

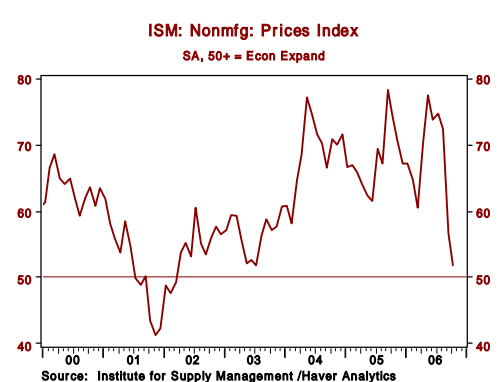
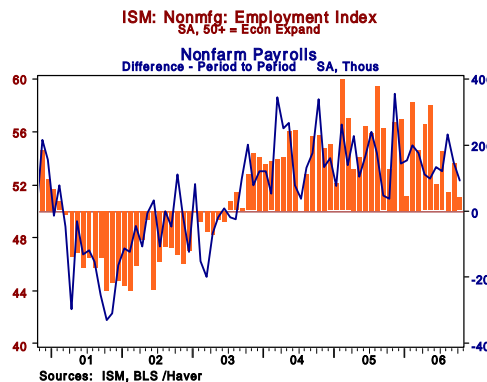
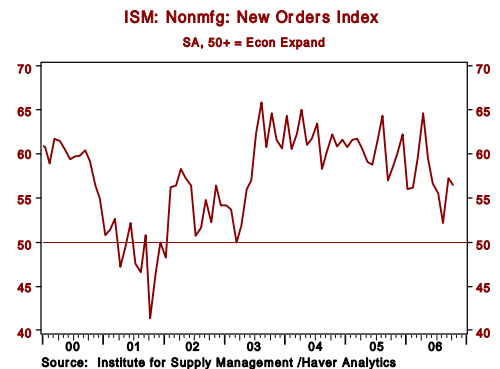
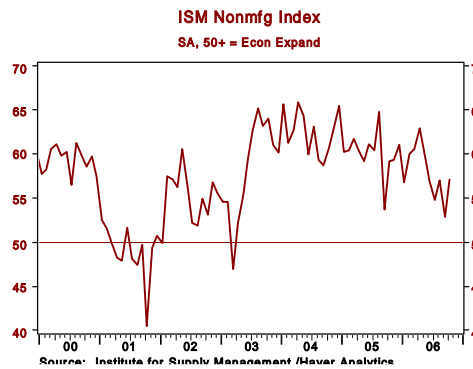
OCTOBER ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer (a measure of total output in the services sector) surprisingly jumped to 57.1 in October versus 52.9 in September.
- The new order component remained elevated at 56.5, while the employment component pulled back to 51.0. Still, the employment index has been above 50 for 40 consecutive months.
- Falling energy prices pulled the prices paid component down to 51.9 in October from 56.7 in September, and 72.4 in August.

Implications: The ISM non-manufacturing business barometer rose much more than expected to 57.1 in October. Total new orders and export orders remain strong, which suggests that strength in the services sector will persist.

The ISM non-manufacturing index averaged 57.9 in the first ten months of 2006, a slight slowdown from the 60.1 average in 2005, but above the 1998 average level of 57.3. The services sector of the economy may have lost some slight momentum in the past year, but it continues to expand at a robust pace. Growth near this level is still fast enough to keep corporate profits strong and unemployment low. While many pieces of data have reflected a softening in economic activity during recent months, we remain bullish on the economy. Tax rates remain low, corporate profits are surprising to the upside, business investment is still strong, and the real (or inflation-adjusted) federal funds rate is well below levels that have caused recessions in the past. The unemployment rate of 4.4% in October is a stunning achievement for an economy that so many have doubted. In fact, the unemployment rate has only been lower in 28 months out of the past 36 years, and all of those months were during the so-called dot.com bubble years. Reports of the economy's demise are greatly exaggerated.



Non-Manufacturing ISM Index <i>seasonally adjusted unless indicated</i>	Oct-06	Sep-06	Aug-06	3-mo <i>moving avg</i>	6-mo <i>moving avg</i>	Yr ago <i>level</i>
Business Barometer	57.1	52.9	57.0	55.7	56.5	59.2
New Orders	56.5	57.2	52.1	55.3	56.3	58.5
Employment	51.0	53.6	51.4	52.0	53.4	53.1
Prices	51.9	56.7	72.4	60.3	67.9	74.1
Supplier Deliveries (not seasonally adjusted)	54.5	54.0	53.5	54.0	54.8	58.5
Inventory Change (not seasonally adjusted)	53.0	50.5	51.5	51.7	53.1	50.0
Orders Backlog (not seasonally adjusted)	51.5	53.0	49.5	51.3	52.9	55.0
Imports (not seasonally adjusted)	57.5	55.0	60.0	57.5	57.8	53.5

Source: Institute for Supply Management

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