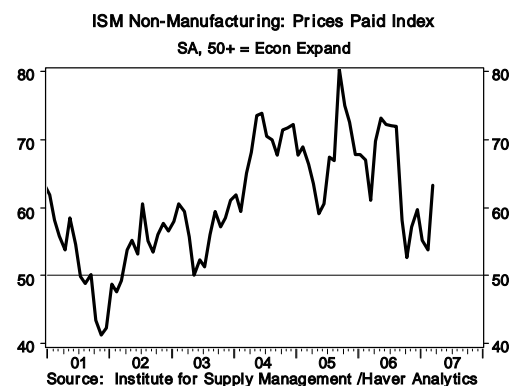
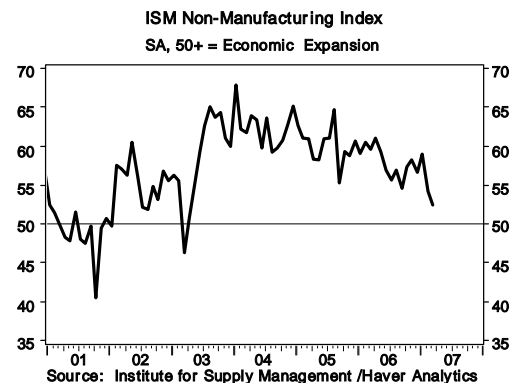


MARCH IS M NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) declined to 52.4 in March from 54.3 in February. The consensus expected a rise to 55.5.
- The new orders index dropped to 53.8 in March from 54.8, although the backlog of orders index increased to 52.5 from 47.0.
- The employment component declined to 50.8 from 52.2.
- The prices paid component jumped to 63.3 in March from 53.8 in February.

Implications: The ISM non-manufacturing index is still above 50 and therefore continues to signal expansion in the largest sector in the economy. However, the index came in lower than expected for the second straight month and appears to be in a decelerating trend, with the most recent reading the lowest since April 2003. In other news out this morning, factory orders for February also came in less than expected, rising 1.0% versus a consensus forecast of 1.8%. We doubt this sluggishness will continue. Tax rates are relatively low, monetary policy is not tight, US labor is cheap relative to its productivity, and consumer net worth is at a record high. These are not the ingredients of a prolonged period of economic weakness. For now, accelerating inflation must remain the top concern. The jump in the ISM non-manufacturing prices paid index was the second largest single-month increase on record, dating back to 1997.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Mar-07	Feb-07	Jan-07	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	52.4	54.3	59.0	55.2	56.4	59.6
New Orders	53.8	54.8	55.4	54.7	55.3	59.3
Employment	50.8	52.2	51.7	51.6	51.9	54.2
Prices	63.3	53.8	55.2	57.4	57.0	61.1
Supplier Deliveries (NSA)	50.0	52.5	53.5	52.0	51.9	54.0
Inventory Change (NSA)	52.0	50.5	47.0	49.8	51.3	54.0
Orders Backlog (NSA)	52.5	47.0	49.0	49.5	50.4	50.5
Imports (NSA)	50.0	54.0	52.0	52.0	55.8	60.5

Source: Institute for Supply Management