

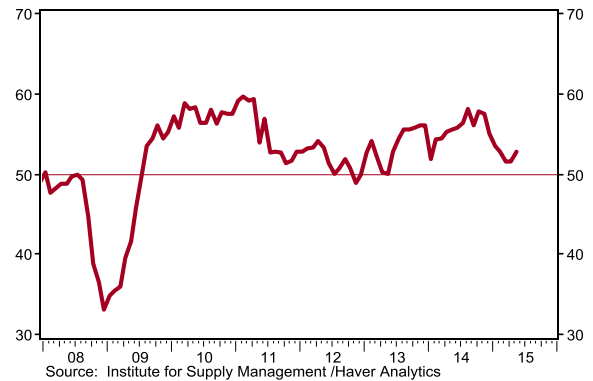
May ISM Manufacturing Index

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- The ISM manufacturing index rose to 52.8 in May, coming in above the consensus expected level of 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in May, and all stand above 50. The employment index jumped to 51.7 from 48.3, while the new orders index moved higher to 55.8 from 53.5. The supplier deliveries index rose to 50.7 from 50.1. The production index slipped to 54.5 from 56.0.
- The prices paid index rose to 49.5 in May from 40.5 in April.

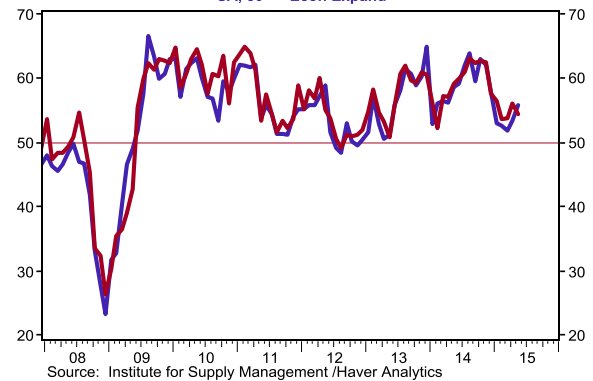
Implications: A solid report from the manufacturing sector this morning. In May, fourteen of eighteen industries reported growth, noting that issues from the West Coast port backups are fading and demand is up. In addition, the most forward-looking index, new orders, rose for a third consecutive month and now stands at the highest level so far in 2015. The production index fell slightly to a still robust 54.5 in May, showing continued solid gains in output. With new orders continuing to rise, expect continued strength in production in the months ahead. While the index remains below the high of 58.1 seen in August 2014, we don't believe this is anything to worry about. Remember that the economy was unusually strong in the summer of last year as it recovered from bad weather in the first quarter of 2014. On the inflation front, the prices paid index spiked nine points higher to 49.5 in May, as firms reported prices seem to have bottomed and a slow rise is anticipated in the months ahead. After a dip into contraction territory in April, the employment index rose 3.4 points in May to 51.7. The move higher is supported by the continued strength in initial and continuing claims reports. While we still have ADP and initial claims data due out before Friday's jobs report, we are currently forecasting that nonfarm payrolls were up a healthy 234,000 in May. Taken as a whole, this month's ISM report shows continued recovery from a weak Q1 and adds further support to calls for a June rate hike from the Fed. In other news today, the end of unusually harsh winter weather brought a sharp rebound in construction in April, with a gain of 2.2% for the month and a 4% increase including upward revisions for prior months. The increase in April was led by commercial construction (particularly power plants and chemical manufacturing facilities) as well as government projects (paving roads and school construction). Plugging these figures into our models supports the case that the economy is expanding at a solid pace in the second quarter. If the government fixes its problems seasonally adjusting the GDP data, real GDP is probably growing at about a 2.5 – 3% annual rate in Q2; if the government doesn't fix the problems, expect a reported growth rate of around 3.5%.

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-15	Apr-15	Mar-15	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	52.8	51.5	51.5	51.9	52.9	55.6
New Orders	55.8	53.5	51.8	53.7	54.1	58.7
Production	54.5	56.0	53.8	54.8	55.4	59.0
Inventories	51.5	49.5	51.5	50.8	50.3	53.0
Employment	51.7	48.3	50.0	50.0	51.9	53.5
Supplier Deliveries	50.7	50.1	50.5	50.4	52.9	53.6
Order Backlog (NSA)	53.5	49.5	49.5	50.8	50.4	52.5
Prices Paid (NSA)	49.5	40.5	39.0	43.0	39.6	60.0
New Export Orders	50.0	51.5	47.5	49.7	49.8	56.5

Source: National Association of Purchasing Management