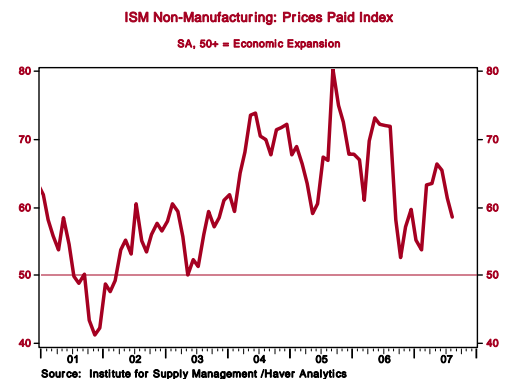
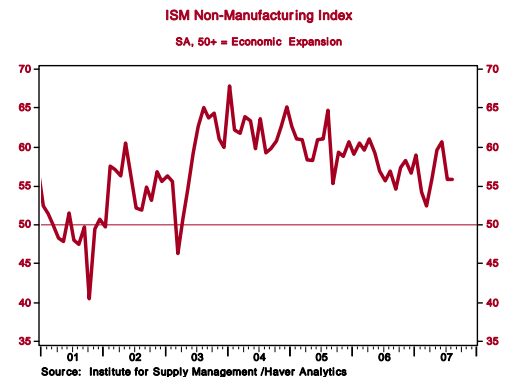


AUGUST ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) was unchanged at 55.8 in August. The consensus expected a decline to 54.5. Levels above 50 signal expansion and levels below 50 signal contraction in the services sector.
- On the positive side, the new orders index increased to 57.0 in August from 52.8 in July while the new export orders index increased to 53.5 from 52.5. In addition, the backlog of orders, which is not seasonally adjusted, was up to 50.0 from 49.5 in August 2006.
- On the negative side, the employment component declined to 47.9 – the lowest level since 2002 – from 51.7 last month.
- The prices paid component fell to 58.6 versus a level of 61.3 in July.

Implications: Today's data is not consistent with the whining we have been hearing from Wall Street that the Fed needs to cut the federal funds rate. The service sector remained healthy in August despite the upheaval in the credit markets. Today's data is consistent with our forecast that real GDP will grow at a 3% annual rate in the third quarter. The one notable weak spot was the employment index, which hit its lowest level since December 2002. In our view, this reflects the lagged effects of slower economic growth earlier this year and will be temporary as the overall economy has already re-accelerated.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Aug-07	Jul-07	Jun-07	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	55.8	55.8	60.7	57.4	56.7	56.9
New Orders	57.0	52.8	56.9	55.6	55.6	53.3
Employment	47.9	51.7	55.0	51.5	52.0	51.9
Prices	58.6	61.3	65.5	61.8	63.1	71.9
Supplier Deliveries (NSA)	50.5	51.5	50.5	50.8	50.5	53.5
Inventory Change (NSA)	57.0	55.0	52.5	54.8	54.9	51.5
Orders Backlog (NSA)	50.0	53.0	46.5	49.8	50.0	49.5
Imports (NSA)	55.0	54.5	57.5	55.7	54.2	60.0

Source: Institute for Supply Management