

APRIL ISM NON-MANUFACTURING INDEX

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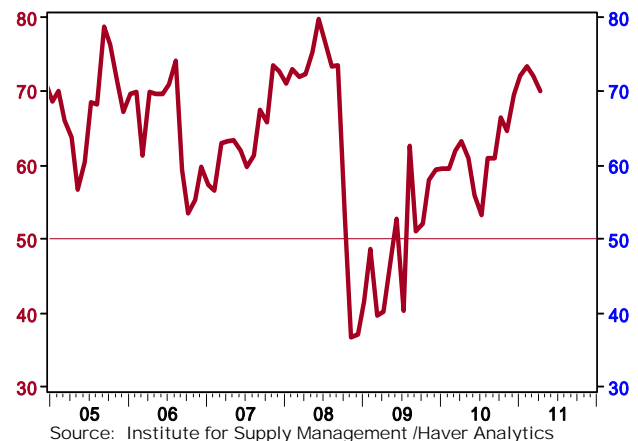
- The ISM non-manufacturing composite index declined to 52.8 in April from 57.3 in March, much weaker than the consensus expected tick up to 57.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Most key sub-indexes were lower in April than in March, but all remain at levels indicating economic growth. The business activity index declined to 53.7 from 59.7 and the employment index slipped to 51.9 from 53.7, while the new orders index fell to 52.7 from 64.1. The supplier deliveries index rose to 53.0 from 51.5 last month.
- The prices paid index dropped to a still high 70.1 in April from 72.1 in March.

Implications: Today's ISM services report fell short of expectations for the second month in a row. However, 17 out of 18 industries in the survey showed expansion and at 52.8 the overall index signals that the service sector of the economy is still expanding. Most sub-indexes also fell in April when compared to March but remain solidly above 50. On the inflation front, the prices paid index fell to a still very high 70.1 from 72.1. This measure of price inflation will likely remain high, and may move even higher due to the Federal Reserve's loose monetary policy stance. With no end in sight to easy money, inflation will continue to be a thorn in the side of both the manufacturing and service sectors of the economy. The ISM services index often moves based on sentiment rather than actual changes to economic activity. We believe the freakish tornado activity in the Midwest and South in April may have influenced the number last month since today's report seems inconsistent with other data we have on the economy. In other news this morning, the ADP employment index, a measure of private sector payrolls, increased 179,000 in April. We think the official Labor Department report, out Friday morning, will show a private sector gain of about 210,000. Late yesterday, automakers reported that Americans bought cars and light trucks at a 13.2 million annual rate in April, up 0.5% from March and better than the consensus expected 13.0 million rate. Auto sales are up 17% versus a year ago. We expect retail sales in April will come in stronger than the consensus expected 0.5% gain.

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>	Apr-11	Mar-11	Feb-11	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	52.8	57.3	59.7	56.6	57.1	54.6
Business Activity	53.7	59.7	66.9	60.1	61.2	58.9
New Orders	52.7	64.1	64.4	60.4	61.0	57.3
Employment	51.9	53.7	55.6	53.7	53.7	48.7
Supplier Deliveries (NSA)	53.0	51.5	52.0	52.2	52.3	53.5
Prices	70.1	72.1	73.3	71.8	70.3	63.1

Source: Institute for Supply Management