

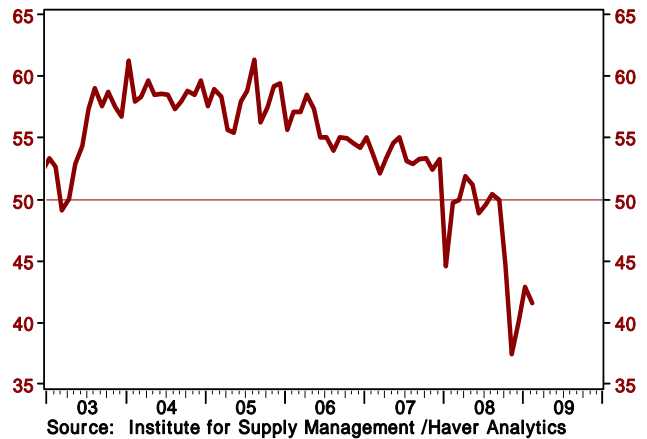
FEBRUARY ISM NON-MANUFACTURING INDEX

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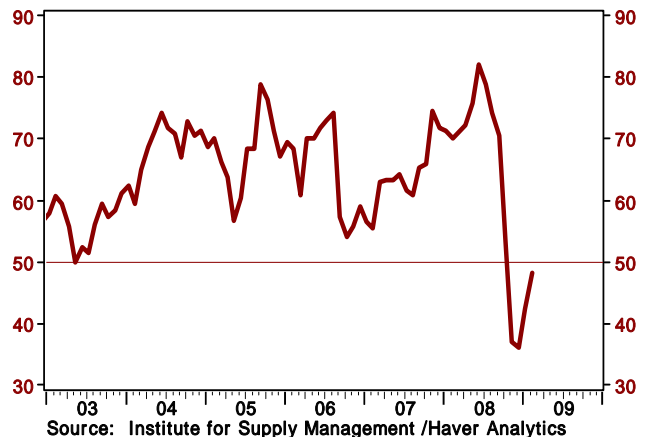
- The ISM Non-Manufacturing composite index declined to 41.6 in February from 42.9 in January. The consensus expected level was 41.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Most, but not all, of the major components of the composite index were down in February. The business activity index decreased to 40.2 from 44.2 in January and the new orders index decreased to 40.7 from 41.6. The employment index increased to 37.3 from 34.4.
- The prices paid index increased to 48.1 in February from 42.5 in January, continuing the bounce from the record low in December of 36.1.

Implications: The ISM Non-Manufacturing index declined in February, although, like the ISM Manufacturing report on Monday, it beat the consensus expected level. This suggests the recession continues but is starting to lose some intensity. Perhaps the best news in today's report is that the prices paid index, which had been at a record high in mid-2008 before hitting a record low at the end of 2008, has now rebounded to a level very close to 50, signaling we are very close to price stability in the service sector. This undermines the notion that we are on the verge of some sort of Depression-like downward spiral in prices. In other news, automakers announced late yesterday that total light vehicles (cars and light trucks) were sold at a 9.12 million annual rate in February, down 4.7% versus January and down 41% from a year ago. 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 over 26 years, versus a long-term average of about 13-14 years. Unless Americans are willing to drive autos for an average of two and a half decades, the extremely low level of vehicle sales cannot be sustained. Also in other news, the ADP Employment index, a forecast of private sector payrolls, fell 697,000 in February. Plugging this into our models suggests the Labor Department will report on Friday that total payrolls declined about 620,000.

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>	Feb-09	Jan-09	Dec-08	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	41.6	42.9	40.1	41.5	42.8	49.7
Business Activity	40.2	44.2	38.9	41.1	42.1	51.0
New Orders	40.7	41.6	38.9	40.4	42.0	50.5
Employment	37.3	34.4	34.5	35.4	37.2	47.1
Supplier Deliveries (NSA)	48.0	51.5	48.0	49.2	49.8	50.0
Prices	48.1	42.5	36.1	42.2	47.9	70.1

Source: Institute for Supply Management