

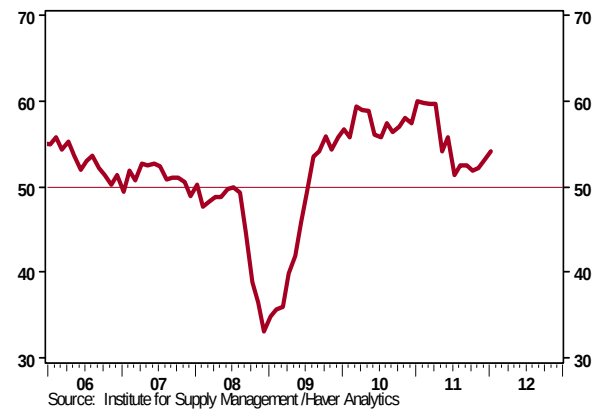
January ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

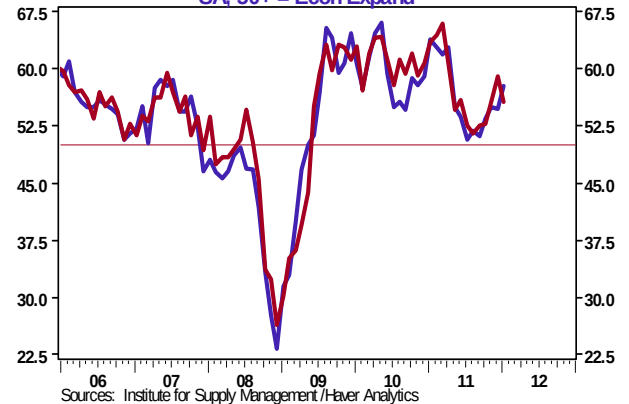
- The ISM manufacturing index increased to 54.1 in January from 53.1 in December, coming in slightly below the consensus expected 54.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in January, but most remain well above 50. The new orders index gained to 57.6 from 54.8 and the supplier deliveries index rose to 53.6 from 51.5. The production index slipped to 55.7 from 58.9 and the employment index fell to 54.3 from 54.8.
- The prices paid index increased to 55.5 in January from 47.5 in December.

Implications: Great reports again today on manufacturing and construction. The ISM manufacturing index was lower than expected, but the consensus was gathered before the ISM released annual revisions that lowered the overall level of the index. The consensus was expecting an increase of 0.6 points; instead there was an increase of 1.0 points. So the *change* was larger than expected. In other words, the manufacturing sector improved in January 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 January suggesting more growth in manufacturing ahead. The employment index ticked down slightly to 54.3 but remains solidly above 50. This confirms other positive news on employment. 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 as temporary and indicative of better future growth. On the inflation front, the prices paid index rose to 55.5 in January. Monetary policy is very loose and, in effect, getting looser as the economy accelerates. In other news this morning, the ADP Employment index, a measure of private sector payrolls, increased 170,000 in January, close to consensus expectations. We anticipate the official Labor Department report (released Friday morning) will show a private sector gain of 155,000. Construction increased 1.5% in December (1.1% including slight downward revisions for home building in prior months). The gain in December was led by manufacturing facilities and power plants. Both commercial construction and home building are trending upward, with commercial building up 11.4% versus a year ago and housing up 4.9%.

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>	Jan-12	Dec-11	Nov-11	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	54.1	53.1	52.2	53.1	52.7	59.9
New Orders	57.6	54.8	55.0	55.8	54.0	63.8
Production	55.7	58.9	55.7	56.8	54.5	63.5
Inventories	49.5	45.5	46.5	47.2	49.1	52.0
Employment	54.3	54.8	52.4	53.8	54.1	60.7
Supplier Deliveries	53.6	51.5	51.3	52.1	51.9	59.3
Order Backlog (NSA)	52.5	48.0	45.0	48.5	46.8	58.0
Prices Paid (NSA)	55.5	47.5	45.0	49.3	50.1	81.5
New Export Orders	55.0	53.0	52.0	53.3	52.3	62.0

Source: National Association of Purchasing Management