

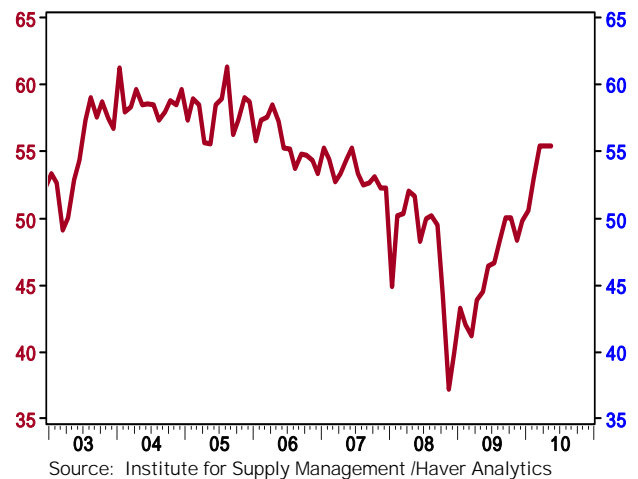
# MAY ISM NON-MANUFACTURING INDEX

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

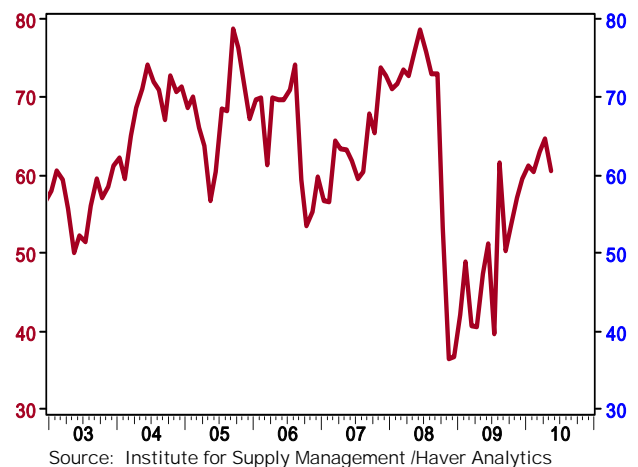
- The ISM Non-Manufacturing composite index remained at 55.4 in May, unchanged from March and April. The consensus expected 55.6. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mixed in May. The business activity index increased to 61.1 from 60.3 and the employment index rose 50.4 from 49.5. The new orders index fell to 57.1 from 58.2 and the supplier deliveries index fell to 53.0 from 53.5.
- The prices paid index declined to 60.6 in May from 64.7 in April.

**Implications:** For the third month in a row, the ISM Services index remained at a sturdy 55.4, the highest level in almost four years. This level suggests the services sector continues to grow at a healthy pace, although not quite as fast as the manufacturing sector. We think recent financial turmoil in Europe may be putting downward pressure on the overall ISM Services index, which tends to pick up sentiment even if those feelings are unrelated to actual changes in business behavior. By contrast, the business activity index, which has an even stronger statistical link with real GDP growth than the overall index, rose for the fourth month in a row to 61.1, signaling growth in the service sector may soon catch manufacturing. While the new orders index fell in May, it still remains well above 50, meaning future prospects for the services sector remain strong. On the inflation front, the prices paid index fell to a still uncomfortably high 60.6. Meanwhile, the employment index inched above 50 for the first time since late 2007, rising to 50.4 in May. This is consistent with our forecast that total payrolls increased 625,000 in May (reported tomorrow morning). Most of these jobs will be due to temporary Census-related hiring. But look for continued strong gains from private service-providers, who added 166,000 to payrolls in April.

ISM Nonmanufacturing: NMI Composite Index  
SA, 50+=Increasing



ISM: Nonmfg: Prices Index  
SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-10	Apr-10	Mar-10	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	55.4	55.4	55.4	55.4	53.3	44.5
<b>Business Activity</b>	61.1	60.3	60.0	60.5	56.9	43.6
<b>New Orders</b>	57.1	58.2	62.3	59.2	56.6	45.4
<b>Employment</b>	50.4	49.5	49.8	49.9	47.8	38.9
<b>Supplier Deliveries (NSA)</b>	53.0	53.5	49.5	52.0	51.8	50.0
<b>Prices</b>	60.6	64.7	62.9	62.7	61.6	47.4

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.