

AUGUST ISM NON-MANUFACTURING INDEX

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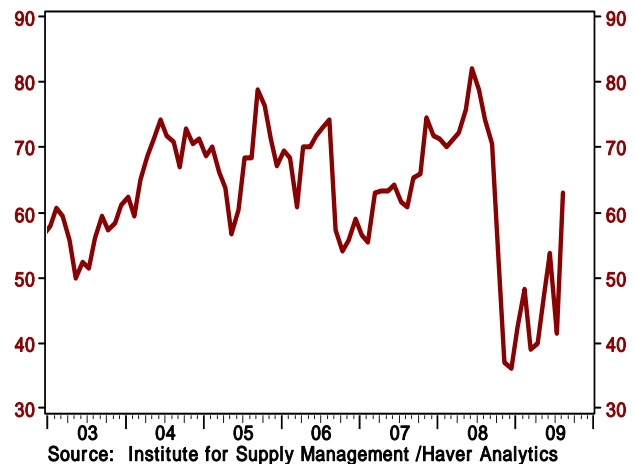
- The ISM Non-Manufacturing composite index increased to 48.4 in August from 46.4 in July, better than the consensus expected increase to 48.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major components of the composite index mostly increased in August. The business activity index rose substantially, the new orders and employment indexes also increased, but the supplier deliveries index declined slightly.
- The prices paid index increased to 63.1 in August from 41.3 in July, a record one-month gain.

Implications: For the first time since September 2008, the ISM index shows *business activity* in the service sector is increasing. So far, the recovery in the overall economy has been stronger in the manufacturing sector than the service sector, in large part due to production increases by auto makers. However, we believe the service sector recovery will gradually catch up over the course of the next several months. According to the Institute for Supply Management, which calculates the ISM index, the strongest service-sector growth in August was in real estate, health/social assistance, transportation/warehousing, utilities, hotels/restaurants, and information. Meanwhile, on the inflation front, the prices paid index increased to 63.1 in August from 41.3 in July, the largest monthly increase ever recorded in the survey's 12-year history. This suggests inflation is not dead and is starting to percolate as we are seeing monetary velocity revive. We believe inflation will become a growing concern in the economy as the "V"-shaped recovery continues. With each passing month, the Fed's target interest rate of near 0% becomes more and more inflationary. In other news this morning, initial claims for unemployment fell 4,000 last week to 570,000. Continuing claims for jobless benefits increased 92,000 to 6.23 million.

ISM Nonmanufacturing: NMI Composite Index
SA, 50+=Increasing



ISM: Nonmfg: Prices Index
SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Aug-09	Jul-09	Jun-09	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	48.4	46.4	47.0	47.3	45.1	50.4
Business Activity	51.3	46.1	49.8	49.1	46.5	50.8
New Orders	49.9	48.1	48.6	48.9	46.1	49.5
Employment	43.5	41.5	43.4	42.8	39.5	45.6
Supplier Deliveries (NSA)	49.0	50.0	46.0	48.3	48.1	55.5
Prices	63.1	41.3	53.7	52.7	47.4	74.1

Source: Institute for Supply Management

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