JANUARY ISM NON-MANUFACTURING INDEX

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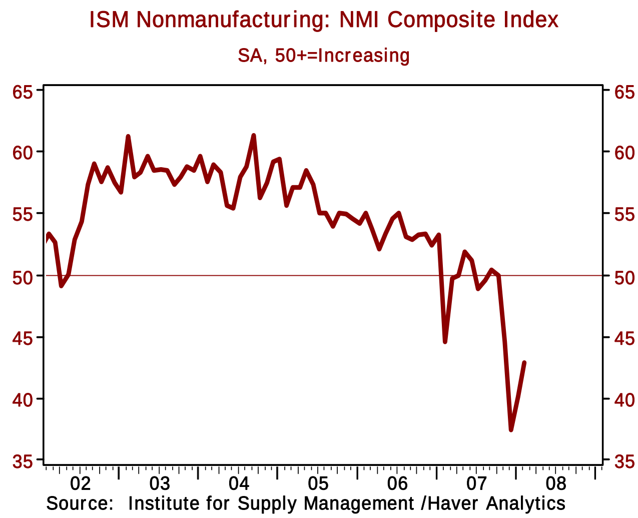
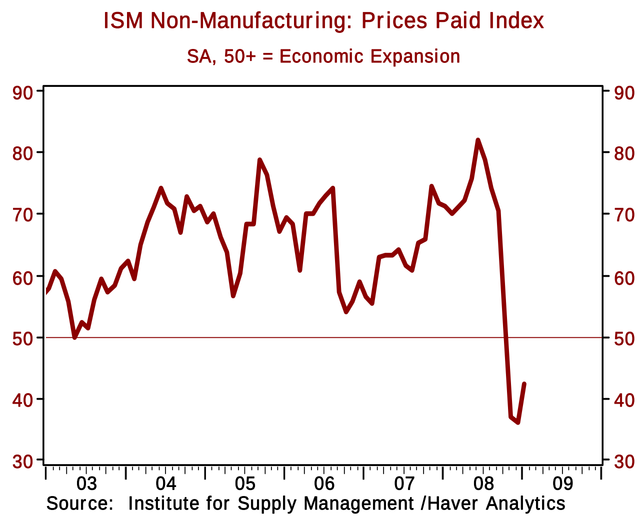
- The ISM non-manufacturing composite index increased to 42.9 in January from 40.1 in December, beating a consensus expected decline to 39.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Most of the major components of the composite index increased in January. The business activity index rose to 44.2 from 38.9 in December, the new orders index increased to 41.6 from 38.9, the supplier deliveries index rose to 51.5 from 48.0, but the employment index ticked down slightly to 34.4 from 34.5.
- The prices paid index increased to 42.5 in December, rebounding from its record low last month.

Implications: The ISM non-manufacturing index increased for the second straight month in January, beating a consensus expected decline. Although there is still plenty of negative data on the economy, today's report adds to a pool of releases that are coming in better than expected, including the ISM Manufacturing index for January (up to 35.6 versus a consensus expected 32.5) and pending home sales in December (up 6.3% versus an expected 0.0%). These indicators, along with rising Treasury yields and a falling TED spread (the gap between the 3-month LIBOR rate and the yield on 3-month Treasuries) show that the fear experienced during the last few months of 2008 is abating. In other news, automakers announced yesterday that total light vehicles (cars and light trucks) were sold at a 9.6 million annual rate in January, 38% below a year ago and the slowest pace since 1982, when there were about 1/3 fewer cars on the road. The replacement rate for autos (how long it would take to replace all the autos now on the road, given the current pace of sales) is now at 25 years, versus a long-term average of about 13 years and 16.3 years at the worst of the 1981-82 recession. A 25 year replacement rate is unsustainably long and we expect auto sales to increase in the months ahead. Also in other news, the ADP Employment index, a forecast of private sector payrolls, fell 522,000 in January, in-line with consensus expectations.





Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Jan-09	Dec-08	Nov-08	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**42.9**	40.1	37.4	40.1	44.2	44.6
Business Activity	**44.2**	38.9	33.3	38.8	43.9	41.6
New Orders	**41.6**	38.9	35.6	38.7	43.4	44.2
Employment	**34.4**	34.5	31.1	33.3	38.6	43.5
Supplier Deliveries (NSA)	**51.5**	48.0	49.5	49.7	51.0	49.0
Prices	**42.5**	36.1	37.0	38.5	52.3	71.2

Source: Institute for Supply Management