

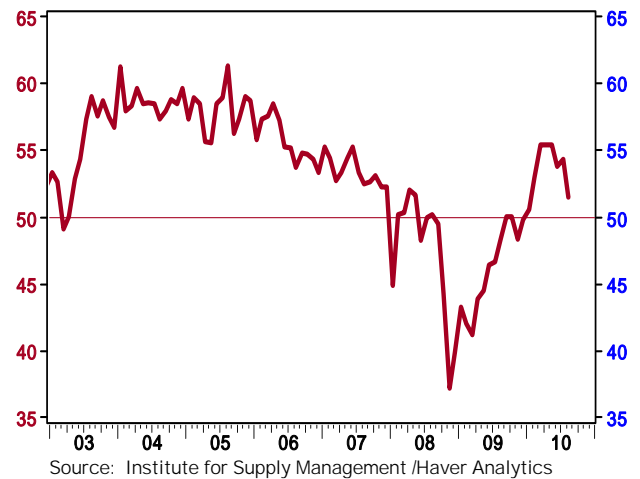
AUGUST ISM NON-MANUFACTURING INDEX

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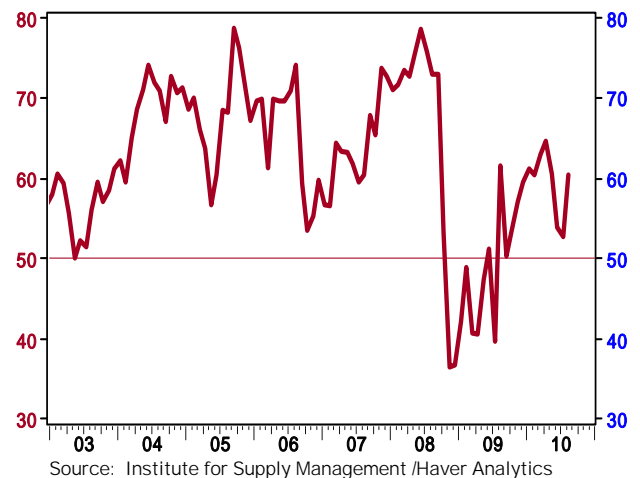
- The ISM Non-Manufacturing composite index fell to 51.5 in August from 54.3 in July. The consensus expected 53.2. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were all down in August, but most remain at levels indicating economic growth. The business activity index declined to 54.4 from 57.4 while the new orders index fell to 52.4 from 56.7. The employment index declined to 48.2 from 50.9. The supplier deliveries index fell to 51.0 from 52.0.
- The prices paid index jumped to 60.3 in August from 52.7 in July.

Implications: After July’s increase, the ISM non-manufacturing index declined in August, coming in below the consensus expected dip to 53.2. Yet the overall index remains above the critical 50 level, indicating the service sector of the economy is still growing, albeit at a slower pace than the last few months. With economic pessimism as rampant as ever and equities having dropped in August, today’s report may have been influenced more by sentiment than real economic activity, as is often the case. The sub-indexes of the report were also down from last month, but still show continued economic growth. In particular, the business activity index, which has an even stronger statistical link with real GDP growth than the overall index, fell to a still healthy 54.4 in August from 57.4 in July. On the inflation front, the prices paid index leaped higher to 60.3, signaling upward price pressure similar to the levels seen earlier this year. While higher prices are not showing up as much in the government’s measures of inflation, its clear that businesses, both in manufacturing and services, are feeling upward price pressure. With easy money from the Federal Reserve, we expect inflation to accelerate beginning next year.

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-10 | Jul-10 | Jun-10 | 3-month <i>moving avg</i> | 6-month <i>moving avg</i> | Year-ago <i>level</i> |
|--|-------------|--------|--------|------------------------------|------------------------------|--------------------------|
| Composite Index | 51.5 | 54.3 | 53.8 | 53.2 | 54.3 | 48.2 |
| Business Activity | 54.4 | 57.4 | 58.1 | 56.6 | 58.6 | 50.9 |
| New Orders | 52.4 | 56.7 | 54.4 | 54.5 | 56.9 | 50.0 |
| Employment | 48.2 | 50.9 | 49.7 | 49.6 | 49.8 | 42.8 |
| Supplier Deliveries (NSA) | 51.0 | 52.0 | 53.0 | 52.0 | 52.0 | 49.0 |
| Prices | 60.3 | 52.7 | 53.8 | 55.6 | 59.2 | 61.5 |

Source: Institute for Supply Management