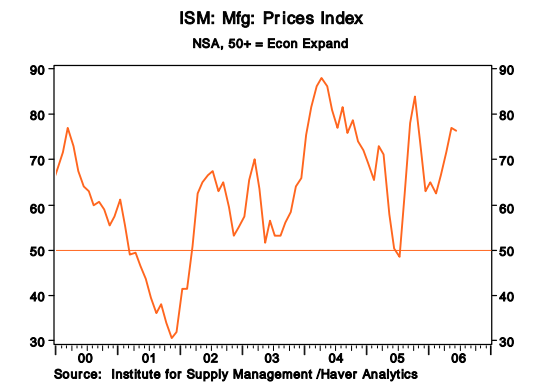
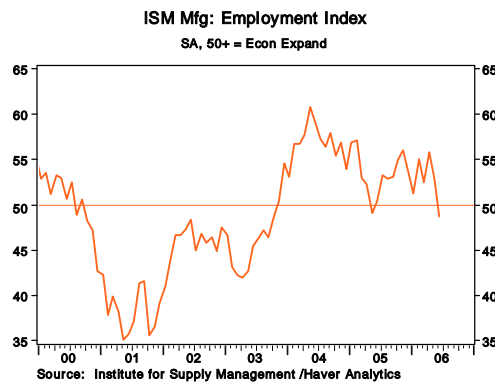
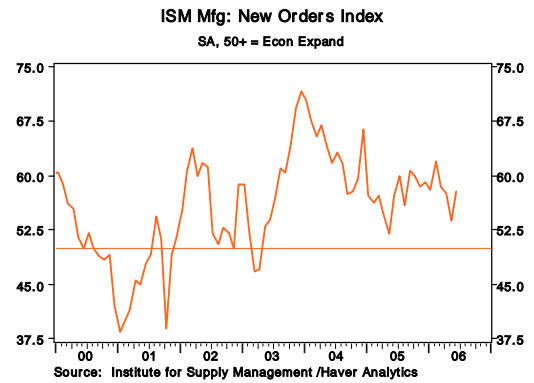
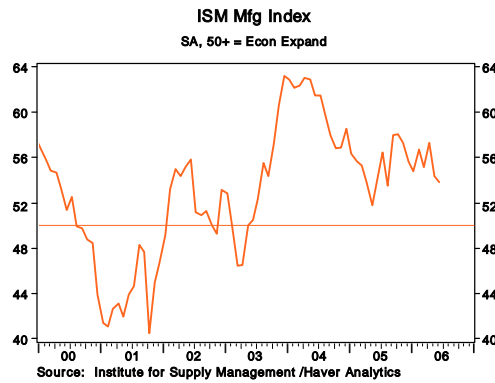


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JUNE ISM MANUFACTURING INDEX

- The ISM Manufacturing index pulled back to 53.8 in June, its lowest level since May 2005. The June reading was below consensus estimates of a 55.0.
- The new orders component rose to 57.9 last month after falling to 53.7 in May. The production index weakened to 55.1 from 57.2. The employment component pulled back to 48.7 in June, the lowest level since October 2003.
- The prices paid component was 76.5 in June, slightly below the 77.0 level in May. The prices paid component has averaged 69.8 in the first six months of 2006, significantly above the 66.4 average of 2005.



Implications: The ISM manufacturing index weakened in June but continues to signal a healthy manufacturing sector. The ISM manufacturing index has been above 50 (a reading above 50 signals expansion) for 37 consecutive months, the longest stretch of above 50 readings in 25 years. Moreover, the new orders component jumped in June, suggesting that for the foreseeable future, manufacturers should stay busy. Conventional wisdom and Fed staff models continue to forecast an economic slowdown, but the data are not so clear. Through the first six months of 2006, the average of the ISM index and all of its major components (new orders, production, employment, supplier deliveries, backlog of orders, and prices paid) exceeds its average during the first half of 2005. By this measure the economy has accelerated, not slowed. As a result, we believe that a “data dependent” Fed will continue to be surprised by the resilience of the US economy, and that an August “pause” is unlikely. We remain firm in our belief that the economy will remain strong, inflation will continue to rise and that a neutral federal funds rate is 6.0%.

Institute for Supply Management Index <i>Data seasonally adjusted unless noted; 50+ = Econ Growth</i>	Jun-06	May-06	Apr-06	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	53.8	54.4	57.3	55.2	55.4	54.0
<i>New Orders</i>	57.9	53.7	57.6	56.4	57.9	57.2
<i>Production</i>	55.1	57.2	60.4	57.6	57.4	56.3
<i>Inventories</i>	46.9	48.0	51.3	48.7	48.5	47.5
<i>Employment</i>	48.7	52.9	55.8	52.5	52.7	50.4
<i>Supplier Deliveries</i>	55.0	57.6	57.7	56.8	55.2	53.1
<i>Order Backlog (NSA)</i>	54.0	53.0	57.0	54.7	55.3	51.0
<i>Prices Paid (NSA)</i>	76.5	77.0	71.5	75.0	69.8	50.5
<i>New Export Orders (NSA)</i>	55.4	55.7	53.4	54.8	56.2	51.2

Source: National Association of Purchasing Management

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