

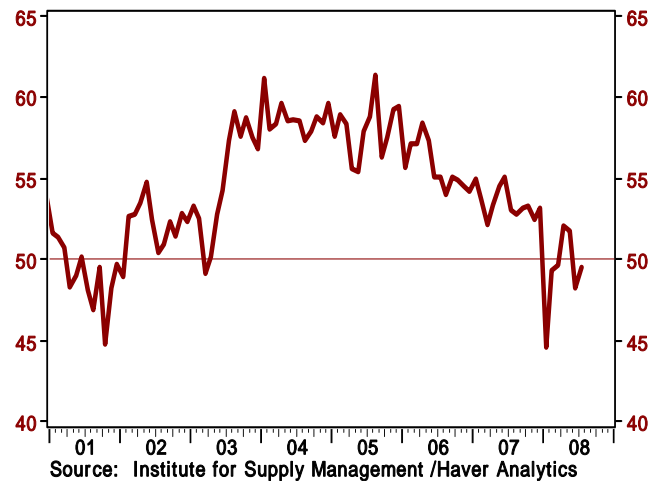
JULY ISM NON-MANUFACTURING INDEX

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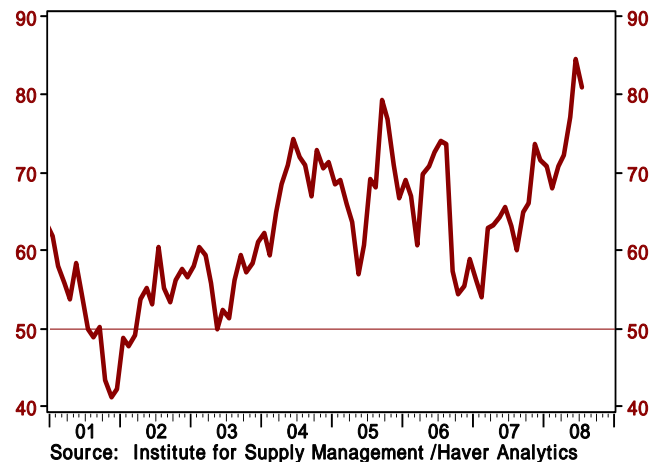
- The ISM non-manufacturing composite index increased to 49.5 in July from 48.2 in June. The consensus expected a smaller increase to 48.8. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The components of the composite index were mixed. The indexes for employment, supplier deliveries and the backlog of orders increased. The indexes for business activity, exports, and new orders declined.
- The prices paid index declined to a still extremely elevated 80.8 in July, the second highest on record (dating back to 1997). For comparison, in the immediate aftermath of Hurricanes Katrina/Rita in 2005 the prices paid index hit 79.3.

Implications: The ISM index for the service sector rebounded last month after a dip in June. However, the survey is still picking up a general softness in economic confidence. The recent weakness in the index is very similar to the weakness that occurred in 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 erosions in optimism about the overall economy. As a result, the results of the survey should be treated like the consumer confidence figures, which have been weaker than the underlying strength in the economy. Meanwhile, the prices paid index is still at a very elevated level, confirming higher inflation. Later today the Federal Reserve will issue a statement on the stance of monetary policy. We do not expect any changes today; the federal funds rate will stay at 2%. However, we expect higher inflation to force the Fed to start raising rates before the end of 2008, likely at the meeting in late October.

ISM Nonmanufacturing: 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>	Jul-08	Jun-08	May-08	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	49.5	48.2	51.7	49.8	50.1	53.1
Business Activity	49.6	49.9	53.6	51.0	51.2	55.9
New Orders	47.9	48.6	53.6	50.0	50.0	53.1
Employment	47.1	43.8	48.7	46.5	47.4	51.9
Supplier Deliveries (NSA)	53.5	50.5	51.0	51.7	51.7	51.5
Prices	80.8	84.5	77.0	80.8	75.5	63.1

Source: Institute for Supply Management