

JUNE ISM NON-MANUFACTURING INDEX

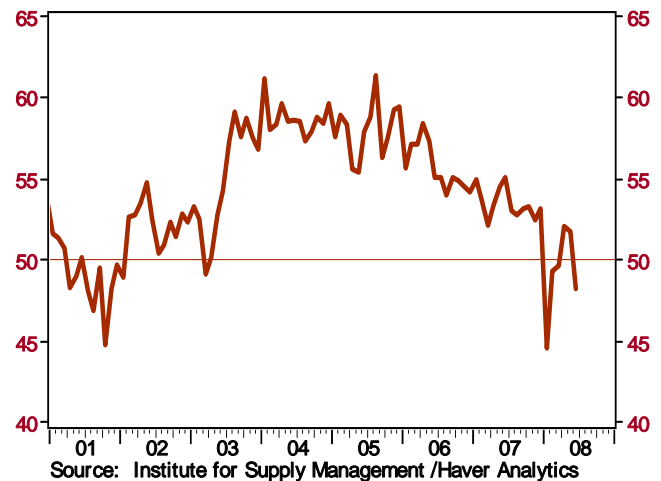
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The ISM non-manufacturing composite index declined to 48.2 in June from 51.7 in May. The consensus expected a smaller decline to 51.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Declines were widespread among the key components of the composite index. The indexes for business activity, new orders, employment, and new export orders all declined, with all but the index for new exports below 50.0. At 43.8, the employment index is the lowest on record (dating back to 1997).
- The prices paid index increased to 84.5 in June, by far the highest on record (also dating back to 1997). For comparison, in the immediate aftermath of Hurricanes Katrina/Rita in 2005 the prices paid index hit 79.3.

Implications: The ISM index for the service sector is again picking up a general drop in economic confidence. The same thing happened in January, before the index rebounded in the Spring. These drops are very similar to the ones that occurred in October 2001 (due to the terrorist attacks on September 11) and early 2003 (due to the run-up to the Iraq War). Instead of signaling an actual decline in activity at the firms being surveyed, these drops signaled erosions in optimism about the overall economy. As a result, these survey results should be treated like the consumer confidence figures, which keep going down even as consumption growth re-accelerates. Meanwhile, the prices paid index hit a record high of 84.5 in June, showing the inflation problem is getting worse. This is consistent with our forecast that producer prices increased 1.8% in June and 9.1% versus a year ago, the most since 1981. We also estimate that consumer prices increased 0.7% in June and are up 4.5% versus last year. Figures like these are going to force the Federal Reserve to raise rates well before year end.

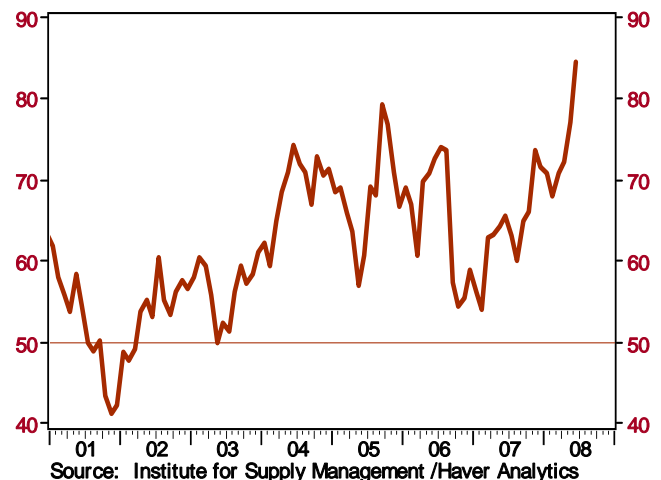
ISM Non-Manufacturing Composite Index

SA, 50+=Increasing



ISM Non-Manufacturing: Prices Paid Index

SA, 50+ = Economic Expansion



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jun-08	May-08	Apr-08	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	48.2	51.7	52.0	50.6	49.2	55.1
Business Activity	49.9	53.6	50.9	51.5	49.9	59.7
New Orders	48.6	53.6	50.1	50.8	49.3	56.7
Employment	43.8	48.7	50.8	47.8	46.8	53.5
Supplier Deliveries (NSA)	50.5	51.0	56.0	52.5	50.9	50.5
Prices	84.5	77.0	72.1	77.9	73.8	65.6

Source: Institute for Supply Management

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.