

SEPTEMBER ISM NON-MANUFACTURING INDEX

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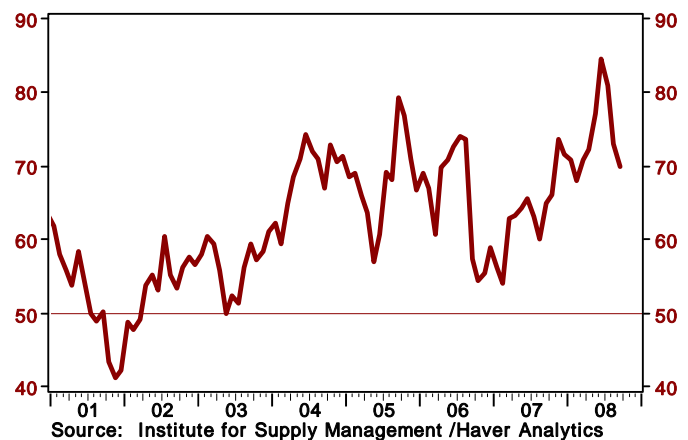
- The ISM non-manufacturing composite index declined to 50.2 in September from 50.6 in August. The consensus expected a slightly larger decrease to 50.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The components of the composite index were mixed. The indexes for business activity and new orders increased. The indexes for employment and supplier deliveries declined.
- The prices paid index declined to a still very elevated 70.0 in September, continuing to signal higher inflation.

Implications: The ISM non-manufacturing index is still signaling slight economic expansion in the service sector. This was a welcome surprise given the sharp decline in the ISM Manufacturing index reported on Wednesday. Combining the information from both surveys suggests real GDP was essentially flat in the third quarter. We believe that will be true for the fourth quarter as well. Historically, the ISM indexes have been fairly trustworthy sources of economic information. However, we have noticed that during times of unusual uncertainty they can reflect sentiment, not real underlying economic activity. Now, due to the sudden severity of the credit crunch, the wild lurches in sentiment may be re-aligning with the underlying path of the economy. The US economy is set for some major turbulence in the months ahead, but we believe will return to strength after early next year.

ISM Nonmanufacturing: NMI Composite Index
SA, 50+=Increasing



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-08	Aug-08	Jul-08	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	50.2	50.6	49.5	50.1	50.4	53.2
Business Activity	52.1	51.6	49.6	51.1	51.3	55.7
New Orders	50.8	49.7	47.9	49.5	50.1	53.9
Employment	44.2	45.4	47.1	45.6	46.7	52.5
Supplier Deliveries (NSA)	53.5	55.5	53.5	54.2	53.3	50.5
Prices	70.0	72.9	80.8	74.6	76.2	65.0

Source: Institute for Supply Management