor Department, so we still expect that private payrolls increased in August. Construction declined 1% in July and fell 3.7% including downward revisions to May/June, with most of those revisions in home building. The decline in July was primarily due to street paving, single-family home building, and home improvements. Yesterday, the Case-Shiller index, a measure of home prices in the 20 largest metro areas around the country, showed an increase of 0.3% in June and is up 4.2% in the past year. The end of the homebuyer tax credit may lead to some temporary price weakness over the next few months, but we expect home values to be higher at the end of the year than at the end of 2009, confirming an underlying upward trend.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-10	Jul-10	Jun-10	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	56.3	55.5	56.2	56.0	58.0	52.8
New Orders	53.1	53.5	58.5	55.0	59.7	63.0
Production	59.9	57.0	61.4	59.4	62.2	62.9
Inventories	51.4	50.2	45.8	49.1	49.6	34.9
Employment	60.4	58.6	57.8	58.9	58.4	47.0
Supplier Deliveries	56.6	58.3	57.3	57.4	59.9	56.0
Order Backlog (NSA)	51.5	54.5	57.0	54.3	56.3	52.5
Prices Paid (NSA)	61.5	57.5	57.0	58.7	67.8	65.0
New Export Orders	55.5	56.5	56.0	56.0	58.8	55.5

Source: National Association of Purchasing Management