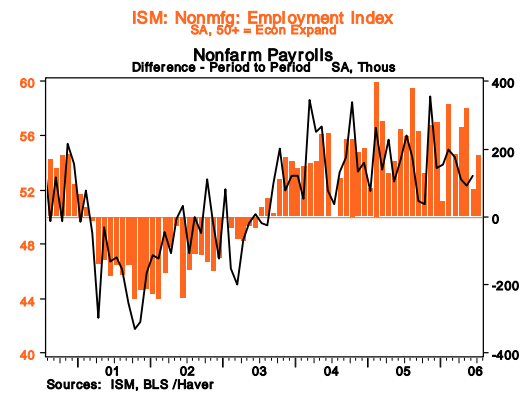
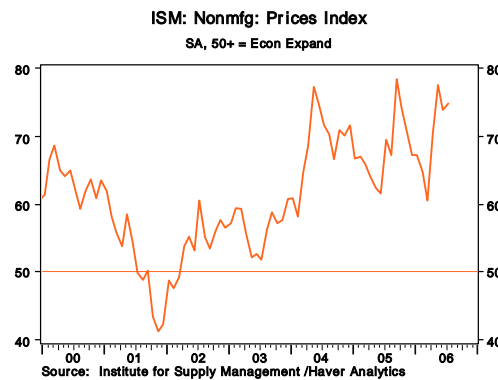
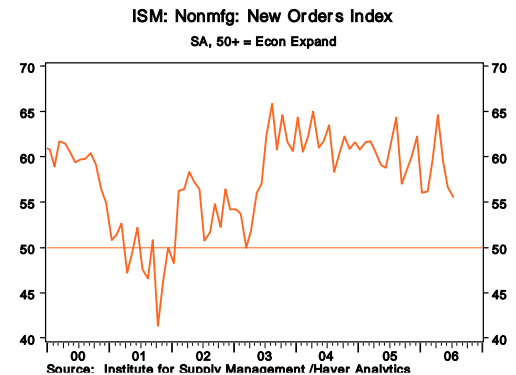
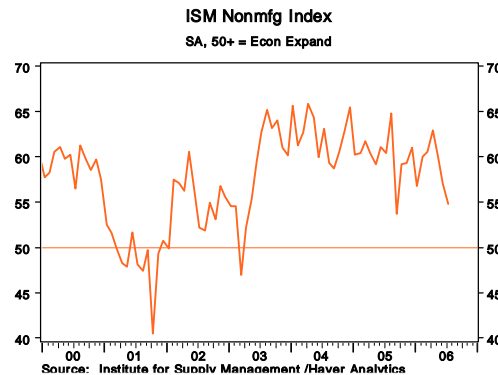


JULY ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer pulled back to 54.8 in July versus 57.0 in June. The new orders component retreated to 55.6 last month from 56.6 in June.
- The employment component rose to 54.5 in July from 52.0 in June. This is the 37th consecutive month above 50.
- The prices paid component increased to 74.8 last month versus 73.9 in June. The price component has averaged 75.4 over the past three months, the highest three-month average in the nine year history of the data.



Implications: The retreat in the ISM non-manufacturing index to 54.8 is somewhat concerning. It is the lowest level for this measure of service sector activity since the post-Hurricane Katrina drop to 53.7 in September 2005. The last time the index was at this level for any prolonged period of time was during the anemic recovery of 2002, when it averaged 52.1. This lends credence to the viewpoint that the economy is slowing to below trend growth. However, other business surveys (the Chicago PMI and ISM Manufacturing Index) as well as other leading indicators of the economy (business investment, industrial production and initial claims) suggest that the economy is not really slowing. When these divergences arise, we believe it is best step back and focus on the underlying fundamentals of the economy. With tax rates low, productivity booming and the Fed still below neutral, the fundamental drivers of growth remain strong. As a result, we view the softness in July's ISM non-manufacturing index as normal data volatility and not an ominous sign of impending economic problems. On a more worrisome note, the prices paid index remains highly elevated – another sign that inflation is not going away as a concern for investors.

Non-Manufacturing ISM Index <i>seasonally adjusted unless indicated</i>	Jul-06	Jun-06	May-06	3-mo moving avg	6-mo moving avg	Yr ago level
Business Barometer	54.8	57.0	60.1	57.3	59.3	60.4
New Orders	55.6	56.6	59.6	57.3	58.7	61.6
Employment	54.5	52.0	58.0	54.8	55.6	55.9
Prices	74.8	73.9	77.5	75.4	70.3	69.5
Supplier Deliveries (not seasonally adjusted)	54.5	56.0	56.5	55.7	54.7	57.0
Inventory Change (not seasonally adjusted)	53.0	51.5	59.0	54.5	54.9	52.5
Orders Backlog (not seasonally adjusted)	56.0	55.5	52.0	54.5	53.7	53.5
Imports (not seasonally adjusted)	60.5	55.5	58.5	58.2	57.8	62.0

Source: Institute for Supply Management

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