

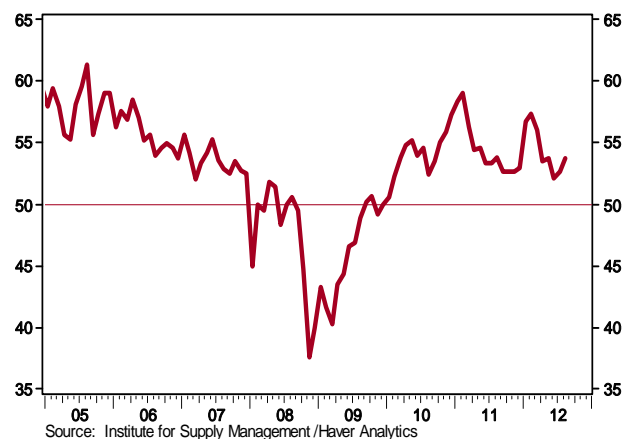
August ISM Non-Manufacturing Index

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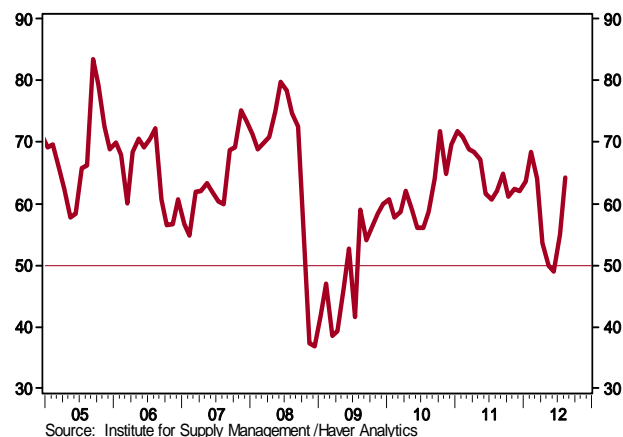
- The ISM non-manufacturing index increased to 53.7 in August, easily beating the consensus expected 52.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The direction of the key sub-indexes was mixed in August but all were above 50. The supplier deliveries index gained to 51.5 from 49.5 and the employment index rose to 53.8 from 49.3. The business activity index declined to 55.6 in August from 57.2 and the new orders index fell to 53.7 from 54.3.
- The prices paid index rose to 64.3 in August from 54.9 in July.

Implications: Solid news on the economy coming from multiple reports today. After hitting some clay in the second quarter, the plow horse economy looks to have picked up a little speed in Q3. The ISM services index came in higher than the consensus expected in August, signaling a combination of some acceleration in that sector and an abatement of negative sentiment regarding Europe. The sub-index for business activity – which has a stronger correlation with economic growth than the overall index – remains at a healthy 55.6 and the employment sub-index rose to 53.8 after slipping below 50 in July, great news. This is consistent with reports on the labor market out today (mentioned below). On the inflation front, the prices paid index rose to 64.3 and is consistent with our view that the recent lull in inflation is temporary given the loose stance of monetary policy. In other news this morning, the ADP Employment index, a measure of private-sector payrolls, increased 201,000 in August, the largest gain in 2012. Initial claims for unemployment insurance dropped 12,000 last week to 365,000, while continuing claims for regular state benefits declined 6,000 to 3.32 million. Based on these figures, as well as the Intuit small business report, we are revising our final forecast for tomorrow’s official payroll report to 130,000, both nonfarm and private. The unemployment rate should hold at 8.3%.

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-12 | Jul-12 | Jun-12 | 3-month moving avg | 6-month moving avg | Year-ago level |
|--|--------|--------|--------|-----------------------|-----------------------|-------------------|
| Composite Index | 53.7 | 52.6 | 52.1 | 52.8 | 53.6 | 53.8 |
| Business Activity | 55.6 | 57.2 | 51.7 | 54.8 | 55.6 | 56.4 |
| New Orders | 53.7 | 54.3 | 53.3 | 53.8 | 54.9 | 53.6 |
| Employment | 53.8 | 49.3 | 52.3 | 51.8 | 52.9 | 52.2 |
| Supplier Deliveries (NSA) | 51.5 | 49.5 | 51.0 | 50.7 | 51.0 | 53.0 |
| Prices | 64.3 | 54.9 | 48.9 | 56.0 | 55.9 | 62.1 |

Source: Institute for Supply Management