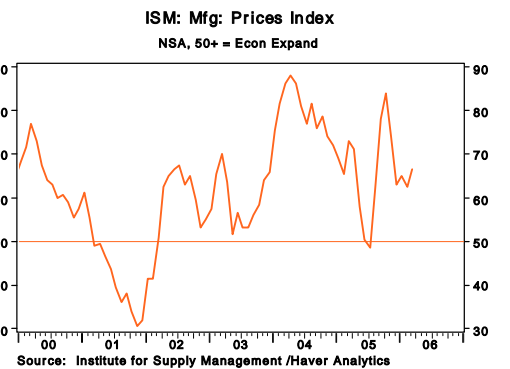
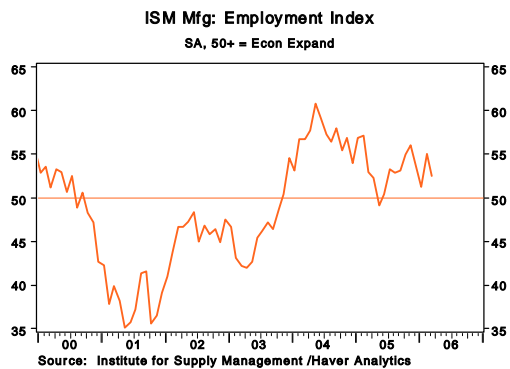
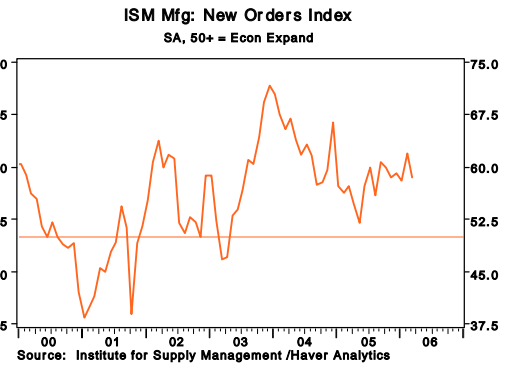
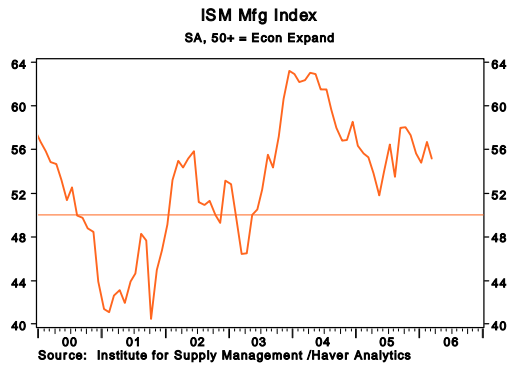


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MARCH ISM MANUFACTURING INDEX

- The ISM manufacturing index pulled back to 55.2 in March versus 56.7 in February. The consensus expected a slight increase to 57.5. According to the ISM, the March level is historically consistent with 4.5% growth in real GDP.
- The new orders component fell to 58.4 last month from 61.9 in February. The production index inched higher to 57.5 in March from 57.4 in the previous month. The employment component pulled back to 52.5 in March versus 55.0 in February. Nonetheless, the employment component has been above 50 for 10 consecutive months.
- The prices paid component increased to 66.5 in March from 62.5 in February – the eighth consecutive month above 60.



Implications: Despite falling below consensus expectations, the March ISM manufacturing index, at 55.2, is just a smidgen (a highly technical economic term usually reserved for use by PhD's) below the 12-month moving average of 55.4. New orders and employment pulled back a bit, while production and prices were slightly above their February levels. While some could view these data as a sign that the economy is slowing, we view them as normal monthly volatility. The manufacturing sector remains strong, employment gains remain robust and price pressures continue to build moderately. We expect this theme to remain consistent for most of this year. Any whispers that a lower-than-consensus March ISM might cause the Fed to pause are wishful thinking. We continue to expect the fed funds rate will reach 5.5% in the next 12 months. Separately, construction spending rose a much stronger than expected 0.8% in February, the eighth consecutive monthly gain. January was revised to show a 0.4% gain (versus the original 0.2%). Construction will add nicely to first quarter real GDP, which we expect to be nearer the top of our 4.5% to 5.0% range.

Institute for Supply Management Index <i>Data seasonally adjusted unless noted; 50+ = Econ Growth</i>	Mar-06	Feb-06	Jan-06	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	55.2	56.7	54.8	55.6	56.3	55.3
<i>New Orders</i>	58.4	61.9	58.0	59.4	59.3	57.2
<i>Production</i>	57.5	57.4	56.6	57.2	58.4	56.9
<i>Inventories</i>	48.7	49.6	46.5	48.3	48.3	53.7
<i>Employment</i>	52.5	55.0	51.3	52.9	53.9	53.0
<i>Supplier Deliveries</i>	53.1	52.2	55.3	53.5	55.2	52.7
<i>Order Backlog (NSA)</i>	59.5	54.5	53.5	55.8	54.3	56.0
<i>Prices Paid (NSA)</i>	66.5	62.5	65.0	64.7	69.2	73.0
<i>New Export Orders (NSA)</i>	57.3	57.0	58.5	57.6	56.7	55.1

Source: National Association of Purchasing Management

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