

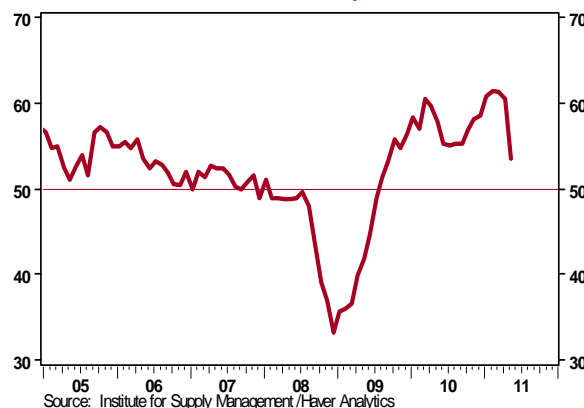
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## May ISM Manufacturing Index

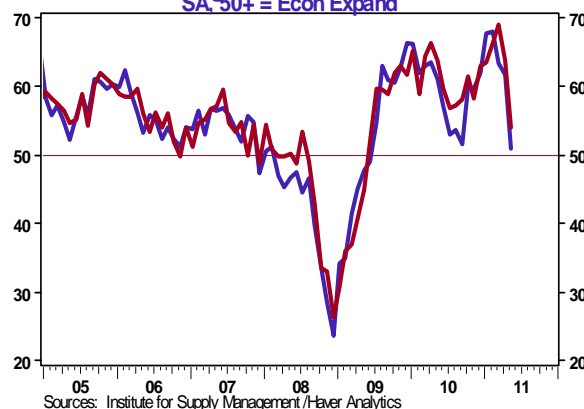
- The ISM Manufacturing index declined to 53.5 in May from 60.4 in April. The consensus expected a smaller decline to 57.1. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity all declined in May, but remained above 50.0, signaling growth. The supplier deliveries index fell to 55.7 from 60.2 and the production index declined to 54.0 from 63.8. The new orders index also fell to 51.0 from 61.7 and the employment index slipped to 58.2 from 62.7.
- The prices paid index declined to 76.5 in May from 85.5 in April.

**Implications:** Manufacturing data came in weaker than expected today, but as we said in our [Monday Morning Outlook](#) two weeks ago, the temporary slowdown we are seeing is related to the Japanese disasters, the spring auto shutdowns that usually occur in the summer, as well as the deadly and devastating tornado season that we have had through much of the country. Even with this slowdown, manufacturing continues to grow. The only real bad news in today's report was on inflation, where the prices paid index showed elevated inflation again in May. In other news this morning, the ADP Employment index, a measure of private sector payrolls, increased 38,000 in May, well less than the consensus expected. We are forecasting that the official Labor Department report released Friday will show a gain of about 110,000 for private sector payrolls. In addition, construction increased 0.4% in April (-0.5% including downward revisions for March). The increase in April was led by home improvements and commercial construction (power plants, communication facilities, and educational buildings). We project that, in general, both home building and commercial construction will be moving upward from current levels, although certainly not every month. Also the Case-Shiller index, a measure of home prices in the 20 largest metro areas, declined 0.2% in March (seasonally-adjusted) and is down 3.5% versus a year ago. Prices should start turning up later this year. Excess inventories remain large, but the pace of inventory reductions is very rapid.

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>	May-11	Apr-11	Mar-11	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>53.5</b>	60.4	61.2	58.4	59.3	57.8
<b>New Orders</b>	<b>51.0</b>	61.7	63.3	58.7	62.3	61.0
<b>Production</b>	<b>54.0</b>	63.8	69.0	62.3	63.3	63.8
<b>Inventories</b>	<b>48.7</b>	53.6	47.4	49.9	50.5	46.2
<b>Employment</b>	<b>58.2</b>	62.7	63.0	61.3	61.5	57.4
<b>Supplier Deliveries</b>	<b>55.7</b>	60.2	63.1	59.7	59.0	60.6
<b>Order Backlog (NSA)</b>	<b>50.5</b>	61.0	52.5	54.7	54.7	59.5
<b>Prices Paid (NSA)</b>	<b>76.5</b>	85.5	85.0	82.3	80.5	77.5
<b>New Export Orders</b>	<b>55.0</b>	62.0	56.0	57.7	58.7	62.0

Source: National Association of Purchasing Management