

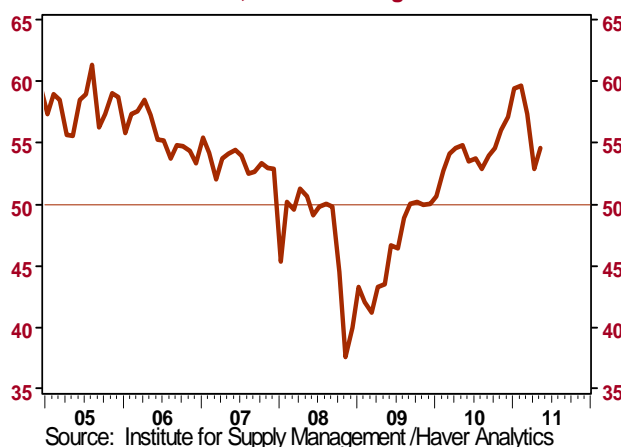
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May ISM Non-Manufacturing Index

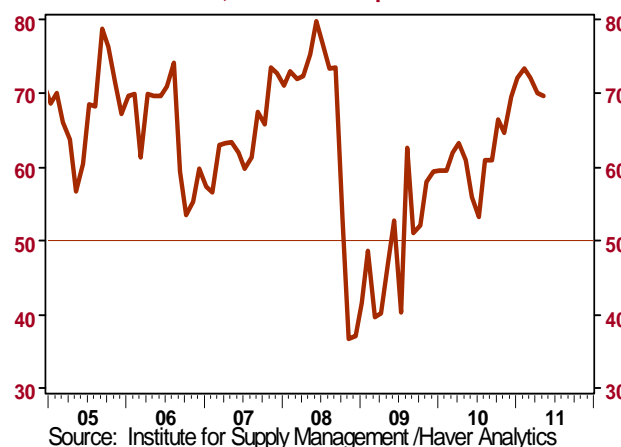
- The ISM non-manufacturing composite index increased to 54.6 in May from 52.8 in April, beating the consensus expected gain to 54.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mostly higher in May and all remain at levels indicating economic growth. The business activity index declined very slightly to 53.6 from 53.7, but the employment index rose to 54.0 from 51.9 and the new orders index increased to 56.8 from 52.7. The supplier deliveries index rose to 54.0 from 53.0 last month.
- The prices paid index dipped to a still high 69.6 in May from 70.1 in April.

Implications: Don't let the Pouting Pundits of Pessimism get you down. Special factors (such as tornadoes and tsunamis) have had a negative impact on the economy, especially the auto sector. However, the non-manufacturing sector, which is much larger, is moving through the danger-zone in better shape. The ISM services report rose in May (after a drop in April), beating expectations and reflecting continued growth in the economy. Most sub-indexes increased in May, including employment and new orders. More importantly, all the key sub-indexes remain above 50, signaling economic expansion. We view the drop in April and rebound in May as an indication of the "soft patch" and the beginning of a recovery from it. This rebound will continue to play out over the next few months. On the inflation front, the prices paid index dipped to a still very high 69.6. 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.

ISM Nonmanufacturing: Composite Index
 SA, 50+=Increasing



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-11	Apr-11	Mar-11	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	54.6	52.8	57.3	54.9	56.8	54.8
Business Activity	53.6	53.7	59.7	55.7	60.2	60.0
New Orders	56.8	52.7	64.1	57.9	60.7	56.7
Employment	54.0	51.9	53.7	53.2	53.7	49.4
Supplier Deliveries (NSA)	54.0	53.0	51.5	52.8	52.6	53.0
Prices	69.6	70.1	72.1	70.6	71.1	61.0

Source: Institute for Supply Management