

## DAILY GLOBAL COMMENTARY

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### ISM Non-Manufacturing Survey – Largely Soft Conditions

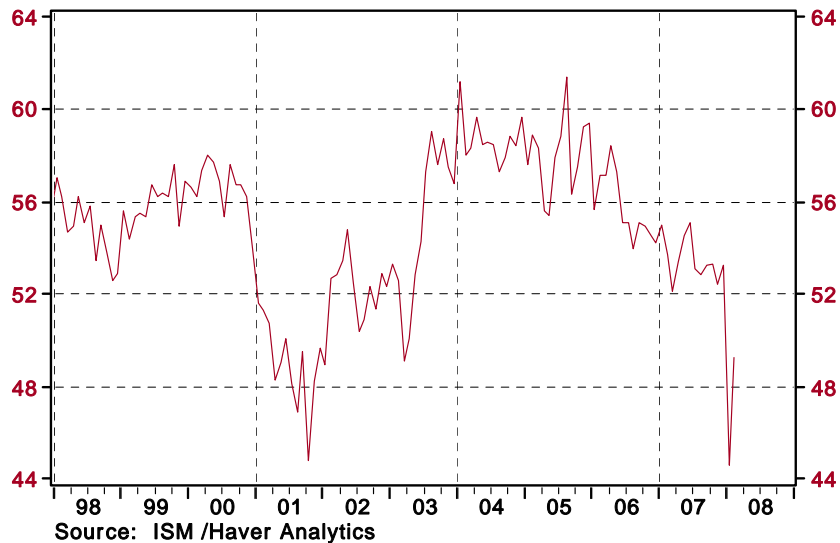
March 5, 2008

The non-manufacturing ISM survey results for February depict largely soft conditions in the service sector. Although the composite index rose to 49.3 in February from 44.6 in the previous month, the level of the index implies that the service sector failed to grow in February. The composite index averaged 53.0 in the fourth quarter of 2007. Indexes tracking employment (46.9 vs. 43.9 in January) and new orders (49.6 vs. 43.5 in January) have held below 50.0 for two consecutive months. The improvement in the business activity index to 50.8 from 41.9 could be a temporary event.

Chart 1

#### ISM Nonmanufacturing: NMI Composite Index

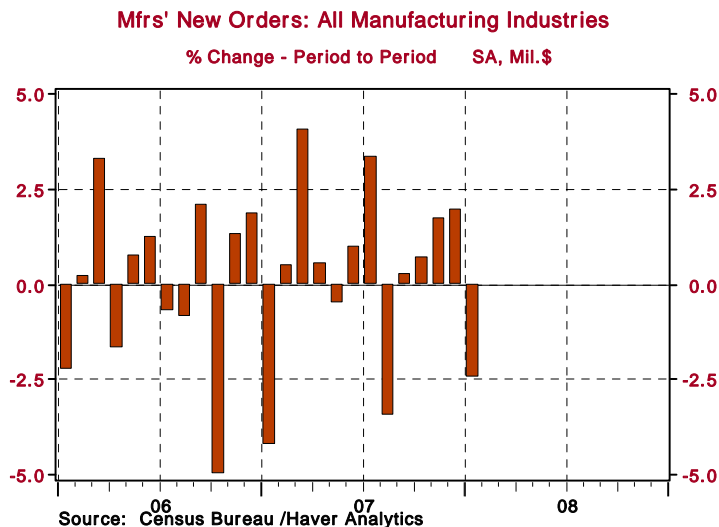
SA, 50+=Increasing



### Factory Orders: Data Present A Picture Than Is Different From Factory Surveys

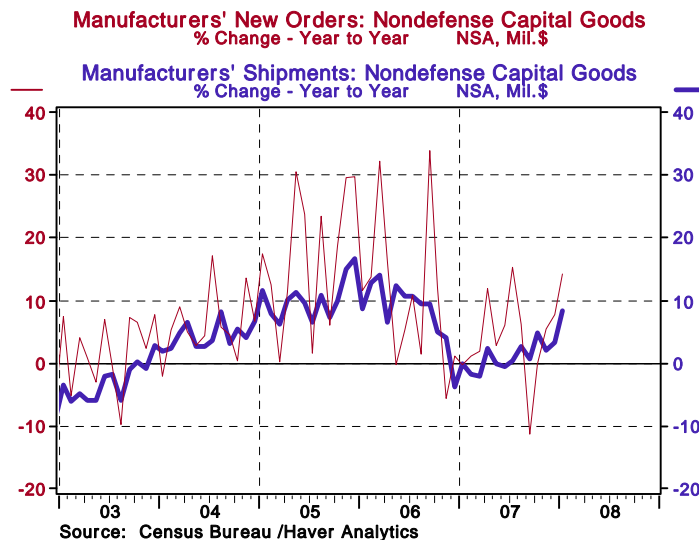
Factory orders fell 2.5% in January, after a 2.0% increase in the previous months. The February decline in bookings of factory goods is the first drop since August 2007.

