

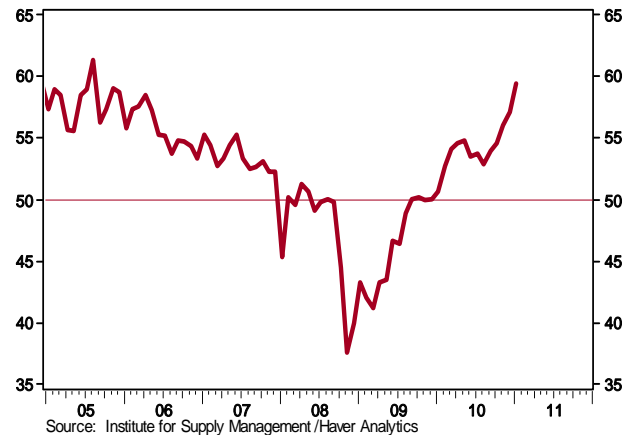
JANUARY ISM NON-MANUFACTURING INDEX

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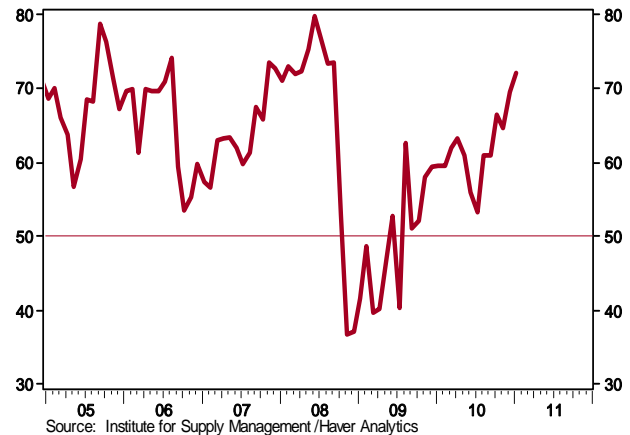
- The ISM non-manufacturing composite index increased to 59.4 in January from 57.1 in December, easily beating the consensus expected gain to 57.2. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were all higher in January and remain at levels indicating robust economic growth. The new orders index increased to 64.9 from 61.4 and the business activity index rose to 64.6 from 62.9, both multi-year highs. The employment index increased to 54.5 from 52.6 and the supplier deliveries index rose to 53.5 from 51.5.
- The prices paid index increased to 72.1 in January, the highest since the collapse of Lehman Brothers, from 69.5 in December.

Implications: The US economy continues to pick up steam and we are now seeing strong economic growth in both the manufacturing and service sectors. Today's ISM Services report delivered a broad array of data that continued to trace out a V-shaped (possibly a check-mark-shaped) recovery. The overall services index was at 59.4, the highest since 2005. The business activity index, which has an even higher correlation with real GDP growth, hit 64.6, also the highest since 2005. The new orders index was the highest since 2004 and the employment index increased to 54.5, the highest level since 2006. The employment index has been above the key 50 level for five straight months. On the inflation front, the prices paid index increased to 72.1, the highest since the financial panic started in late 2008. The Federal Reserve's ultra-easy monetary policy is getting increasingly inappropriate. In other recent news, cars and light trucks were sold at a 12.6 million annual rate in January, up 0.6% versus December and up 17.4% versus a year ago. Over the next couple of years, these sales will continue to increase to about a 15-16 million annual rate, the pace that offsets the annual scrappage of autos as well as changes in the driving-age population. The service sector is getting stronger, firms are hiring again, and workers are confident enough about the future to ramp up their purchases of big-ticket items.

ISM Nonmanufacturing: NMI Composite Index
SA, 50+=Increasing



ISM: Nonmfg: Prices Index
SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jan-11	Dec-10	Nov-10	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	59.4	57.1	56.0	57.5	55.6	50.7
Business Activity	64.6	62.9	59.4	62.3	59.3	52.6
New Orders	64.9	61.4	58.5	61.6	58.7	53.8
Employment	54.5	52.6	53.6	53.6	52.2	46.0
Supplier Deliveries (NSA)	53.5	51.5	52.5	52.5	52.4	50.5
Prices	72.1	69.5	64.7	68.8	65.8	59.6

Source: Institute for Supply Management