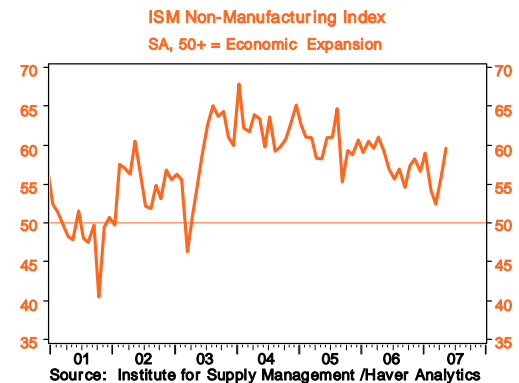


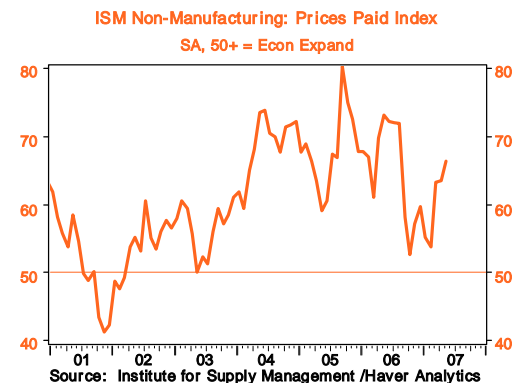
## MAY ISM NON-MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA  
Economic Research Analyst – Trevor D. Scott

- The ISM non-manufacturing business barometer (a measure of production growth in the services sector) increased to 59.7 in May, the highest level in thirteen months. The consensus expected a slight decline to 55.8 from 56.0 in April. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The new orders index increased to 57.4 in May, the highest level in eight months, from 55.5 in April. The employment component rose to 54.9, the highest in a year.
- The prices paid component rose to 66.4, the highest level in nine months.



**Implications:** Five weeks ago First Trust was out on a limb with our forecast that real GDP would grow 3% in the second quarter and 3% to 3.5% in the quarters that followed. But since then the economic data have been consistently good. Our only change, made last week, has been to revise our call on Q2 growth up to 3.5%. Much of the growth we forecast in the current quarter is due to the end of an inventory correction and improvements in the trade balance. Today's ISM services report ratifies this view. The inventory change index increased to 61 and the new export orders index rose to 66, both all-time highs (the indexes date back to 1997). In the past two months both major ISM indexes are up substantially, with the Manufacturing Index (reported last Friday) up 4.1 points and the Non-Manufacturing Index up 7.3 points. Combined, the indexes have not climbed this much this fast since 2003, when the economy was finally hitting its stride after absorbing the massive decline in the stock market and the overly tight monetary policy of the late 1990s through 2001. Regardless of this morning's move in the stock market, we believe the data suggest continuation of current financial market trends, with much higher equity markets and fixed-income yields by year end.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-07	Apr-07	Mar-07	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>59.7</b>	56.0	52.4	56.0	56.4	59.2
<b>New Orders</b>	<b>57.4</b>	55.5	53.8	55.6	55.4	59.0
<b>Employment</b>	<b>54.9</b>	51.9	50.8	52.5	52.5	56.9
<b>Prices</b>	<b>66.4</b>	63.5	63.3	64.4	60.3	73.2
<b>Supplier Deliveries (NSA)</b>	<b>49.5</b>	51.0	50.0	50.2	51.3	56.5
<b>Inventory Change (NSA)</b>	<b>61.0</b>	52.0	52.0	55.0	52.7	59.0
<b>Orders Backlog (NSA)</b>	<b>48.0</b>	50.0	52.5	50.2	49.1	52.0
<b>Imports (NSA)</b>	<b>55.5</b>	52.5	50.0	52.7	54.3	58.5

Source: Institute for Supply Management