Chart 2



Orders of durable goods fell 5.1% (revised from the earlier estimate of a 5.3% decline) and bookings of non-durables rose 0.3% in January. The 1.1% increase in shipments of factory orders reflects a 1.9% jump in shipments on non-defense capital goods, which bodes positively for the equipment and software spending component of GDP in the first quarter. The inventory-shipments ratio held steady at 1.24 in January. The inventory-shipments ratio has moved up from its low in the cycle but presents no immediate threat. On a year-to-year basis, shipments (+8.350 and orders (+14.25) of non-defense capital goods excluding aircraft indicate noteworthy gains (see chart 3).

Chart 3



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However, the ISM manufacturing survey for February painted a picture of considerable weakness in new orders, with index holding below 50 for three straight months. The Beige Book, published today, described factory conditions as “subdued” with five out of the twelve Federal Reserve Districts reporting production as “sluggish or falling,” three Districts describing activity as largely varied, and three others noting that conditions were stable, while only St. Louis noted some improvement in factory activity compared with prior reports.

Chart 4



**Factory Orders, Shipments, and Inventories – January 2008**

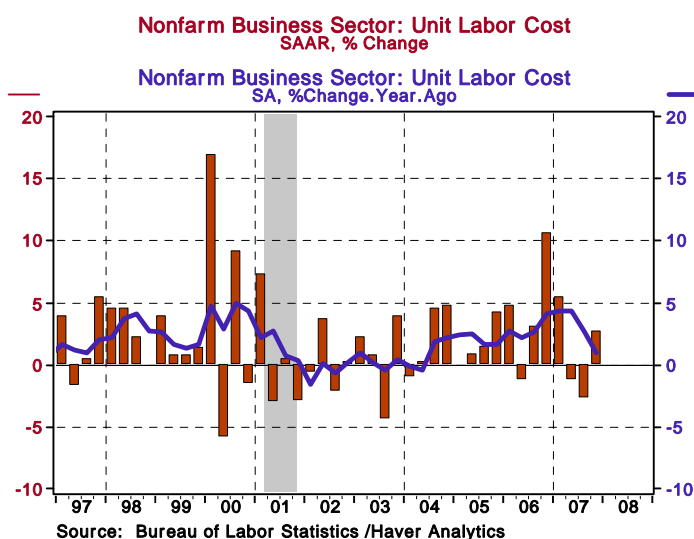
	Aug-2007	Sep-2007	Oct-2007	Nov-2007	Dec-2007	Jan-2008
<b>Factory Orders (% change m-m)</b>						
Total	-3.5	0.3	0.7	1.7	2.0	-2.5
Durable	-5.3	-1.4	-0.5	0.5	4.4	-5.1
Non-Durable	-1.4	2.1	2.0	3.0	-0.4	0.3
<b>Shipments (% change m-m)</b>	-1.7	0.1	1.2	1.3	-0.4	1.1
<b>Inventories (% change m-m)</b>	-0.1	0.6	0.2	0.7	0.9	1.3
<b>Inventories/Shipment Ratio</b>	1.24	1.24	1.23	1.22	1.24	1.24
<b>Unfilled Orders (% change m-m)</b>	1.2	1.1	1.0	1.2	2.5	0.7

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## Productivity and Costs – 2007:Q4 Revised Estimates

Productivity of the U.S economy was revised slightly to a 1.9% increase in the fourth quarter from the earlier estimate of a 1.8% gain. On a year-to-year basis, productivity was left unchanged at a 2.9% increase. The FOMC is watching inflationary signals very closely given the recent upward trend of overall and core inflation. In this regard, unit labor costs moved up 2.6% in the fourth quarter after posting declines in the second and third quarters. On a year-to-year basis, unit labor costs rose only 0.9%, which suggests that inflationary pressures from rising labor costs are not problematic at the present time.

Chart 4



## Productivity and Costs – 2007:Q4

	percent change from previous quarter at annual rate				
	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4
Productivity	1.6	1.0	2.6	6.3	1.9
Output	2.6	0.3	4.2	5.6	0.3
Hours	1.0	-0.6	1.6	-0.6	-1.6
Unit labor costs	10.5	5.4	-1.3	-2.7	2.6
Hourly Compensation	12.3	6.4	1.3	3.4	4.6
Real hourly compensation	14.7	3.1	-3.1	0.6	-0.5
Implicit Price Deflator	0.3	3.6	2.1	0.1	2.0

	percent change from corresponding quarter of previous year				
	2006-Q4	2007-Q1	2007-Q2	2007-Q3	2007-Q4
Productivity	0.9	0.6	0.9	2.9	2.9
Output	2.8	1.5	2.0	3.2	2.6
Hours	1.9	0.9	1.0	0.3	-0.3
Unit labor costs	4.1	4.3	4.3	2.8	0.9
Hourly Compensation	5.0	4.9	5.3	5.8	3.9
Real hourly compensation	3.0	2.6	3.0	3.6	0.0
Implicit Price Deflator	2.2	2.3	1.9	1.5	1.9

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