

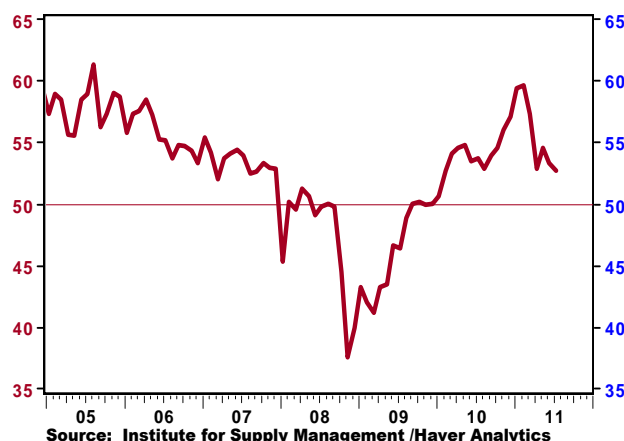
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July ISM Non-Manufacturing Index

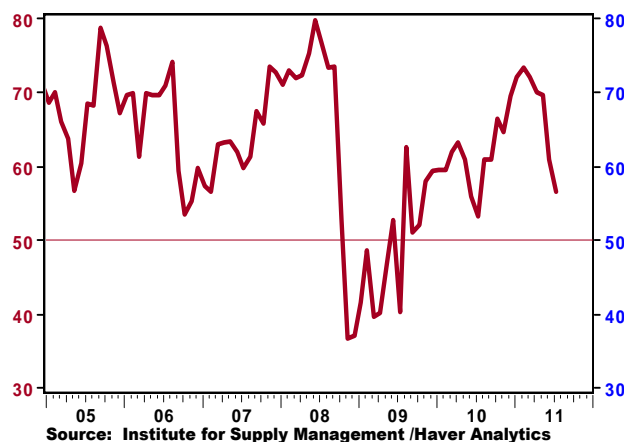
- The ISM non-manufacturing composite index declined to 52.7 in July versus a consensus forecast of 53.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Most key sub-indexes were lower in July, but all remain at levels indicating economic growth. The business activity index rose to 56.1 in July from 53.4 in June, but the new orders index declined to 51.7 from 53.6, and the employment index fell to 52.5 from 54.1. The supplier deliveries index fell to 50.5 from 52.0 last month.
- The prices paid index fell to a still high 56.6 in July from 60.9 in June.

Implications: Like Monday’s ISM manufacturing report, today’s ISM services index came in below consensus expectations. Sometimes these reports tell us more about sentiment among managers than actual production activity and we think the drumbeat of dour news regarding a potential US default artificially depressed sentiment in July. Now that the debt ceiling issue is cleared up, we expect sentiment to rebound going forward. It’s important to notice that despite declining business sentiment that the top-line services index of 52.7 still suggests economic growth. Moreover, the business activity index, which has a stronger correlation with GDP growth than the overall index, rose to 56.1 in July, the highest level since March, from 53.4 in June. On the inflation front, the prices paid index fell to a still elevated 56.6 in July. We don’t expect this measure of inflation will move any lower thanks to the Federal Reserve’s easy money stance. In other news this morning, the ADP national employment report, a measure of private sector payrolls, increased 114,000 in July. This is consistent with our forecast of private-sector gains of 130,000 for the official report released Friday morning. In other recent news, Americans bought cars and light trucks at a 12.2 million annual rate in July, easily beating the consensus expected 11.8 million pace. Auto sales were up 5.8% in July and also up 5.8% versus a year ago. We expect further gains in August as parts shortages ease.

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> | Jul-11 | Jun-11 | May-11 | 3-month <i>moving avg</i> | 6-month <i>moving avg</i> | Year-ago <i>level</i> |
|--|--------|--------|--------|------------------------------|------------------------------|--------------------------|
| Composite Index | 52.7 | 53.3 | 54.6 | 53.5 | 55.1 | 53.7 |
| Business Activity | 56.1 | 53.4 | 53.6 | 54.4 | 57.2 | 56.3 |
| New Orders | 51.7 | 53.6 | 56.8 | 54.0 | 57.2 | 56.1 |
| Employment | 52.5 | 54.1 | 54.0 | 53.5 | 53.6 | 50.3 |
| Supplier Deliveries (NSA) | 50.5 | 52.0 | 54.0 | 52.2 | 52.2 | 52.0 |
| Prices | 56.6 | 60.9 | 69.6 | 62.4 | 67.1 | 53.2 |

Source: Institute for Supply Management