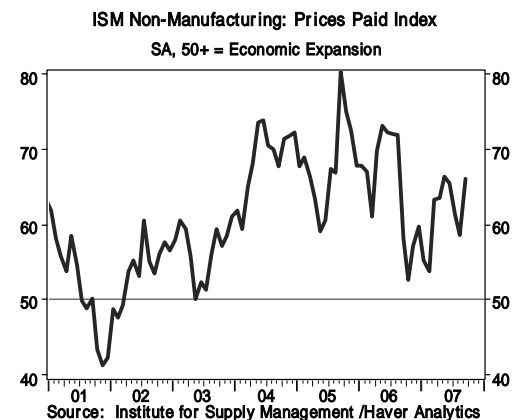


## SEPTEMBER ISM NON-MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA  
Economic Research Analyst – Trevor D. Scott

- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) declined to 54.8 in September from 55.8 in August. The consensus expected a decline to 54.6. Levels above 50 signal expansion and levels below 50 signal contraction in the services sector.
- On the negative side, the new orders index declined to 53.4 from 57.0, the backlog of orders dropped to 47.0 from 50.0, new export orders fell to 50.0 from 53.5, and new import orders weakened to 51.0 from 55.0.
- On the positive side, the employment index rebounded to 52.7 from 47.9 last month.
- The prices paid component increased to 66.1 versus 58.6 in August.

**Implications:** The U.S. service sector remains healthy. For the past two years the ISM Non-Manufacturing index has been hovering between 52.4 and 61.1. Today's figures stayed in that range, signaling continued economic expansion. Other recent news on inflation-adjusted inventories (released Monday) and auto sales (released yesterday) suggested substantial upside risk to what had been our relatively bullish forecast of 3% real GDP growth for the third quarter. Our new forecast for real GDP growth is 3.5% for Q3. In this environment it will be very difficult for the Federal Reserve to justify another rate cut.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-07	Aug-07	Jul-07	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	54.8	55.8	55.8	55.5	57.1	54.6
<b>New Orders</b>	53.4	57.0	52.8	54.4	55.5	57.5
<b>Employment</b>	52.7	47.9	51.7	50.8	52.4	53.3
<b>Prices</b>	66.1	58.6	61.3	62.0	63.6	58.2
<b>Supplier Deliveries (NSA)</b>	50.5	50.5	51.5	50.8	50.6	54.0
<b>Inventory Change (NSA)</b>	50.0	57.0	55.0	54.0	54.6	50.5
<b>Orders Backlog (NSA)</b>	47.0	50.0	53.0	50.0	49.1	53.0
<b>Imports (NSA)</b>	51.0	55.0	54.5	53.5	54.3	55.0

Source: Institute for Supply Management