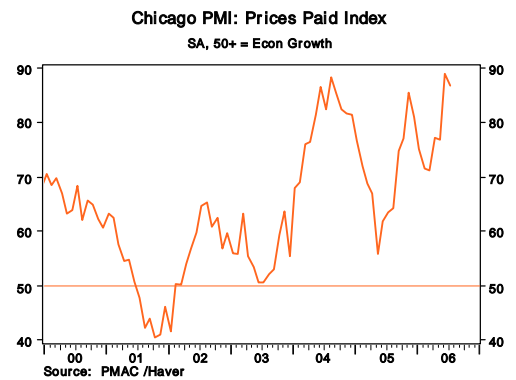
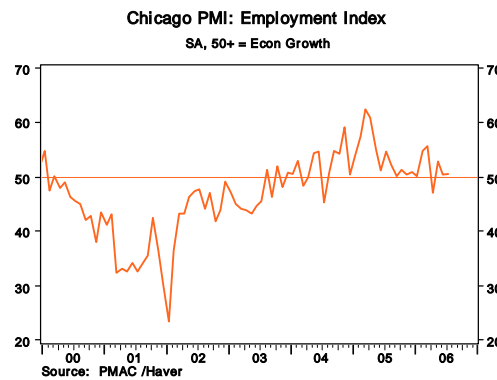
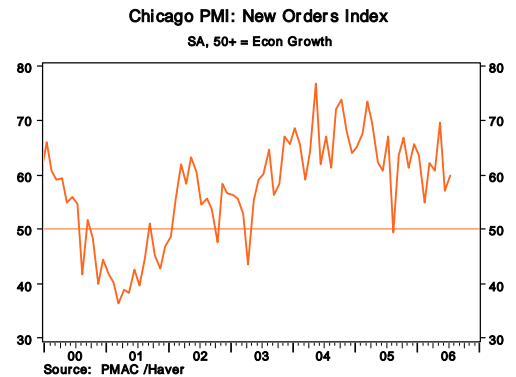
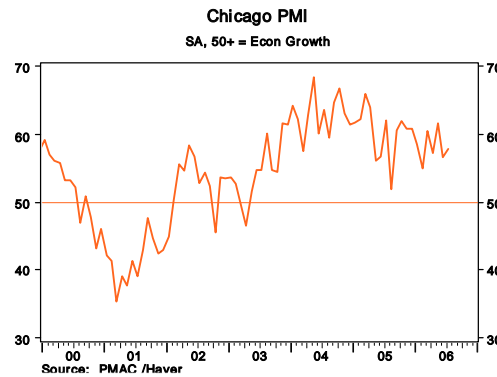


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JULY CHICAGO PMI

- The Chicago Purchasing Managers' Index (PMI) surprised the consensus and increased to 57.9 in July versus 56.5 in June. While below its level of one year ago, the index continues to point toward strong manufacturing output in the Midwest.
- The production component surged to 64.1 in July versus 54.6 in June, and stands well above the 12 month average of 61.9. New orders increased to 60.0 last month, from 57.2, while the employment component inched higher to 50.5.
- The prices paid component was 86.8 in July, a slight pullback from 89.0 in June. Nonetheless, the two-month average is at its highest level since 1980.



Implications: The Chicago PMI rose to 57.9 in July, the 39th consecutive month above 50, another sign that the economy remains resilient. The Chicago PMI is one of the earliest pieces of economic data each month and is often a good leading indicator of the nation-wide manufacturing sector. As such, it continues to point toward robust economic activity. Rather than rolling over, the economy appears to have maintained strong positive momentum. New orders and production were strong. However, an index measuring the backlog of orders fell below 50. At first blush this might be worrisome, but this index has contracted four times in the past 12 months. At the same time, the survey showed falling inventories in July. With inventories contracting and new orders strong, manufacturing activity is unlikely to slow significantly in the months ahead. In addition, inflationary pressures remain elevated. As a result, the slowdown in both real and nominal GDP growth that was evident in the second quarter GDP report is unlikely to continue. A pause by the Fed at its meeting next week is not a foregone conclusion.

Chicago PMI <i>All data seasonally adjusted; 50+ = Econ Growth</i>	Jul-06	Jun-06	May-06	6 month moving avg	12 month moving avg	Year-ago level
Business Barometer	57.9	56.5	61.5	58.1	58.6	62.1
<i>Production</i>	64.1	54.6	58.5	60.8	61.9	68.8
<i>New Orders</i>	60.0	57.2	69.6	60.8	61.3	67.0
<i>Order Backlog</i>	48.2	57.8	56.0	51.5	52.5	54.2
<i>Inventories</i>	48.7	54.0	53.0	53.1	54.1	54.7
<i>Employment</i>	50.5	50.4	52.8	51.9	51.4	54.7
<i>Deliveries</i>	55.5	55.7	58.1	57.2	58.1	49.9
<i>Prices Paid</i>	86.8	89.0	76.9	78.8	77.6	63.5

Source: Purchasing Management Assoc. of Chicago

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