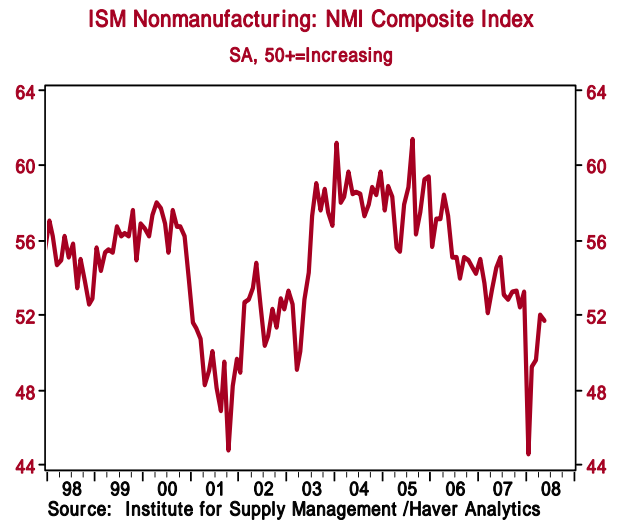


MAY ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing composite index declined to 51.7 in May from 52.0 in April. The consensus expected a larger decline to 51.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The indexes for business activity and new orders both increased to 53.6, signaling healthy expansion. The indexes for the backlog of orders and employment both declined to levels slightly below 50.0. The index for new export orders climbed to 54.0, reversing last month's drop below 50.0.
- The prices paid index increased to 77.0 in May, the second highest level since the index started in 1997.

Implications: The ISM index for the services sector signals that the US economy continues to grow. It is now clear that the steep drop in the index that happened in January was another version of the temporary drops of October 2001 (due to the terrorist attacks on September 11) and early 2003 (due to the run-up to the Iraq War). Instead of signaling an actual decline in activity at the firms being surveyed, these drops signaled sudden erosions in confidence about the overall economy. The rebound in the ISM index shows this lack of confidence is dissipating and business attitudes about the economy are improving. Today's ISM report adds to the data – such as today's robust productivity report for Q1 and yesterday's report showing an increase in factory orders in April – that are inconsistent with the US being in recession. Meanwhile, the prices paid index shows the inflation problem is getting worse. The prices paid index in today's ISM report hit 77.0. With the exception of the aftermath of Hurricanes Katrina/Rita, this is the highest level in the 11-year history of the index. The lack of a recession and a growing inflation problem mean the Federal Reserve will start raising rates before year end.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-08	Apr-08	Mar-08	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	51.7	52.0	49.6	51.1	50.1	54.5
Business Activity	53.6	50.9	52.2	52.2	50.6	58.4
New Orders	53.6	50.1	50.2	51.3	50.2	56.7
Employment	48.7	50.8	46.9	48.8	48.2	53.5
Supplier Deliveries (NSA)	51.0	56.0	49.0	52.0	51.3	49.5
Prices	77.0	72.1	70.8	73.3	71.7	64.3

Source: Institute for Supply Management