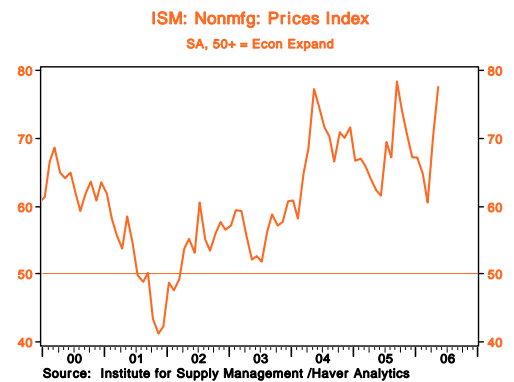
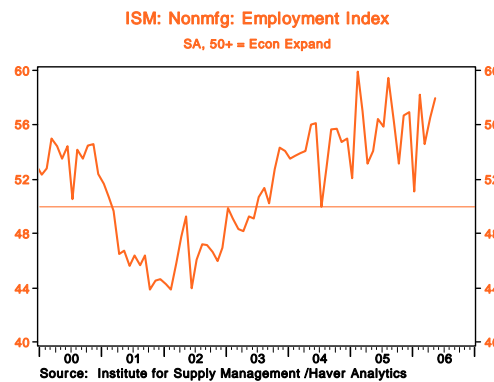
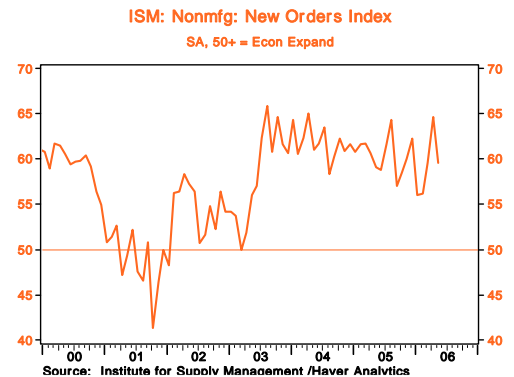
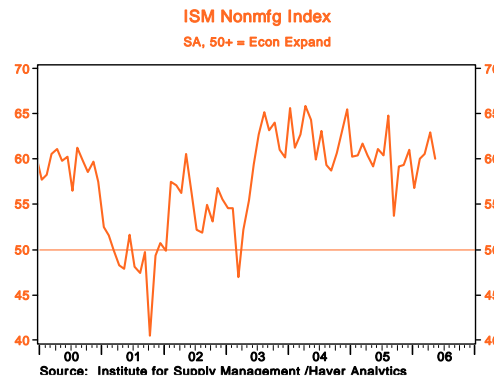


MAY ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer pulled back in May to 60.1 versus 63.0 in April. Nonetheless, this signals continued robust expansion in the services sector of the economy. Thirteen of the 17 industry groups surveyed reported growth in May compared to 14 in April. The new orders component fell to 59.6 last month from a five-year high of 64.6 in April.
- The employment component rose to 58.0 in May versus 56.5 in April. This is the 35th consecutive month above 50.
- The prices paid component jumped to 77.5 last month versus 70.5 in April, suggesting that price pressures continue to build.



Implications: While conventional wisdom has settled on the narrative that the economy is weakening, some data tell a different story. The ISM non-manufacturing index was 60.1 in May, identical to the average level of 2005. In fact, the three month average of the ISM non-manufacturing index is 61.2, while the six month average is 60.3 and the 12-month average is 59.2. The service sector appears to be accelerating. Moreover, the employment component increased to 58.0 last month, the fourth highest level in the 10-year history of the index. Since the service sector accounts for 83.4% of total employment, the strength in the employment component of the ISM non-man suggests that the 288,000 new jobs in the household survey was a more accurate gauge of the employment situation in May than the 75,000 new jobs shown by the payroll survey. With the service sector strong and price pressures building, there is no evidence in this data of a slowdown in economic activity that would force the Fed to pause.

Non-Manufacturing ISM Index <i>seasonally adjusted unless indicated</i>	May-06	Apr-06	Mar-06	3-mo <i>moving avg</i>	6-mo <i>moving avg</i>	Yr ago <i>level</i>
Business Barometer	60.1	63.0	60.5	61.2	60.3	59.2
New Orders	59.6	64.6	59.5	61.2	59.7	59.1
Employment	58.0	56.5	54.6	56.4	55.9	54.1
Prices	77.5	70.5	60.5	69.5	68.0	62.4
Supplier Deliveries (not seasonally adjusted)	56.5	54.5	54.0	55.0	54.8	53.5
Inventory Change (not seasonally adjusted)	59.0	59.0	54.0	57.3	56.0	51.5
Orders Backlog (not seasonally adjusted)	52.0	54.0	50.5	52.2	52.8	56.5
Imports (not seasonally adjusted)	58.5	57.0	60.5	58.7	56.2	57.5

Source: Institute for Supply Management

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