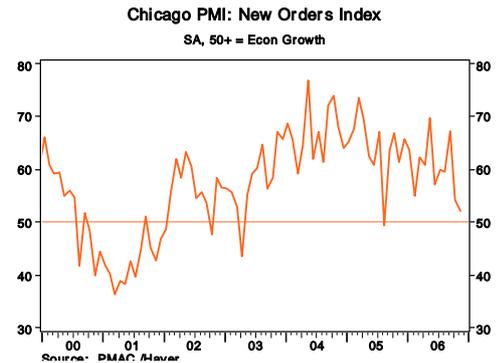
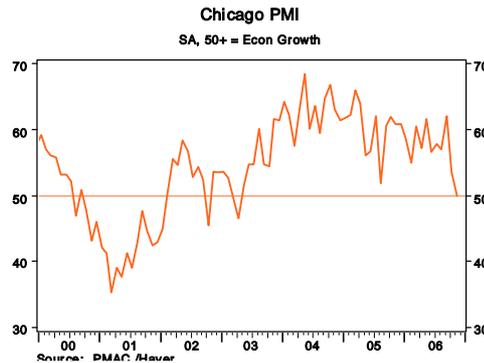


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NOVEMBER CHICAGO PMI

- The Chicago Purchasing Managers' Index (PMI) dropped to 49.9 in November, the first reading below 50 since April 2003. The Chicago index has often been a harbinger of the ISM manufacturing index.
- The production and new orders components were not as weak, declining to 54.4 and 52.0, respectively. Employment fell to 49.4, order backlogs fell to 45.9, while the supplier deliveries component (a measure that rises when delivery times slow) fell to 43.0.
- The prices paid component fell to 60.2 in November, from 62.5 in October. Falling energy prices have pulled this measure of inflation down in recent months, but it remains at an elevated level.



Implications: The Chicago PMI fell to 49.9 in November, a tick below the important 50 level, which is the dividing line between a contracting and expanding manufacturing sector. While the Chicago index is often a harbinger of the national manufacturing sector, because the Chicago-area manufacturing sector is heavily weighted toward autos and construction (sectors that are both having tough times), there is no reason to suspect that the national ISM manufacturing index will also fall below 50. With the new order and production components of the Chicago PMI still above 50, it is more accurate to say the economy is slowing, not contracting. Kansas City, Philadelphia, Richmond, and New York manufacturing indices do not confirm the same weakness as reported in Chicago. Also reported today were quarterly estimates of housing prices by the OFHEO – the Office of Federal Housing Enterprise Oversight. These data show that five states experienced housing price declines between Q2 and Q3, but that nationwide home prices were 7.76% higher in Q3-2006 than they were in Q3-2005.

| Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i> | Nov | Oct | Sep | 6 month moving avg | 12 month moving avg | Year-ago level |
|--|-------------|------|------|-----------------------|------------------------|-------------------|
| Business Barometer | 49.9 | 53.5 | 62.1 | 56.2 | 57.5 | 60.8 |
| Production | 54.4 | 59.2 | 67.4 | 60.2 | 60.9 | 63.8 |
| New Orders | 52.0 | 54.1 | 67.3 | 58.4 | 60.6 | 61.4 |
| Order Backlog | 45.9 | 47.5 | 51.0 | 49.1 | 50.0 | 60.2 |
| Inventories | 57.7 | 67.2 | 63.5 | 57.1 | 56.0 | 54.5 |
| Employment | 49.4 | 57.0 | 50.8 | 52.2 | 52.1 | 50.4 |
| Deliveries | 43.0 | 54.1 | 56.8 | 53.9 | 56.2 | 63.0 |
| Prices Paid | 60.2 | 62.5 | 69.8 | 73.9 | 74.7 | 85.6 |

Source: Purchasing Management Assoc. of Chicago

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