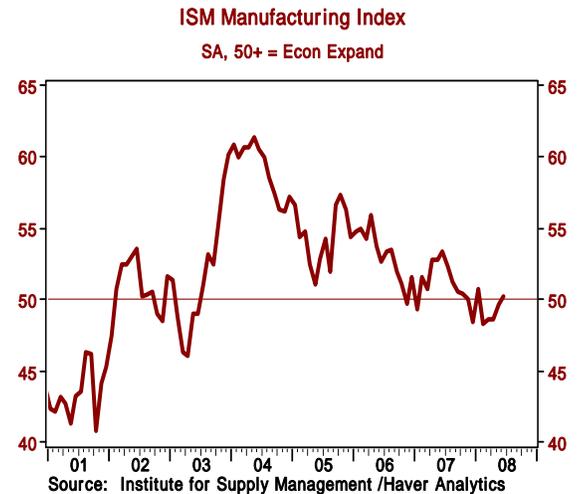


JUNE ISM MANUFACTURING INDEX

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- The ISM Manufacturing index increased to 50.2 in June from 49.6 in May, easily beating the consensus expected drop to 48.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were mixed. Stronger components included the production index, which increased to 51.5 from 51.2, and the backlog of orders index, which increased to 47.5 from 46.0. Weaker components included the new orders index, which ticked down to 49.6 from 49.7, the employment index, which dropped to 43.7 from 45.5, and the new export orders index, which fell to 58.5 from 59.5.
- The prices paid index increased to 91.5, the highest monthly reading since 1979.



Implications: Today’s ISM Manufacturing index is a bullish sign for the US economy. The index came in above 50, indicating expansion in the manufacturing sector, contrasting favorably with the consensus expected decline in the index to 48. We can’t help but notice that this is the sixth month in a row that the index has beat consensus expectations. According to the Institute for Supply Management, which publishes the report, the average index level of 49.5 in Q2 is consistent with a real GDP growth rate of about 2.7%. This supports our forecast that the economy grew at a 2%+ annual rate in the second quarter. Meanwhile, the inflation news continues to get worse. The ISM prices paid index hit 91.5, the highest since 1979. In other news today, construction fell 0.4% in May, which was also better than the consensus expected. The overall drop in construction was all due to new single-family homes, which is nothing new. Private non-residential construction (business structures) increased 0.2% in May and is up 16.6% versus last year. The gain in May was led by hotels and power plants. A healthy rise in government construction was led by college classrooms.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jun-08	May-08	Apr-08	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	50.2	49.6	48.6	49.5	49.3	53.4
New Orders	49.6	49.7	46.5	48.6	48.5	58.5
Production	51.5	51.2	49.1	50.6	51.1	62.0
Inventories	51.2	48.0	48.1	49.1	47.8	45.8
Employment	43.7	45.5	45.4	44.9	46.2	50.8
Supplier Deliveries	55.1	53.7	54.0	54.3	53.2	50.0
Order Backlog (NSA)	47.5	46.0	51.5	48.3	46.9	53.5
Prices Paid (NSA)	91.5	87.0	84.5	87.7	83.0	68.0
New Export Orders	58.5	59.5	57.5	58.5	57.8	56.0

Source: National Association of Purchasing Management

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