

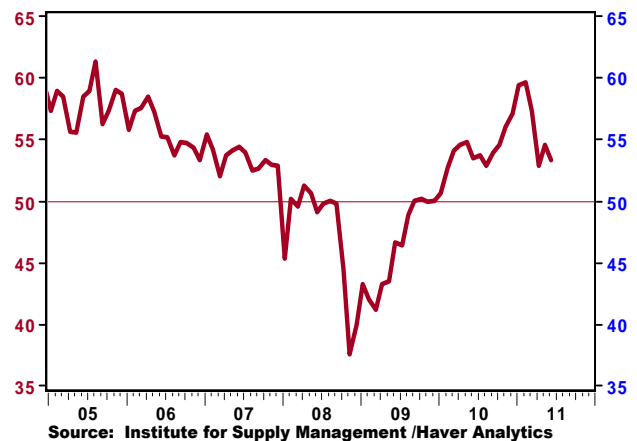
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst
Andrew Hull – Economic Analyst

June ISM Non-Manufacturing Index

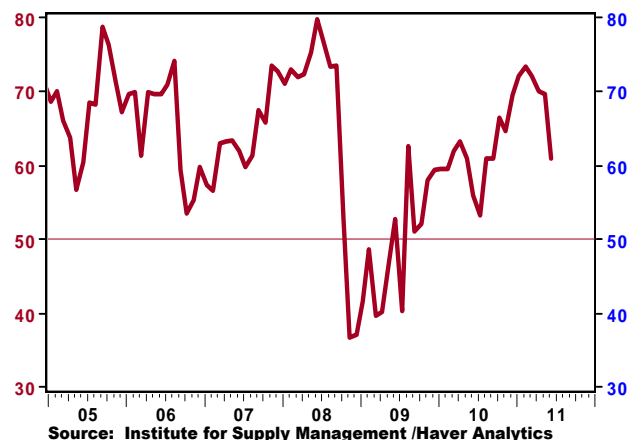
- The ISM non-manufacturing composite index fell to 53.3 in June from 54.6 in May, falling slightly short of the consensus forecast of 53.7. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mostly lower in June, but all remain at levels indicating economic growth. The business activity index declined very slightly to 53.4 from 53.6, and the new orders index declined to 53.6 from 56.8, but the employment index rose to 54.1 from 54.0. The supplier deliveries index fell to 52.0 from 54.0 last month.
- The prices paid index fell to a still high 60.9 in June from 69.6 in May.

Implications: Today's ISM services index fell slightly short of consensus expectations. However, at 53.3 the level of the index shows the service sector was still expanding in June. While some may say today's report is evidence of a worsening economy, we believe, based on many other pieces of data, that the soft patch is over, and expect the index to trend higher going forward. Special factors (tsunamis and tornadoes) have had a temporary negative impact on the economy over the past few months but these impacts are now diminishing. Moreover, the ISM services index often reacts to sentiment rather than actual business activity and the downward move in the index in June is probably tied to fears last month about the financial implications of a potential Greek default, the same fears that temporarily hurt the equity markets. On the inflation front, the prices paid index fell to a still elevated 60.9. This measure of price inflation will likely move back up in the months ahead given the recent rebound in oil prices as well as the Federal Reserve's loose monetary policy. In other recent news, autos and light trucks were sold at an 11.5 million annual rate in June, which was lower than the 11.8 million pace in May as well as the consensus expected pace of 12.1 million. Still, sales were 2.5% higher than a year ago. Sales were relatively slow in June due to supply-chain disruptions from Japan, which have reduced production as well as dealer/maker incentives. We expect sales to rebound substantially in the next few months.

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>	Jun-11	May-11	Apr-11	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	53.3	54.6	52.8	53.6	56.2	53.5
Business Activity	53.4	53.6	53.7	53.6	58.7	57.2
New Orders	53.6	56.8	52.7	54.4	59.4	55.0
Employment	54.1	54.0	51.9	53.3	54.0	48.8
Supplier Deliveries (NSA)	52.0	54.0	53.0	53.0	52.7	53.0
Prices	60.9	69.6	70.1	66.9	69.7	55.9

Source: Institute for Supply Management