

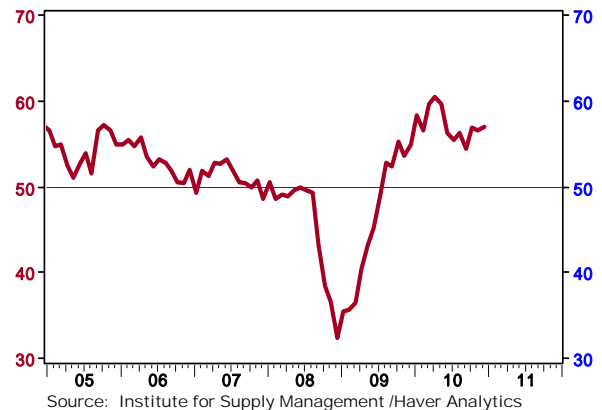
DECEMBER ISM MANUFACTURING INDEX

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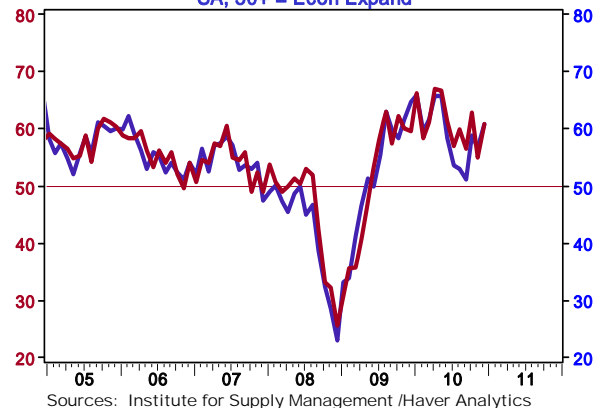
- The ISM Manufacturing index increased to 57.0 in December from 56.6 in November, exactly as the consensus expected gain. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in December but all remain well above well above 50.0, signaling continued growth. The new orders index increased to 60.9 from 56.6 and the production index increased to 60.7 from 55.0. The supplier deliveries index declined to 55.9 from 57.2 and the employment index also fell slightly to 55.7 from 57.5.
- The prices paid index increased to 72.5 in December from 69.5 in November.

Implications: Manufacturing continued to show strong growth in December, with the ISM index coming in at 57.0, the highest level since May. The new orders and production indices both rose back above 60, suggesting more strong growth ahead. While the employment index fell slightly, it remained solidly above 50 for the 13th straight month. According to the Institute for Supply Management, which publishes the report, an overall index level of 57.0 is consistent with real economic growth at a 5% annual rate, right on pace with our forecast for Q4. On the inflation front, the prices paid index rose to 72.5 from an already elevated 69.5 in November. In other news this morning, construction increased 0.4% in November and an even stronger 1% including upward revisions to prior months. The upward revisions were for both home building and commercial construction. The 0.4% gain in November was primarily due to home building and office construction by the federal government. In other recent news, last week's report on the Case-Shiller index shows that home prices in the 20 largest metro areas around the country declined 1% in October (seasonally-adjusted) and are down 0.8% in the past year. However, home prices are still 1.8% higher than the cycle low hit in May 2009. We do not believe the recent decline is a sign of a double-dip in housing. Rather, it's an aftershock of the government's tax credit for home buyers. We expect home prices to rise in 2011.

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>	Dec-10	Nov-10	Oct-10	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	57.0	56.6	56.9	56.8	56.1	54.9
New Orders	60.9	56.6	58.9	58.8	55.7	64.8
Production	60.7	55.0	62.7	59.5	58.6	59.7
Inventories	51.8	56.7	53.9	54.1	53.3	43.0
Employment	55.7	57.5	57.7	57.0	57.7	50.2
Supplier Deliveries	55.9	57.2	51.2	54.8	55.3	56.8
Order Backlog (NSA)	47.0	46.0	46.0	46.3	48.6	50.0
Prices Paid (NSA)	72.5	69.5	71.0	71.0	67.1	61.5
New Export Orders	54.5	57.0	60.5	57.3	56.4	54.5

Source: National Association of Purchasing Management