

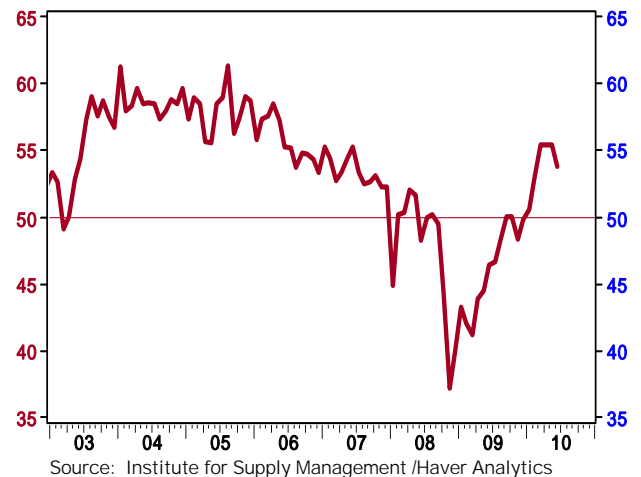
# JUNE ISM NON-MANUFACTURING INDEX

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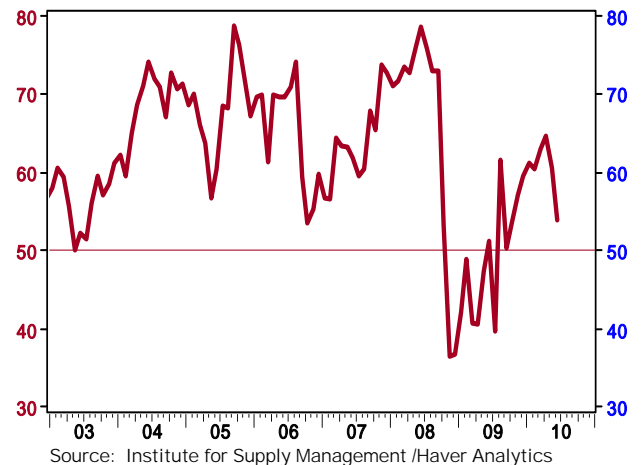
- The ISM Non-Manufacturing composite index fell to 53.8 in June from 55.4 in May. The consensus expected 55.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were down in June but most still at levels indicating economic growth. The business activity index declined to 58.1 from 61.1 and the new orders index fell to 54.4 from 57.1. The employment index slipped to 49.7 from 50.4. The supplier deliveries index remained unchanged at 53.0.
- The prices paid index declined to 53.8 in June from 60.6 in May.

**Implications:** The ISM Services index declined in June, the first drop in seven months. Despite this, the index remains at a level consistent with healthy economic growth. With the recent correction in the stock market, as well as rampant economic pessimism lately, it is important to remember that the headline ISM Services index can capture sentiment more than real economic activity. The business activity index, which has an even stronger statistical link with real GDP growth than the overall index, came in at 58.1 in June, a drop from May but still substantially ahead of the headline index. The recent gap between the activity index and the overall headline index is similar to 2003-04, when the economy consistently outperformed downbeat expectations. While the new orders index fell in May, it remains well above 50 as well, more evidence that the future prospects for the services sector remain strong. On the inflation front, the prices paid index dropped to 53.8, signaling upward price pressure but not as much as in previous months. Easy money has yet to catch up to the Federal Reserve and it looks like consumer prices will be up around 2% this year. Next year, we anticipate that consumer prices will be up 3.5% as artificially low interest rates generate higher inflation.

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>	Jun-10	May-10	Apr-10	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>53.8</b>	55.4	55.4	54.9	53.9	46.4
<b>Business Activity</b>	<b>58.1</b>	61.1	60.3	59.8	57.8	48.8
<b>New Orders</b>	<b>54.4</b>	57.1	58.2	56.6	57.0	48.4
<b>Employment</b>	<b>49.7</b>	50.4	49.5	49.9	48.8	42.2
<b>Supplier Deliveries (NSA)</b>	<b>53.0</b>	53.0	53.5	53.2	52.2	46.0
<b>Prices</b>	<b>53.8</b>	60.6	64.7	59.7	60.6	51.2

Source: Institute for Supply Management