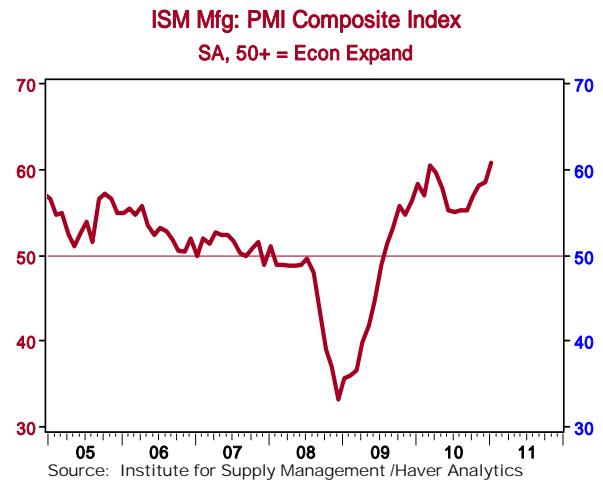


# JANUARY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 60.8 in January from 58.5 in December. The consensus expected a decline to 58.0, First Trust forecast an increase to 58.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- All of the major measures of activity were up in January and all remain well above well above 50.0, signaling continued growth. The new orders index increased to 67.8 from 62.0 and the production index increased to 63.5 from 63.0. The supplier deliveries index rose to 58.6 from 56.7 and the employment index also rose to 61.7 from 58.9.
- The prices paid index increased to 81.5 in January from 72.5 in December.

**Implications:** The manufacturing sector is absolutely booming. Today's ISM report blew away the consensus (which expected a decline), increasing to 60.8. This is the highest level since May 2004, more than six years ago. The sub-indices of the report show robust growth in manufacturing, and many of them reached multi-year highs as well. The new orders index rose to 67.8, also the highest level since 2004, and the production index rose to 63.5. The employment index rose to 61.7, the highest level for the index since 1972, suggesting that Friday's manufacturing payroll number might surprise to the upside. The only bad news in today's report was on the inflation front, where the prices paid index rose to 81.5 from an already elevated 72.5 in December. The index is quickly approaching levels seen during the summer of 2008, when energy prices spiked. The Fed's loose monetary policy continues to become more and more inappropriate as the recovery continues. In other news this morning, construction declined 2.5% in December versus a consensus expected gain of 0.1%. Including slight downward revisions to prior months, construction was down 2.8%. The decline in December was led by home building (primarily home improvements) and government construction (primarily schools, roads, and federal office buildings).



Institute for Supply Management Index	Jan-11	Dec-10	Nov-10	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>60.8</b>	58.5	58.2	59.2	57.5	58.3
<b>New Orders</b>	<b>67.8</b>	62.0	59.6	63.1	59.1	66.1
<b>Production</b>	<b>63.5</b>	63.0	58.2	61.6	60.2	65.1
<b>Inventories</b>	<b>52.4</b>	51.8	56.1	53.4	53.4	46.4
<b>Employment</b>	<b>61.7</b>	58.9	59.0	59.9	58.8	54.3
<b>Supplier Deliveries</b>	<b>58.6</b>	56.7	58.1	57.8	55.9	59.6
<b>Order Backlog (NSA)</b>	<b>58.0</b>	47.0	46.0	50.3	49.2	56.0
<b>Prices Paid (NSA)</b>	<b>81.5</b>	72.5	69.5	74.5	71.1	70.0
<b>New Export Orders</b>	<b>62.0</b>	54.5	57.0	57.8	57.3	58.5

Source: National Association of Purchasing Management