

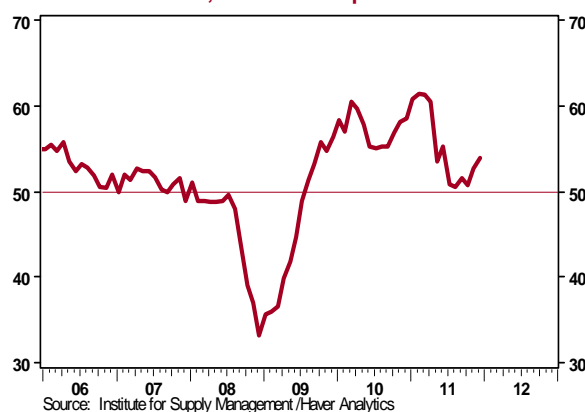
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December ISM Manufacturing Index

- The ISM manufacturing index increased to 53.9 in December from 52.7 in November, beating the consensus expected gain to 53.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mainly higher in December, and most remain well above 50. The production index gained to 59.9 from 56.6 and the new orders index rose to 57.6 from 56.7. The employment index also increased to 55.1 from 51.8, while the supplier deliveries index remained unchanged at 49.9.
- The prices paid index increased to 47.5 in December from 45.0 in November.

Implications: Great reports again today on manufacturing and construction. December data was stronger than expected and the manufacturing sector has now grown for 29 straight months. And just in case you still think a double-dip is possible, the new orders index came in at a very strong 57.6 in December. This was the third consecutive monthly increase, and suggests more growth in manufacturing ahead. The employment index was also a bright spot rising to 55.1, the highest level in 6 months. This supports our forecast for a 175,000 gain in December private sector payrolls. The one sub-index that remains weak is inventories. The reluctance of manufacturers to accumulate inventories may hold back GDP in the short term, but we view this reluctance to build inventories as temporary. On the inflation front, the prices paid index rose to 47.5 in December. A reading below 50 is a welcome sign, but we don't expect it to last. Monetary policy is very loose and, in effect, getting looser as the economy accelerates. In other news this morning, construction increased 1.2% in November (1.1% including a slight downward revision for prior months). The gain easily beat consensus expectations of 0.5% and was led by home building (both new homes and improvements) and government projects (power plants and bridges). Commercial construction was unchanged in November. Given favorable weather for much of the country in December, look for more good construction figures a month from now.

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	Dec-11	Nov-11	Oct-11	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	53.9	52.7	50.8	52.5	51.8	58.5
<i>New Orders</i>	57.6	56.7	52.4	55.6	52.5	62.0
<i>Production</i>	59.9	56.6	50.1	55.5	53.1	63.0
<i>Inventories</i>	47.1	48.3	46.7	47.4	49.3	51.8
<i>Employment</i>	55.1	51.8	53.5	53.5	53.3	58.9
<i>Supplier Deliveries</i>	49.9	49.9	51.3	50.4	50.6	56.7
<i>Order Backlog (NSA)</i>	48.0	45.0	47.5	46.8	45.5	47.0
<i>Prices Paid (NSA)</i>	47.5	45.0	41.0	44.5	50.7	72.5
<i>New Export Orders</i>	53.0	52.0	50.0	51.7	52.2	54.5

Source: National Association of Purchasing Management