

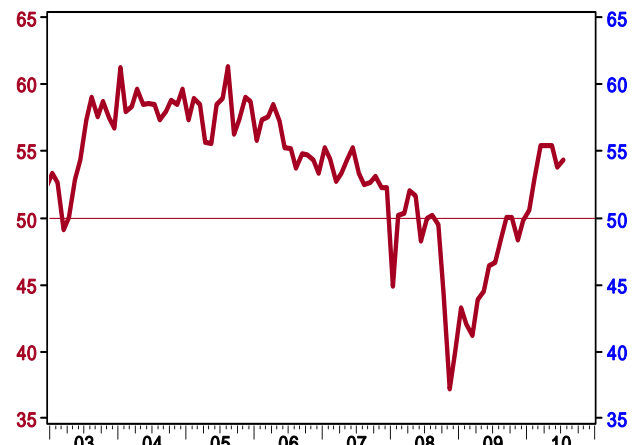
JULY ISM NON-MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The ISM Non-Manufacturing composite index rose to 54.3 in July from 53.8 in June. The consensus expected 53.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mixed in July but all at levels indicating economic growth. The business activity index declined to 57.4 from 58.1 and the new orders index rose to 56.7 from 54.4. The employment index rose to 50.9 from 49.7. The supplier deliveries index fell to 52.0 from 53.0.
- The prices paid index declined to 52.7 in July from 53.8 in June.

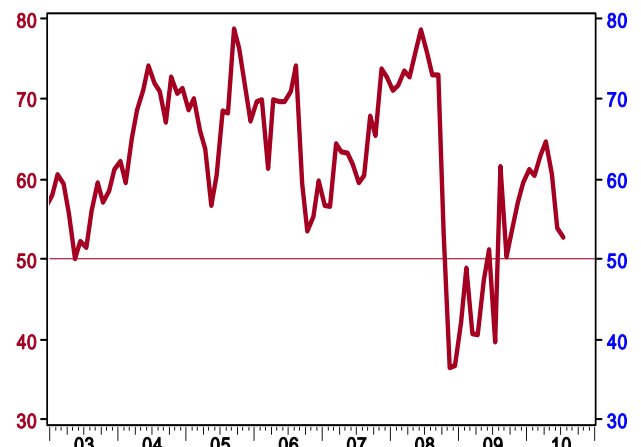
Implications: After a slight decline in June, the ISM non-manufacturing index rebounded in July, coming in above consensus expectations. The business activity index, which has an even stronger statistical link with real GDP growth than the overall index, fell slightly to a still robust 57.4 in July. The recent gap between the activity index and the overall headline index is similar to 2003-04, when the economy consistently outperformed downbeat expectations. The new orders index rose in July, and remains well above 50, more evidence that the future prospects for the services sector remain strong. On the inflation front, the prices paid index dropped to 52.7, still signaling upward price pressure but much less than in previous months. Easy money from the Federal Reserve has yet to show up in prices in the services sector, but we expect inflation to accelerate beginning next year. In other news this morning, the ADP National Employment index, a measure of private-sector payrolls, increased 42,000 in July, more than the consensus expected. In other recent economic news, auto sales were very strong in July, climbing 8.8% versus June. Remarkably, July sales were 7.3% higher than a year ago, when the government was paying “cash” for clunkers. We expect overall retail sales to rebound strongly in July after slowing in the spring. Housing is in the early stages of the same kind of dip and then rebound. Pending home sales – contracts to buy existing homes – declined 30% in May and another 2.6% in June as the tax-credit expired. This points to a sharp drop in existing home sales in July and perhaps again in August. But after this post tax-credit dip, like autos, housing should rebound nicely.

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



Source: Institute for Supply Management /Haver Analytics

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



Source: Institute for Supply Management /Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-10	Jun-10	May-10	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	54.3	53.8	55.4	54.5	54.6	46.7
Business Activity	57.4	58.1	61.1	58.9	58.6	47.0
New Orders	56.7	54.4	57.1	56.1	57.3	48.6
Employment	50.9	49.7	50.4	50.3	49.8	41.3
Supplier Deliveries (NSA)	52.0	53.0	53.0	52.7	52.4	50.0
Prices	52.7	53.8	60.6	55.7	59.2	39.7

Source: Institute for Supply Management