ISM Services Index Shows Continued Resilience, Price Pressures

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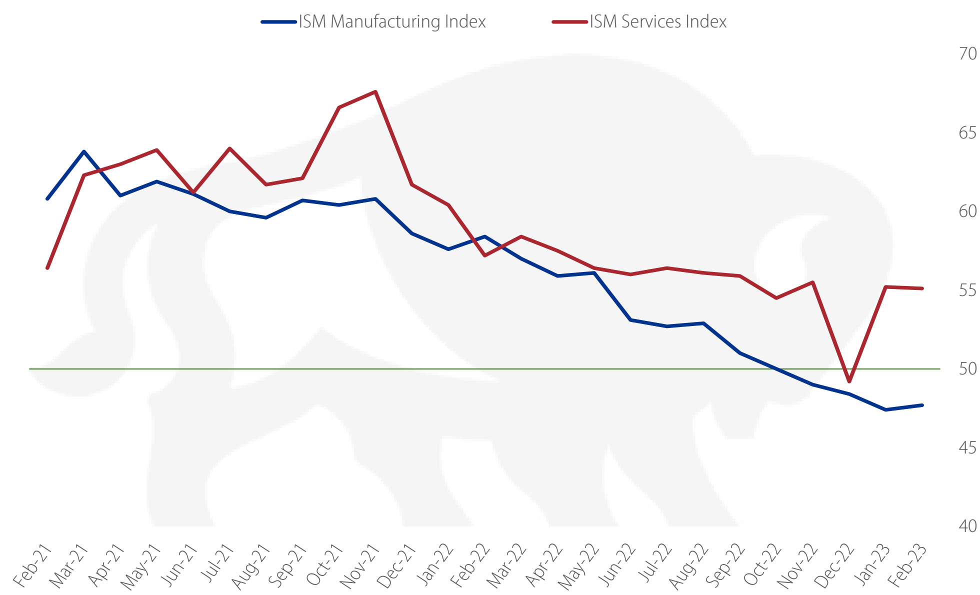
On Wednesday, The Institute for Supply Management's Manufacturing index moderated further in February, sliding to 47.7 and extending its sub-50 contractionary streak to four months. However, the prices paid component increased for the second time in as many months, climbing from 44.5 to 51.3. That rattled markets mid-week as it added to the mounting pile of evidence that the Fed's fight to tame inflation is far from complete.

Steady ISM Purchasing Managers Index



Source: Institute for Supply Management

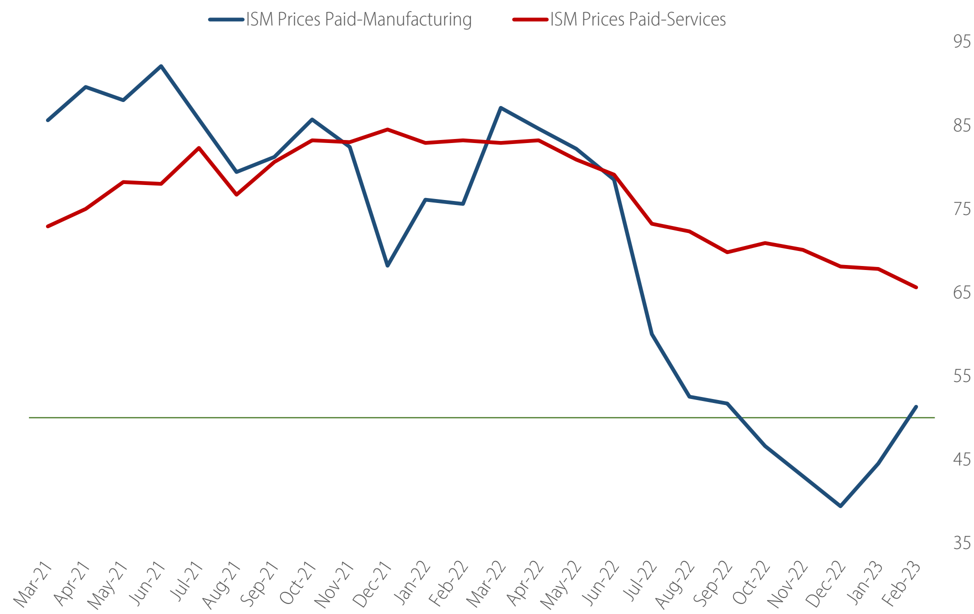
With two straight months north of 55, the service sector's brief foray below 50 in December now appears to have been a fluke.

This morning, ISM's Service Sector index, which has grown more important, displayed resilience in February, dipping slightly to 55.1 from 55.2 in January and maintaining a relatively steady state that is firmly in expansionary territory above the breakeven 50-mark. With two straight months north of 55, the service sector's brief foray below 50 in December now appears to have been a fluke. The key point on the services side is that activity is not slowing much, which is keeping upward pressure on wages and prices. While a few of the sub-components did decline last month, notable increases included new orders rising from 60.4 to 62.6, and employment climbing from 50.0 to 54.0. The prices paid component cooled somewhat, falling from 67.8 to 65.6, but that level shows price pressures remain way too hot.

Financial markets, having spent the last month pricing in an additional 50 basis points of rate hikes, took today's data in stride. The thought being that the expected 5.50% peak fed funds target will prove sufficient to slow the economy. That remains to be seen, but attention now turns to next Friday's employment report.

Please see disclosure starting on page 2

ISM Purchasing Managers Prices Paid Index



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Source: Institute for Supply Management

Market Indications as of 1:02 P.M. Central Time

DOW	Up 279 to 33,282 (HIGH: 36,800)
NASDAQ	Up 190 to 11,653 (HIGH: 16,057)
S&P 500	Up 51 to 4,032 (HIGH: 4,797)
1-Yr T-bill	current yield 5.04%; opening yield 4.97%
2-Yr T-note	current yield 4.87%; opening yield 4.89%
3-Yr T-note	current yield 4.61%; opening yield 4.64%
5-Yr T-note	current yield 4.26%; opening yield 4.32%
10-Yr T-note	current yield 3.97%; opening yield 4.06%
30-Yr T-bond	current yield 3.90%; opening yield 4.00%