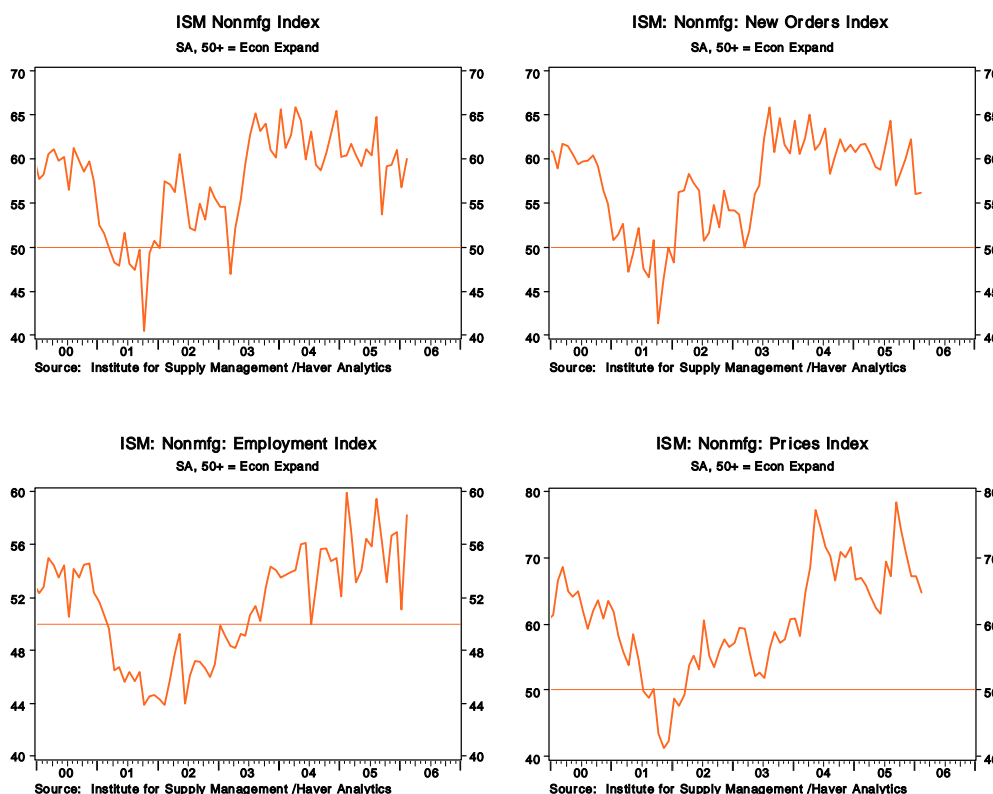


## FEBRUARY ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer rose to 60.1 in February versus 56.8 in January. Ten of the 17 industry groups surveyed reported growth in February compared to just eight in January. The new orders component inched higher to 56.2 last month versus 56.0 in January.
- The employment component jumped to 58.2 last month, the 32<sup>nd</sup> consecutive month above 50. The employment index was 51.1 in January.
- The prices paid component continued to ease, pulling back to 64.8 last month versus 67.2 in January. While the price component has fallen in four out of the last five months, it remains well above 50 and continues to suggest rising prices in the service sector.



**Implications:** The ISM non-manufacturing index joins a growing list of economic data that points to robust growth in the first quarter. The highlight from the report was a jump in the employment component to a six month high. Employment data has noticeably improved in the early part of 2006. Initial claims for unemployment benefits have been below 300,000 for seven consecutive weeks and the total number of people receiving unemployment benefits has fallen to a five-year low. Moreover, the CEO Economic Outlook Survey's employment component is at an all-time high (data goes back to 2002). As a result, we expect non-farm payrolls added 250,000 jobs in February and the unemployment rate to stay at a post-recession low of 4.7%. Widespread economic strength has caused the labor market to tighten considerably over the past few months and conditions for continued Fed tightening remain firmly in place. The bond market seems to be coming to grips with this reality as the 10-year Treasury yield rose to 4.69% in intraday trading today – the highest yield since the Fed began hiking rates in June 2004.

Non-Manufacturing ISM Index <i>seasonally adjusted unless indicated</i>	Feb-06	Jan-06	Dec-05	3-mo <i>moving avg</i>	6-mo <i>moving avg</i>	Yr ago <i>level</i>
<b>Business Barometer</b>	60.1	56.8	61.0	59.3	58.4	60.4
<b>New Orders</b>	56.2	56.0	62.2	58.1	58.3	61.6
<b>Employment</b>	58.2	51.1	56.9	55.4	55.4	59.9
<b>Prices</b>	64.8	67.2	67.2	66.4	70.4	67.0
<b>Supplier Deliveries</b> (not seasonally adjusted)	52.5	54.5	56.5	54.5	56.4	52.5
<b>Inventory Change</b> (not seasonally adjusted)	53.0	55.0	56.0	54.7	53.0	52.0
<b>Orders Backlog</b> (not seasonally adjusted)	54.0	52.5	54.0	53.5	53.6	51.5
<b>Imports</b> (not seasonally adjusted)	55.0	49.5	56.5	53.7	54.9	57.5

Source: Nat'l Assoc. of Purchasing Management

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