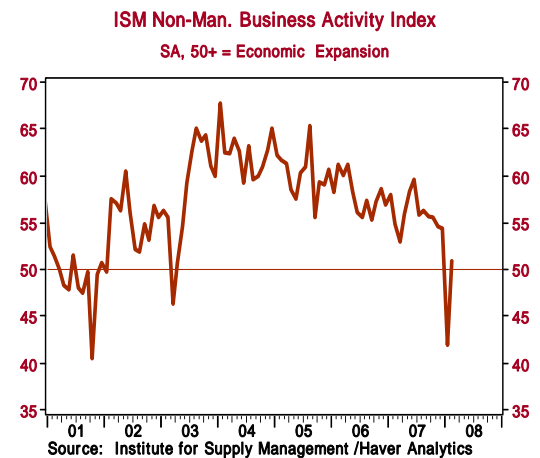


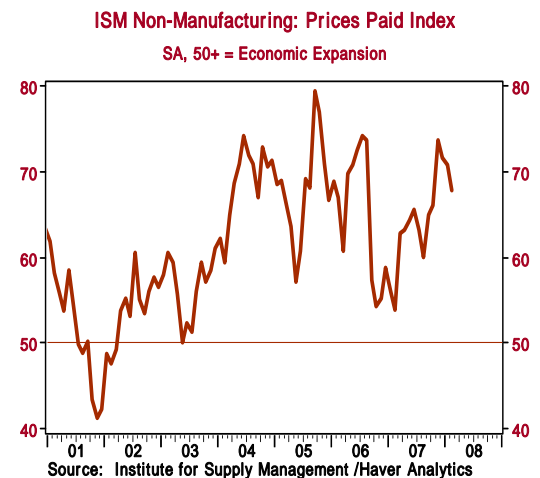
FEBRUARY ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing composite index rebounded to 49.3 in February from 44.6 in January. The consensus expected a smaller bounce to 47.3. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- All of the components of the composite index increased in February. The index for business activity got back above 50 (see chart to right). The indexes for new orders and employment remained below 50 while the index for supplier deliveries was at 50 exactly.
- The prices paid index declined to a still elevated 67.9 in February from 70.7 in January, continuing to signal high inflation.



Implications: Today's ISM report on the service sector was a welcome rebound. At the time of last month's horrible report we asserted that negative sentiment rather than declining real economic output can temporarily drive this indicator, as it did after the terrorist attacks of 9/11 and upon the start of the Iraq War in early 2003. That is apparently what happened in January and we believe there is much more negative sentiment that will dissipate in the months ahead, meaning more increases in the services index. Meanwhile, the prices paid index continues to support our view that inflation is a growing problem. In other news this morning, the ADP Employment Index suggests private sector payrolls declined by 23,000 in February. Given the rise in unemployment claims, the ADP data, and the sub-50 reading for the ISM services index on employment, we expect Friday's Labor Department report to show a drop in total payrolls of 35,000 in February, although we expect an upward revision to January's estimated drop of 17,000. In addition, today's data on factory inventories suggest Q4 real GDP growth will hold steady at 0.6% despite recent weak data on construction.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Feb-08	Jan-08	Dec-07	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	49.3	44.6	53.2	49.0	51.0	53.7
Business Activity	50.8	41.9	54.4	49.0	52.2	54.9
New Orders	49.6	43.5	53.9	49.0	51.4	55.2
Employment	46.9	43.9	51.8	47.5	49.8	52.1
Supplier Deliveries (NSA)	50.0	49.0	52.5	50.5	50.6	52.5
Prices	67.9	70.7	71.5	70.0	69.2	53.9

Source: Institute for Supply Management

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