

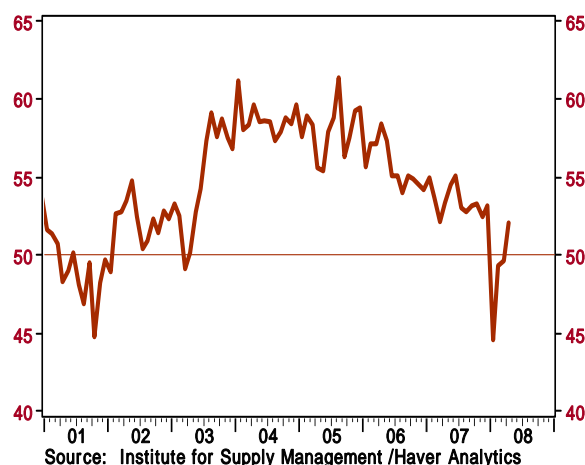
## APRIL ISM NON-MANUFACTURING INDEX

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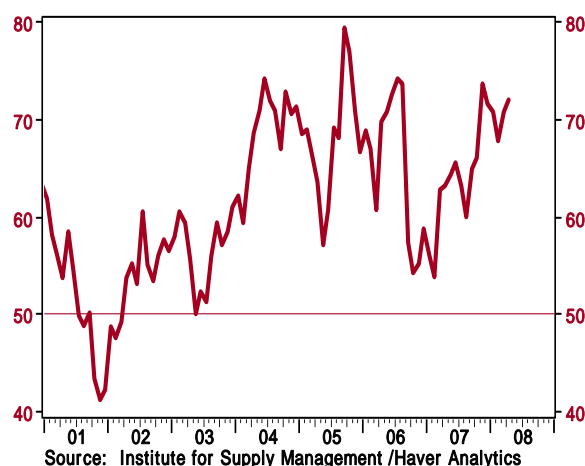
- The ISM non-manufacturing composite index increased to 52.0 in April from 49.6 in March. The consensus expected a decline to 49.1. (Levels above 50 signal expansion; levels below 50 signal contraction).
- The index for supplier deliveries surged in April, to the highest level in almost two years, while the employment index increased to the highest level in four months. The indexes for business activity and new orders both declined but remained above 50, signaling expansion.
- The prices paid index increased to 72.1 in April from 70.8 in March, continuing to signal higher inflation.

**Implications:** When the ISM index for the services sector plummeted in January, we commented that similar drops had occurred in October 2001 (due the terrorist attacks on September 11) and early 2003 (due to the run-up to the Iraq War). Both of these steep downward drops were attributable to sudden erosions in confidence about the overall economy, not an actual decline in activity at the firms being surveyed. We put the drop this January in the same category and expected another rebound. That forecast has now materialized. Today's ISM report adds to the data – such as last week's reports on GDP and employment – that are inconsistent with the US being in recession. Meanwhile, the prices paid index continues to support our view that inflation is a growing problem. The Federal Reserve's rate cut last week was most likely its last of the cycle. Now, the only question is when it will start raising rates. We think it will begin late this year at the December meeting, which is the first meeting following the election in November.

ISM Non-Manufacturing Composite Index  
SA, 50+=Increasing



ISM Non-Manufacturing: Prices Paid Index  
SA, 50+ = Economic Expansion



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Apr-08	Mar-08	Feb-08	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>52.0</b>	49.6	49.3	50.3	50.2	53.4
<b>Business Activity</b>	<b>50.9</b>	52.2	50.8	51.3	50.8	56.0
<b>New Orders</b>	<b>50.1</b>	50.2	49.6	50.0	49.9	54.7
<b>Employment</b>	<b>50.8</b>	46.9	46.9	48.2	48.6	51.9
<b>Supplier Deliveries (NSA)</b>	<b>56.0</b>	49.0	50.0	51.7	51.3	51.0
<b>Prices</b>	<b>72.1</b>	70.8	67.9	70.3	71.1	63.2

Source: Institute for Supply Management

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