

Factory Manager Survey Signals Further Weakness

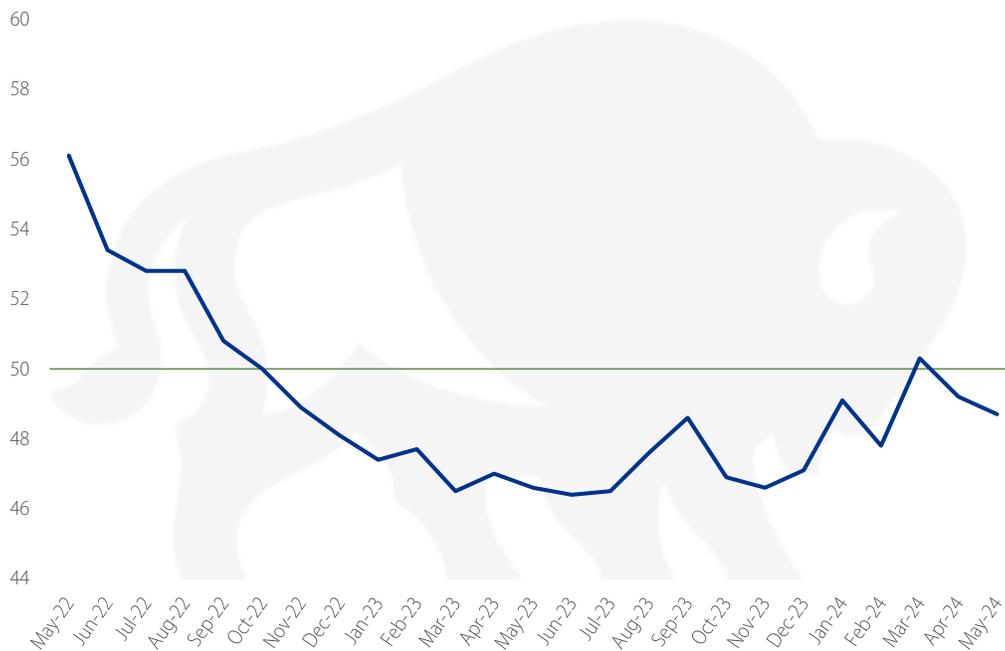
The U.S. factory sector *contracted* in May (below 50) for the second straight month and the 18th of the last 19, hinting that the economy may be weakening as summer approaches. The overall manufacturing index from the Institute of Supply Management (ISM) fell from 49.2 to 48.7 last month, slightly below the median forecast.

- The current production index slipped from 51.3 to 50.2.
- The forward-looking new orders index fell further into contraction territory at 45.4.
- The prices paid index moved lower for the first time in four months, although at 57.0, a majority of purchasing managers are still experiencing rising prices.
- The employment index actually rose in May from 48.6 to 51.1. This is less an indication of demand and more an indication of a lean labor market.

Investors pay particular attention to the ISM survey because of the broad scope and timeliness (the first major report every month). This morning's release supports the idea of both a slowing economy and moderating prices.

Bonds are rallying (yields lower) for the fourth straight day, while equities are mixed in early trading.

ISM Purchasing Managers Index



Source: Institute for Supply Management

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Market Indications as of 11:01 A.M. Central Time

DOW	Down -243 to 38,443 (HIGH: 40,004)
NASDAQ	Up 55 to 16,790 (HIGH: 17,020)
S&P 500	Down -9 to 5,268 (HIGH: 5,321)
1-Yr T-bill	current yield 5.15%; opening yield 5.12%
2-Yr T-note	current yield 4.82%; opening yield 4.87%
3-Yr T-note	current yield 4.62%; opening yield 4.67%
5-Yr T-note	current yield 4.42%; opening yield 4.50%
10-Yr T-note	current yield 4.41%; opening yield 4.49%
30-Yr T-bond	current yield 4.56%; opening yield 4.64%

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