Service Sector Continues to Expand in August

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

This morning, the ISM survey of U.S. service managers suggested the largest part of the U.S. economy isn't slowing quite as much as other sectors. The composite services index rose from 51.4 to 51.5 in August, indicating mild expansion (above 50) for the second straight month while providing a dose of optimism amid signs of a softening economy.

The business activity index slipped from 54.5 to 53.0, but continued to indicate *expansion*, while the new orders index increased from 52.4 to 53. Unfortunately, several subindexes pointed to slower future growth. New export orders dropped from 58.5 to 50.9 while order backlogs fell from 50.6 to 43.7.

On Tuesday, the ISM *manufacturing* survey indicated continued sluggishness in the factory sector. The composite manufacturing index rose from 46.8 to 47.2 but remained below the 50 mark (indicating contraction) for the fifth straight month and 21 of the last 22. The current production index fell to its lowest level in over four years, while the new orders index is now at a 15-month low. *This suggests further slowing ahead.*

The employment index rose last month, although many factory managers still report problems finding skilled workers. And despite apparent manufacturing weakness, the prices paid index climbed from 52.9 to 54 as increased numbers of purchasing managers acknowledge higher prices.

In other news from this morning, both weekly initial jobless clams and continuing claims fell as employers are still reluctant to lay workers off even as economic conditions soften.

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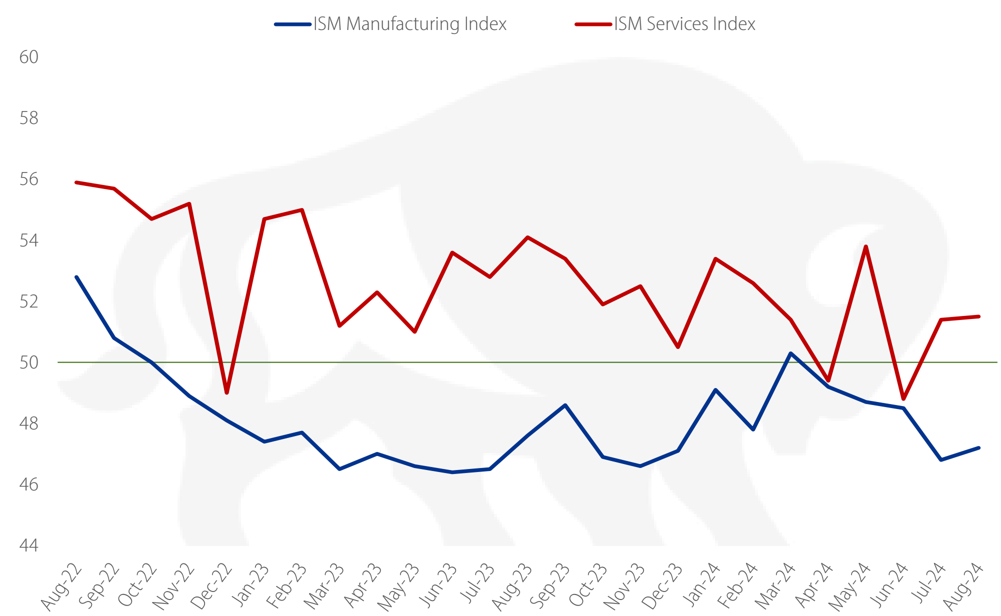
ISM Purchasing Managers Index



Source: Institute for Supply Management

And in yesterday's news, August auto sales came in below forecast at the lowest sales pace since January, while the Fed's August Beige Book showed nine of 12 regions reported flat or declining economic activity.

Bond yields are mostly flat this morning after falling earlier in the week. Most recent economic data has been on the weak side; today's are mixed. Tomorrow morning, the August jobs report will set the tone for the remainder of the month.

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Market Indications as of 9:38 A.M. Central Time

DOW	Down -34 to 40,941 (HIGH: 41,563)
NASDAQ	Up 181 to 17,266 (HIGH: 18,647)
S&P 500	Up 19 to 5,539 (HIGH: 5,667)
1-Yr T-bill	current yield 4.22%; opening yield 4.19%
2-Yr T-note	current yield 3.78%; opening yield 3.75%
3-Yr T-note	current yield 3.64%; opening yield 3.62%
5-Yr T-note	current yield 3.56%; opening yield 3.54%
10-Yr T-note	current yield 3.76%; opening yield 3.75%
30-Yr T-bond	current yield 4.05%; opening yield 4.06%