

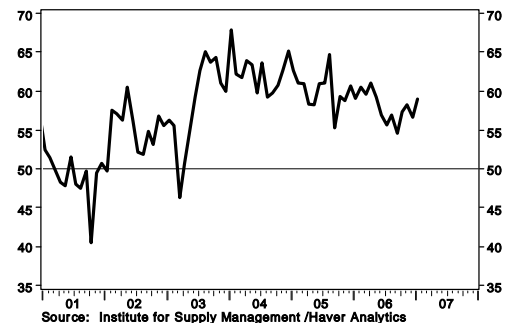
## JANUARY IS M NON-MANUFACTURING INDEX

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

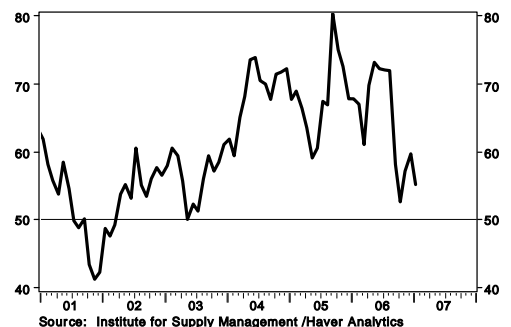
- The ISM non-manufacturing business barometer (a measure of growth in the services sector) increased to 59.0 in January from 56.7 in December – the consensus expected a slight increase to 57.0.
- The employment component fell to 51.7 from 53.2. The employment index has been at or above 50 for 43 consecutive months.
- The new orders component slipped to 55.4 in January from 55.6 in December. While weaker in recent months, the new orders component continues to signal future expansion in the services sector.
- The prices paid component fell to 55.2 in January from 59.7 in December. Falling energy prices have pulled the prices paid component down from consistent readings over 70 in the summer months. However, with the index still above 50, inflationary pressures remain a concern.

**Implications:** The increase in the ISM non-manufacturing index is another signal that the economy has re-accelerated from its summer and early fall doldrums. We remain confident that our forecast of 3.3% real growth in 2007 is on track. The service sector is by far the largest part of the US economy and January data suggest that business activity is moving into 2007 with positive forward momentum.

ISM Non-Manufacturing Index  
 SA, 50+ = Economic Expansion



ISM Non-Manufacturing: Prices Paid Index  
 SA, 50+ = Econ Expand



| <b>Non-Manufacturing ISM Index</b><br><i>Seasonally Adjusted Unless Noted</i> | <b>Jan-07</b> | <b>Dec-06</b> | <b>Nov-06</b> | <b>3-month<br/>moving avg</b> | <b>6-month<br/>moving avg</b> | <b>Year-ago<br/>level</b> |
|---|---------------|---------------|---------------|-------------------------------|-------------------------------|---------------------------|
| <b>Business Barometer</b>   | <b>59.0</b>   | 56.7          | 58.3          | 58.0                          | 57.2                          | 59.1                      |
| <b>New Orders</b>   | <b>55.4</b>   | 55.6          | 56.2          | 55.7                          | 55.6                          | 56.9                      |
| <b>Employment</b>   | <b>51.7</b>   | 53.2          | 51.9          | 52.3                          | 52.3                          | 51.6                      |
| <b>Prices</b>   | <b>55.2</b>   | 59.7          | 57.2          | 57.4                          | 59.1                          | 67.8                      |
| <b>Supplier Deliveries (NSA)</b>  | <b>53.5</b>   | 51.0          | 50.0          | 51.5                          | 52.8                          | 54.5                      |
| <b>Inventory Change (NSA)</b>   | <b>47.0</b>   | 53.5          | 51.5          | 50.7                          | 51.2                          | 55.0                      |
| <b>Orders Backlog (NSA)</b>   | <b>49.0</b>   | 48.0          | 54.5          | 50.5                          | 50.9                          | 52.5                      |
| <b>Imports (NSA)</b>  | <b>52.0</b>   | 62.0          | 59.5          | 57.8                          | 57.7                          | 49.5                      |

Source: Institute for Supply Management