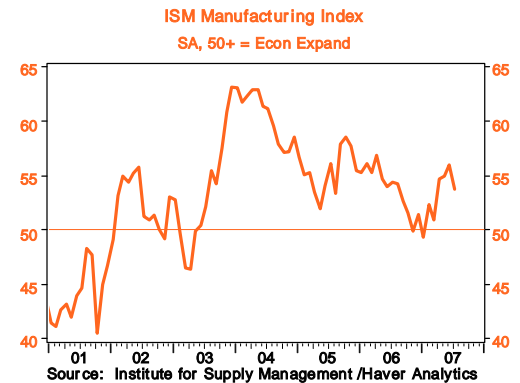


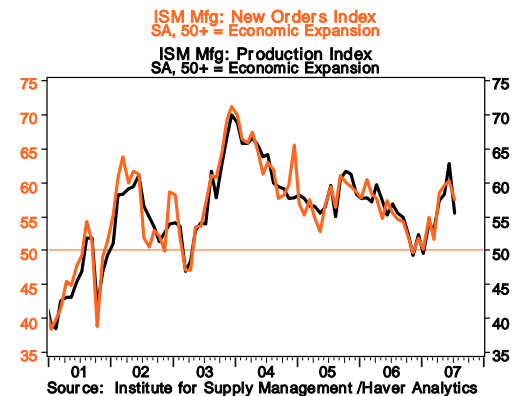
JULY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index declined to 53.8 in July from 56.0 in June. The consensus expected the index to drop to 55.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The leading factor driving the overall index downward was a drop of 7.3 points (to a still healthy 55.6) in the production component. The new orders component declined by 2.8 points (to 57.5).
- The prices paid index declined to 65.0 from 68.0, but remains at a high level.



Implications: Today's ISM index report suggests that the manufacturing sector expanded in July but at not quite as rapid a pace as in April through June. It's important to note that despite the decline in the overall index the component levels for production, new orders, and employment all remained above 50, signaling growth. In other news this morning, the ADP Employment indicator suggests private-sector payrolls grew by only 48,000 in July. (Official government data on payrolls will be released on Friday.) This is consistent with our view that payroll growth in July was weak (60,000 including both the private sector and government employees) due to the lagged effects of the transitory economic slowdown in late 2006 and early 2007. However, we believe any weakness in payrolls will be temporary. The economy has already re-accelerated. Real GDP growth in the second quarter rebounded to a 3.4% annual rate. Plus, data released yesterday show that construction was stronger than the government assumed when calculating GDP, meaning the growth rate is more likely to be revised up than down next month. Also, consumer confidence in the labor market improved in July, with the largest share of consumers saying "jobs are plentiful" since before September 11.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jul-07	Jun-07	May-07	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	53.8	56.0	55.0	54.9	53.8	54.4
New Orders	57.5	60.3	59.6	59.1	57.1	55.6
Production	55.6	62.9	58.3	58.9	56.9	56.8
Inventories	48.5	45.3	46.1	46.6	46.4	50.1
Employment	50.2	51.1	51.9	51.1	51.0	51.1
Supplier Deliveries	52.0	49.7	50.3	50.7	50.7	55.4
Order Backlog (NSA)	52.0	53.5	52.5	52.7	51.8	50.5
Prices Paid (NSA)	65.0	68.0	71.0	68.0	66.9	78.5
New Export Orders	56.5	56.0	59.0	57.2	56.3	51.9

Source: National Association of Purchasing Management