

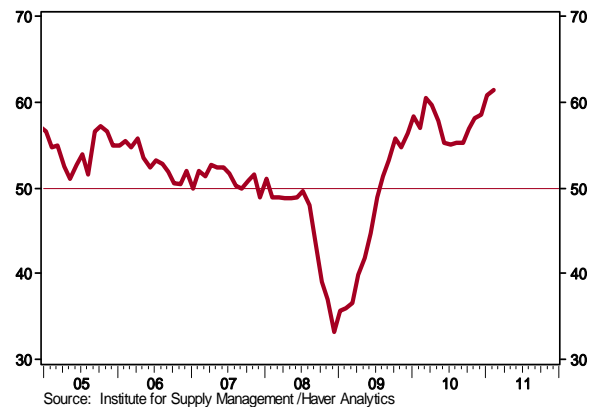
FEBRUARY ISM MANUFACTURING INDEX

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

- The ISM Manufacturing index increased to 61.4 in February from 60.8 in January. The consensus expected a smaller increase to 61.0. (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 50.0, signaling very strong growth. The new orders index increased to 68.0 from 67.8 and the production index increased to 66.3 from 63.5. The supplier deliveries index rose to 59.4 from 58.6 and the employment index also rose to 64.5 from 61.7.
- The prices paid index increased to 82.0 in February from 81.5 in January.

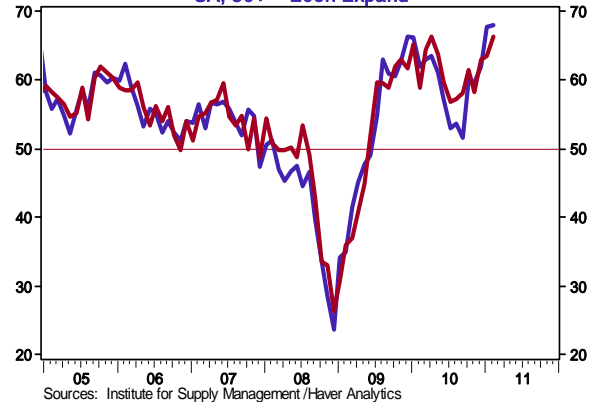
Implications: This morning's two reports explain the economy in a nutshell: manufacturing is booming while construction remains soft. With the exception of one month in 2004, the ISM index is now the highest since 1983, when the economy was in the early stages of the huge 1980s recovery. The sub-indices of today's report continue to show robust growth, with many reaching multi-year highs. In particular, the employment index increased to 64.5, the highest level since 1973, suggesting Friday's manufacturing payroll number will be strong again. The only bad news in today's report was on inflation, where the prices paid index rose to 82.0 from an already elevated 81.5 in January. The index is quickly approaching levels seen during the summer of 2008, when oil prices were spiking. The Fed's loose monetary policy continues to become more and more inappropriate as the recovery continues. In other news this morning, construction declined 0.7% in January, which is actually impressive given unusually bad weather conditions for much of the country. Including upward revisions for prior months, construction increased 0.5%. The decline in January itself was due to commercial construction, primarily electric power plants and health care-related buildings (such as hospitals). Residential construction increased sharply due to home improvements.

ISM Mfg: PMI Composite Index
SA, 50+ = Econ Expand



ISM Mfg: Production Index
SA, 50+ = Econ Expand

ISM Mfg: New Orders Index
SA, 50+ = Econ Expand



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Feb-11	Jan-11	Dec-10	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	61.4	60.8	58.5	60.2	58.5	57.1
New Orders	68.0	67.8	62.0	65.9	61.5	61.9
Production	66.3	63.5	63.0	64.3	61.8	58.8
Inventories	48.8	52.4	51.8	51.0	53.1	47.3
Employment	64.5	61.7	58.9	61.7	59.8	57.3
Supplier Deliveries	59.4	58.6	56.7	58.2	56.5	60.0
Order Backlog (NSA)	59.0	58.0	47.0	54.7	50.4	61.0
Prices Paid (NSA)	82.0	81.5	72.5	78.7	74.5	67.0
New Export Orders	62.5	62.0	54.5	59.7	58.5	56.5

Source: National Association of Purchasing Management