

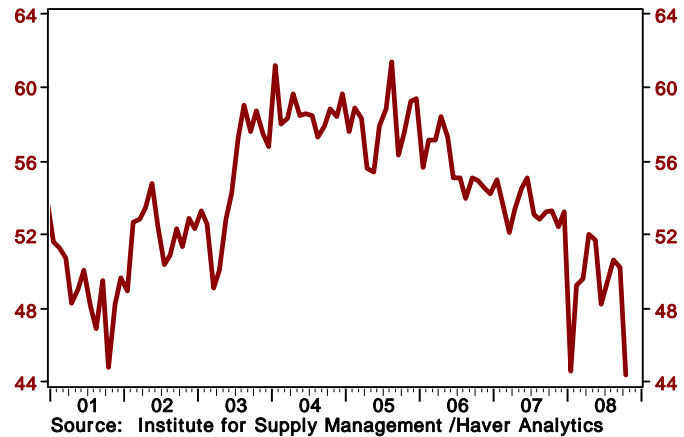
OCTOBER ISM NON-MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

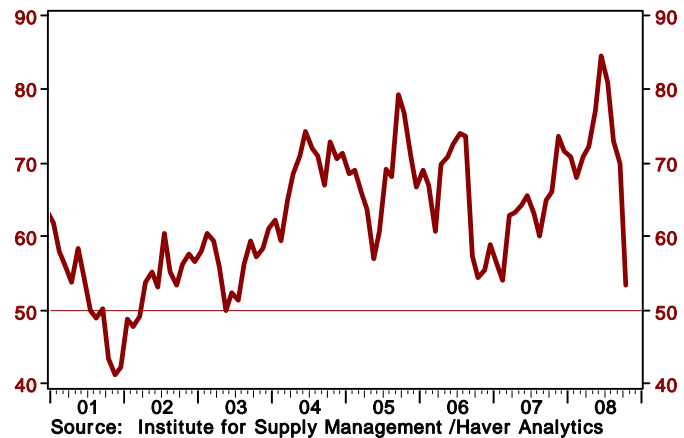
- The ISM non-manufacturing composite index declined to 44.4 in October from 50.2 in September. The consensus expected a smaller decrease to 47.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The components of the composite index, business activity, new orders, employment and supplier deliveries all declined.
- The prices paid index declined to 53.4 in October, signaling that inflation has been put on hold for a short time.

Implications: The ISM non-manufacturing index contracted to its lowest level ever recorded in its 11 year history after showing growth for the previous two months. The general crisis of confidence has taken a toll on the economy and has spilled over into the services sector, but this should be short-lived. We believe that this slowdown has been caused by a decrease in velocity – or how fast money makes its way through the economy. Because of this we are seeing a slowdown in business activity and consumption. This is consistent with fourth quarter real GDP of -3 to -4 percent annualized. The prices paid index hit its lowest level since July 2003 signaling inflation has cooled off for the time being, but don't be fooled. Once confidence is regained, which seems to be starting to happen by the Fed bringing the commercial-paper market back to life, businesses activity will pick up quickly. We believe this will lead to positive GDP growth in early 2009, and prices will quickly catch up, starting inflation down the road.

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>	Oct-08	Sep-08	Aug-08	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	44.4	50.2	50.6	48.4	49.1	53.3
Business Activity	44.2	52.1	51.6	49.3	50.2	55.5
New Orders	44.0	50.8	49.7	48.2	49.1	55.4
Employment	41.5	44.2	45.4	43.7	45.1	52.4
Supplier Deliveries (NSA)	48.0	53.5	55.5	52.3	52.0	50.0
Prices	53.4	70.0	72.9	65.4	73.1	66.1

Source: Institute for Supply Management