Data Watch

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JUNE ISM NON-MANUFACTURING INDEX

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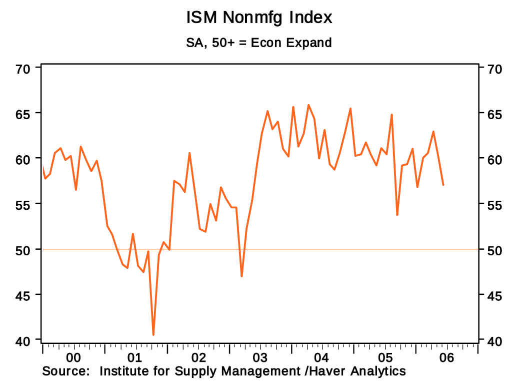
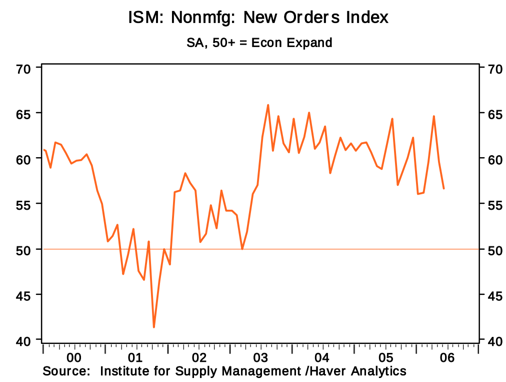
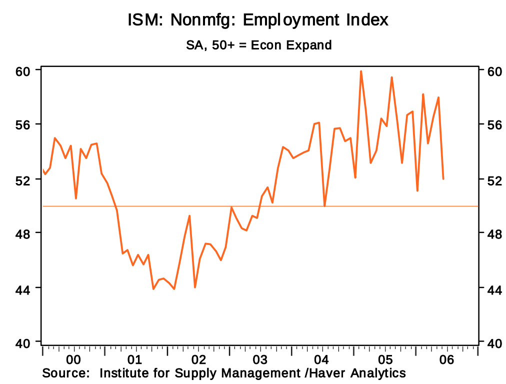
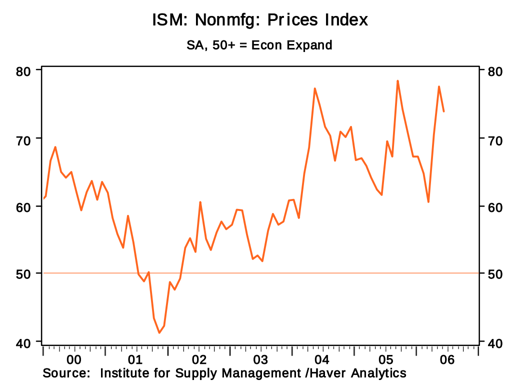
- The ISM non-manufacturing business barometer pulled back to 57.0 in June versus 60.1 in May. Nonetheless, this signals continued robust expansion in the services sector of the economy. While fourteen of the 16 industry groups surveyed reported growth in June, the new orders component retreated to 56.6 last month, the second consecutive monthly decline after reaching a five-year high of 64.6 in April.
- The employment component dipped to 52.0 in June versus 58.0 in May. This is the 36th consecutive month above 50.
- The prices paid component pulled back to 73.9 last month versus 77.5 in May. The price component averaged 74.0 in Q2, the highest quarterly average in the nine year history of the data.









Implications: Although conventional wisdom is convinced that the economy is weakening, there is little in the way of evidence that anything serious is happening. While the ISM non-manufacturing index reported that overall activity, new orders and employment all grew by less in June than in May, activity was still robust. Moreover, all three indexes are above their January levels, the beginning of a boom quarter. This is not to say that we expect growth at this pace in the second half of this year, but only to point out that fears of a slowdown are based on assumptions, not hard data. As we have mentioned in the past, we believe many of these assumptions (i.e. "housing bubble" and "tapped out consumer") are wrong. With tax rates low, productivity booming and the Fed still accommodative, the fundamental drivers of growth remain strong. We expect real GDP to grow at an annualized 4.0% rate in the second half of this year. Separately, initial claims for unemployment benefits fell 2,000 to 313,000 last week. The less volatile four-week moving average is 308,500. A year ago, the four-week moving average was 326,000 leading up to the June 2005 employment report which showed 166,000 new jobs. This gives us additional confidence in our forecast that non-farm payrolls, when reported tomorrow morning, will show that the economy added 195,000 jobs last month.

Non-Manufacturing ISM Index *seasonally adjusted unless indicated*	**Jun-06**	**May-06**	**Apr-06**	**3-mo moving avg**	**6-mo moving avg**	**Yr ago level**
Business Barometer	57.0	60.1	63.0	60.0	59.6	61.1
New Orders	56.6	59.6	64.6	60.3	58.8	58.8
Employment	52.0	58.0	56.5	55.5	55.1	56.4
Prices	73.9	77.5	70.5	74.0	69.1	61.6
Supplier Deliveries ***(not seasonally adjusted)***	56.0	56.5	54.5	55.7	54.7	56.5
Inventory Change ***(not seasonally adjusted)***	51.5	59.0	59.0	56.5	55.3	52.0
Orders Backlog ***(not seasonally adjusted)***	55.5	52.0	54.0	53.8	53.1	52.5
Imports ***(not seasonally adjusted)***	55.5	58.5	57.0	57.0	56.0	58.5

Source: Institute for Supply Management