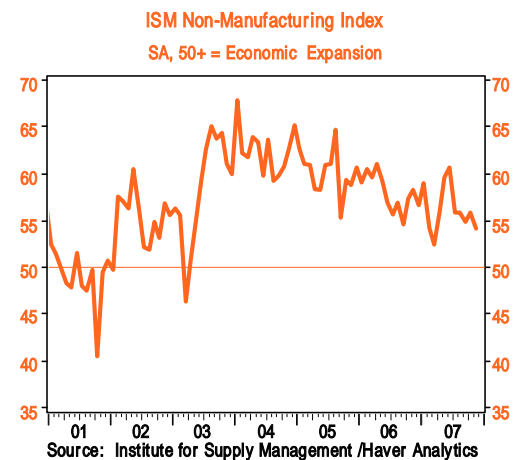


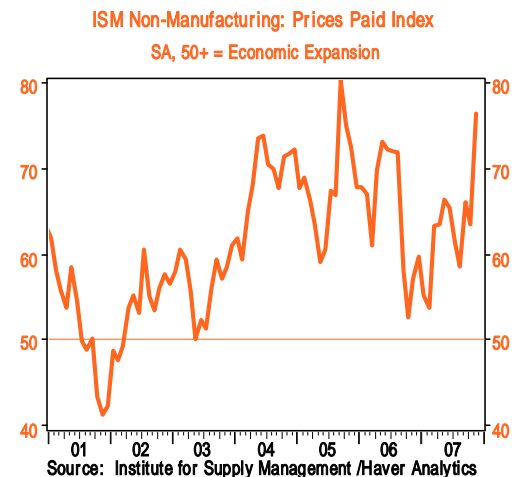
NOVEMBER ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) declined to 54.1 in November from 55.8 in October. The consensus expected a smaller decline to 55.0. Levels above 50 signal expansion and levels below 50 signal contraction in the services sector.
- On the negative side, the indexes for new orders, employment, imports, and new export orders all fell. However, except for imports, each one of them remained above 50.
- The prices paid component soared to 76.5 in November from 63.5 in October. With the exception of September 2005, due to Hurricanes Katrina and Rita, that's the highest price index in the history of the series, which dates back to 1997.



Implications: Despite weakness in housing-related services, the economy remains resilient. The U.S. service sector continued to expand in November, although at a slower rate than in October. Meanwhile, the second highest reading ever for the prices paid index suggests robust growth in *nominal* GDP growth (real GDP growth plus inflation) in Q4. Although we believe the Federal Reserve is likely to cut rates by 25 basis points next week, the data show the Fed is not tight and *should* not cut rates. In other news today, factory orders increased 0.5% in October, versus a consensus expectation that orders were unchanged. More importantly, data on shipments of non-defense capital goods excluding aircraft were revised up for September and October. This suggests healthy growth in business investment in equipment and software, supporting our view that real GDP is climbing at about a 2% annual rate in Q4, a respectable and understandable pace considering the nearly 4.5% annual growth rate in the previous two quarters.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Nov-07	Oct-07	Sep-07	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	54.1	55.8	54.8	54.9	56.2	58.3
New Orders	51.1	55.7	53.4	53.4	54.5	56.2
Employment	50.8	51.8	52.7	51.8	51.7	51.9
Prices	76.5	63.5	66.1	68.7	65.3	57.2
Supplier Deliveries (NSA)	51.5	50.0	50.5	50.7	50.8	50.0
Inventory Change (NSA)	50.5	49.5	50.0	50.0	52.4	51.5
Orders Backlog (NSA)	48.5	43.5	47.0	46.3	48.1	54.5
Imports (NSA)	49.5	55.5	51.0	52.0	53.8	59.5

Source: Institute for Supply Management

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