

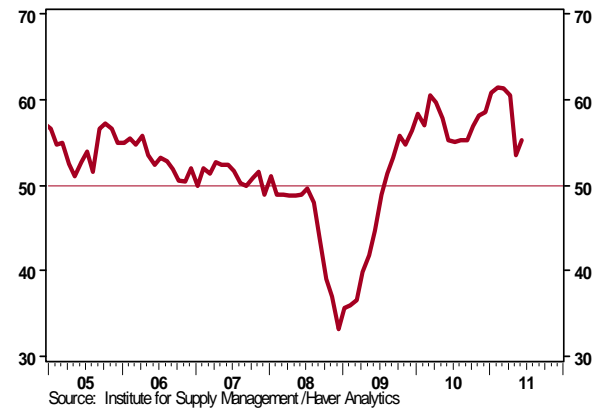
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June ISM Manufacturing Index

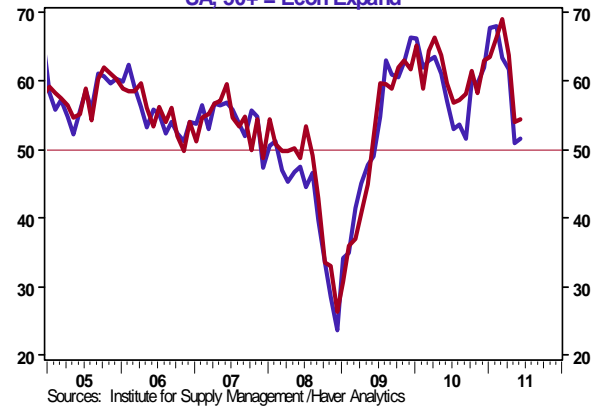
- The ISM Manufacturing index increased to 55.3 in June from 53.5 in May, blowing away the consensus expected decline to 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity all rose in June, and remained above 50.0, signaling growth. The supplier deliveries index increased to 56.3 from 55.7 and the production index increased to 54.5 from 54.0. The new orders index also rose to 51.6 from 51.0 and the employment index improved to 59.9 from 58.2.
- The prices paid index declined to 68.0 in June from 76.5 in May.

Implications: Hasta la vista, slow patch. The manufacturing sector is already reaccelerating from the Japan-related supply chain disruptions that afflicted it in April and May. As we said in our [Monday Morning Outlook](#) back on May 23, the “soft patch” was largely due to the disasters in Japan that caused automakers to shift normal summer re-tooling shutdowns into the spring as well as other supply chain problems in other sectors. We were particularly pleased by the gain in the employment index to 59.9, which supports our view that next Friday’s job report will show a reacceleration as well. Expect more strong reports from manufacturing in the months ahead as the Federal Reserve remains loose and consumer purchasing power continues to strengthen. Auto sales will rebound steeply over the next few months as dealers are able to replenish what are now extremely low inventory levels. However, the news was not as good in the construction sector, where building activity declined 0.6% in May (-1.5% including downward revisions to prior months). The drop in May was led by home improvements. Government construction also declined, due to street paving and schools. Commercial construction was the bright spot, growing 1.2% and led by power plants and manufacturing facilities. In other recent news, new claims for jobless benefits declined 1,000 last week, to 428,000. Continuing claims for regular state benefits declined 12,000 to 3.70 million. In housing news, pending home sales, which are contracts on existing homes, increased 8.2% in May and are up 15.5% versus a year ago. Also, the Case-Shiller index, which measures home prices in the 20 major metro areas, dipped only 0.1% in April (seasonally-adjusted) as 9 of the 20 regions had price increases. Regardless, national average prices are down 4% from a year ago and at a new post-recession low.

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>	Jun-11	May-11	Apr-11	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	55.3	53.5	60.4	56.4	58.8	55.3
New Orders	51.6	51.0	61.7	54.8	60.6	57.0
Production	54.5	54.0	63.8	57.4	61.9	59.6
Inventories	54.1	48.7	53.6	52.1	50.8	46.6
Employment	59.9	58.2	62.7	60.3	61.7	55.6
Supplier Deliveries	56.3	55.7	60.2	57.4	58.9	57.7
Order Backlog (NSA)	49.0	50.5	61.0	53.5	55.0	57.0
Prices Paid (NSA)	68.0	76.5	85.5	76.7	79.8	57.0
New Export Orders	53.5	55.0	62.0	56.8	58.5	56.0

Source: National Association of Purchasing Management