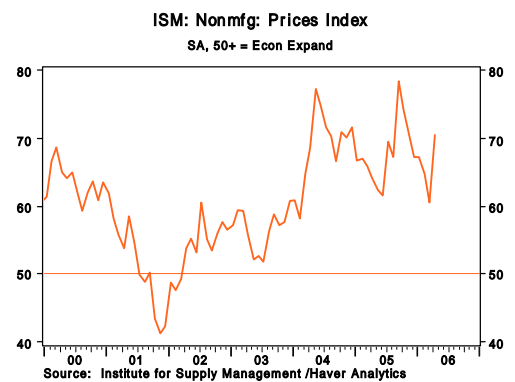
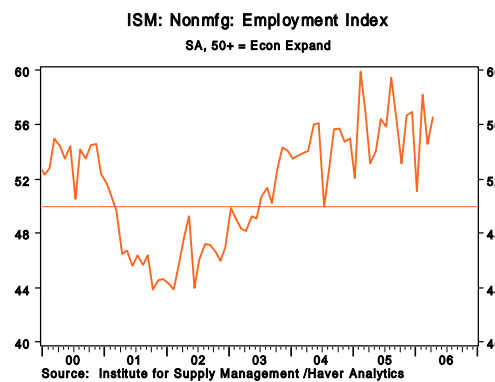
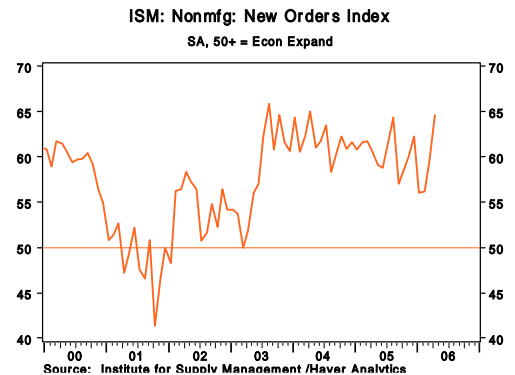
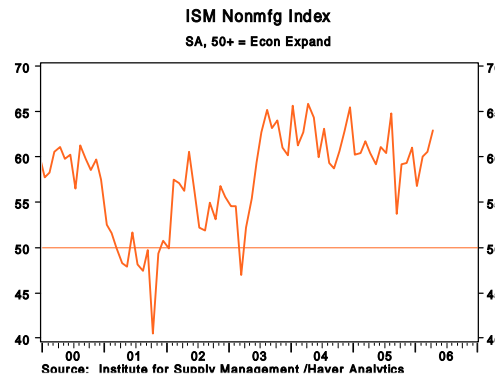


APRIL ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing business barometer jumped to 63.0 in April versus 60.5 in March. This was well above consensus estimates of 59.3 and First Trust Economics forecast of 61.0. Fourteen of 17 industry groups surveyed reported growth in April compared to 13 in March and just 10 in February. The new orders component increased to a two-year high of 64.6 last month.
- The employment component rose from 54.6 in March to 56.5 in April, the 34th consecutive month above 50.
- The prices paid component jumped to 70.5 last month versus 60.5 in March.



Implications: In another indication that the economy is shrugging off higher energy prices, the ISM non-manufacturing index jumped to 63.0 last month, while the new orders component rose to a two-year high of 64.6. The US service sector is strong and should remain so for the foreseeable future. The employment and price components also rose to robust levels in April. Separately, factory orders jumped 4.2% in March versus 0.4% in February. Durable goods orders were upwardly revised in both February and March. Non-defense capital goods orders, excluding aircraft, now show a 1.9% gain in March (originally +1.6%). These revisions, along with stronger construction data, will likely push final estimates for first quarter real GDP above 5%. With the service sector surging, manufacturing strong, and retailers continuing to post solid gains, the economy seems to be firing on all cylinders. Any impact from high energy prices has been marginal. We maintain our forecast of 4% real GDP growth in 2006. While there has been some confusion over monetary policy in recent days, we remain firm in our belief that a “neutral” federal funds rate is somewhere between 5.5% and 6.0%. Moreover, with the economy strong and inflation picking up, the “neutral” rate is creeping higher. The longer it takes for the Fed to lift rates to “neutral,” the greater the odds that rates will have to go higher still.

Non-Manufacturing ISM Index <i>seasonally adjusted unless indicated</i>	Apr-06	Mar-06	Feb-06	3-mo moving avg	6-mo moving avg	Yr ago level
Business Barometer	63.0	60.5	60.1	61.2	60.1	60.4
New Orders	64.6	59.5	56.2	60.1	59.8	60.6
Employment	56.5	54.6	58.2	56.4	55.7	53.1
Prices	70.5	60.5	64.8	65.3	66.8	64.1
Supplier Deliveries (not seasonally adjusted)	54.5	54.0	52.5	53.7	55.4	53.0
Inventory Change (not seasonally adjusted)	59.0	54.0	53.0	55.3	55.2	54.5
Orders Backlog (not seasonally adjusted)	54.0	50.5	54.0	52.8	53.2	54.0
Imports (not seasonally adjusted)	57.0	60.5	55.0	57.5	55.8	58.5

Source: Institute for Supply Management

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