

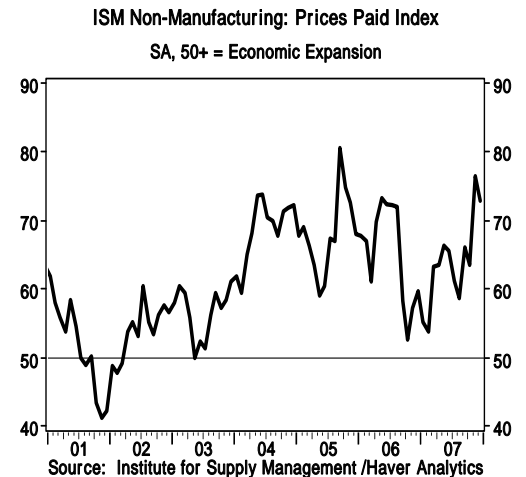
DECEMBER ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) dipped slightly to 53.9 in December from 54.1 in November, signaling continued expansion in the service sector. The consensus expected a larger decline to 53.5. Levels above 50 signal expansion and levels below 50 signal contraction in the services sector.
- On the positive side, indexes for new orders, employment, and the backlog of orders all increased. The index for new export orders fell to exactly 50.0.
- The prices paid component declined to 72.7 in December from 76.5 in November, still signaling rapid price increases.



Implications: Today's ISM report on the services sector was better than expected and – with the new orders and employment indexes rising – the details of the report were stronger than the headline index. The strength in the employment component bolsters the case that this morning's weak jobs report will be revised higher. Although the backlog of orders remained below 50, it was up versus last month and up versus a year ago. (The comparison to a year ago is relevant as that particular series is not seasonally adjusted.) Despite weakness in housing, the services sector continues to expand. Meanwhile, the prices paid index supports the case that inflation is a growing problem. In other news, yesterday's report on total vehicle sales shows consumption remains healthy. Vehicle sales were up 0.4% in December and were up at a 6.4% annual rate in Q4, the largest quarterly gain since early 2006.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Dec-07	Nov-07	Oct-07	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	53.9	54.1	55.8	54.6	55.0	56.7
New Orders	53.5	51.1	55.7	53.4	53.9	55.6
Employment	52.1	50.8	51.8	51.6	51.2	53.2
Prices	72.7	76.5	63.5	70.9	66.5	59.7
Supplier Deliveries (NSA)	52.5	51.5	50.0	51.3	51.1	51.0
Inventory Change (NSA)	50.5	50.5	49.5	50.2	52.1	53.5
Orders Backlog (NSA)	49.0	48.5	43.5	47.0	48.5	48.0
Imports (NSA)	50.5	49.5	55.5	51.8	52.7	62.0

Source: Institute for Supply Management