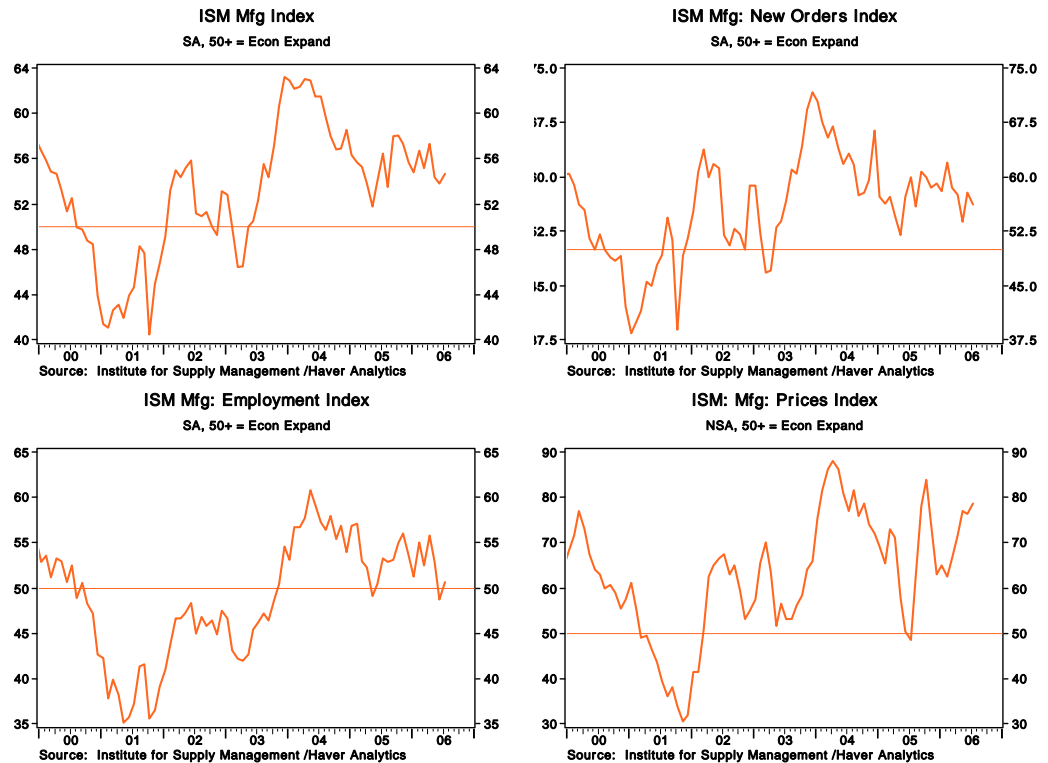


JULY ISM MANUFACTURING INDEX

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

- The ISM Manufacturing index exceeded consensus forecasts and rose to 54.7 in July from 53.8 in June.
- The new orders component pulled back to 56.1 in July from 57.9 in June. The production index strengthened to 57.6 last month from 55.1 in June. The employment component moved up slightly to 50.7 in July after falling below 50 in June.
- The prices paid component rose to a non-seasonally adjusted 78.5 in July, above the 48.5 level of a year ago. The prices paid component has averaged 71.1 in the first seven months of 2006, significantly above the 66.4 average of 2005.



Implications: The ISM manufacturing index strengthened in July to 54.7, a level which historically corresponds to a 4.4% increase in real GDP. The ISM manufacturing index has been above 50 (a reading above 50 signals expansion) for 38 consecutive months, the longest stretch of above 50 readings in 25 years. Moreover, with the new orders component at 56.1, supplier deliveries up to 55.4 and inventories hovering around 50, the leading indicators in the data point to a healthy manufacturing sector in the months ahead. There is no evidence yet of any significant slowing in the economy. However, inflation continues to build. The prices paid index rose to 78.5 last month, the highest level of 2006. The echo chamber of the popular press has sounded the alarm over slower growth and falling inflation so loudly that it has become conventional wisdom. Yet, the actual data tells the opposite story. We continue to forecast 3.5% - 4.0% real GDP in the second half of this year and a “core” rate of inflation in the 3.0% - 3.5% range. As a result, any significant pause in Fed rate hikes is unlikely. This is good news. A “neutral” funds rate is still roughly 6.0%.

Institute for Supply Management Index <i>Data seasonally adjusted unless noted; 50+ = Econ Growth</i>	Jul-06	Jun-06	May-06	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	54.7	53.8	54.4	54.3	55.4	56.4
<i>New Orders</i>	56.1	57.9	53.7	55.9	57.6	60.0
<i>Production</i>	57.6	55.1	57.2	56.6	57.5	60.5
<i>Inventories</i>	50.5	46.9	48.0	48.5	49.2	47.9
<i>Employment</i>	50.7	48.7	52.9	50.8	52.6	53.2
<i>Supplier Deliveries</i>	55.4	55.0	57.6	56.0	55.2	52.3
<i>Order Backlog (NSA)</i>	50.5	54.0	53.0	52.5	54.8	49.0
<i>Prices Paid (NSA)</i>	78.5	76.5	77.0	77.3	72.1	48.5
<i>New Export Orders (NSA)</i>	51.9	55.4	55.7	54.3	55.1	55.8

Source: National Association of Purchasing 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