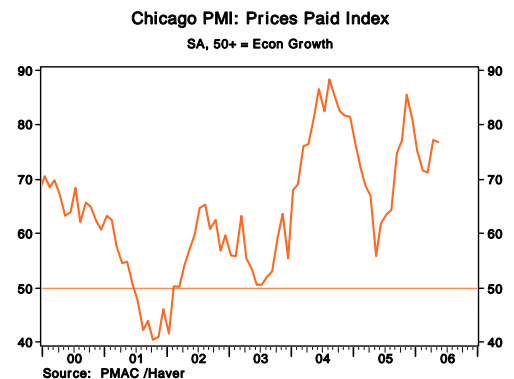
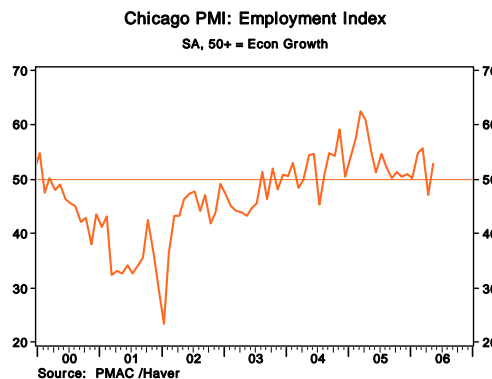
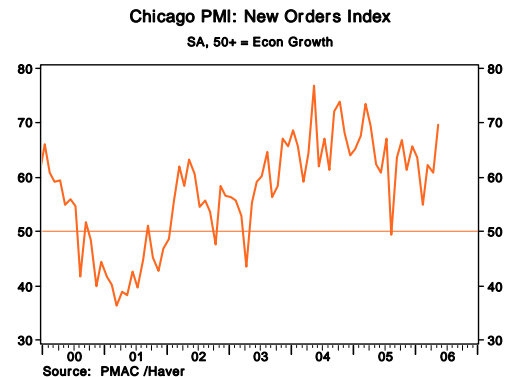
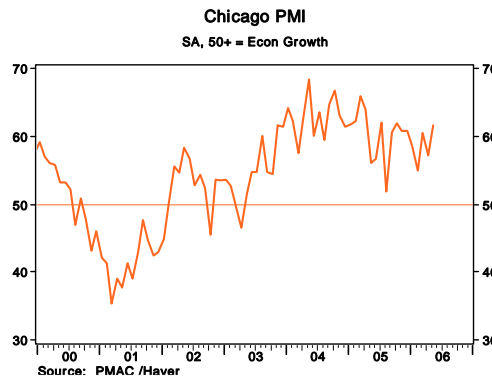


MAY CHICAGO PMI

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- The Chicago Purchasing Managers' Index (PMI) rose to 61.5 in May, higher than consensus estimates of 56.4. The index has been above 50 for 37 consecutive months.
- The new orders component jumped to 69.6 last month, the highest level since October 2004. The employment component rose above 50 to 52.8 in May versus 47.2 in April.
- The prices paid component pulled back to 76.9 last month versus 77.2 in April. In 2006, the price component has averaged 74.4, the highest average during the first five months of any year since 1995.



Implications: The Chicago PMI surged in May, despite consensus expectations of a slowdown. Although it is isolated to just the Midwest region, the Chicago PMI is one of the earliest pieces of economic data each month and suggests that economic trends remain unchanged in May - growth is robust, the employment market is strong and prices are rising. While many, including the Fed's staff, expect the economy to slow in the second half of 2006, we see little evidence that this will occur. In fact, the new orders component of the Chicago PMI surged in May, offering further evidence that the outlook for the manufacturing sector is strong. Tax rates remain low; productivity continues to boom; and even after 16 rate hikes, the Fed is still accommodative. These are the true fundamental drivers of the economy - not energy prices, deficits or housing.

Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i>	May-06	Apr-06	Mar-06	6 month moving avg	12 month moving avg	Year-ago level
Business Barometer	61.5	57.2	60.4	58.9	58.9	56.1
<i>Production</i>	58.5	66.6	65.1	61.7	62.8	55.9
<i>New Orders</i>	69.6	60.8	62.2	62.8	62.2	62.3
<i>Order Backlog</i>	56.0	44.8	51.6	51.0	52.1	45.7
<i>Inventories</i>	53.0	53.7	53.0	54.9	54.3	52.4
<i>Employment</i>	52.8	47.2	55.6	51.9	51.8	55.3
<i>Deliveries</i>	58.1	52.7	61.9	58.6	57.0	51.5
<i>Prices Paid</i>	76.9	77.2	71.1	75.5	73.4	55.8

Source: Purchasing Management Assoc. of Chicago