

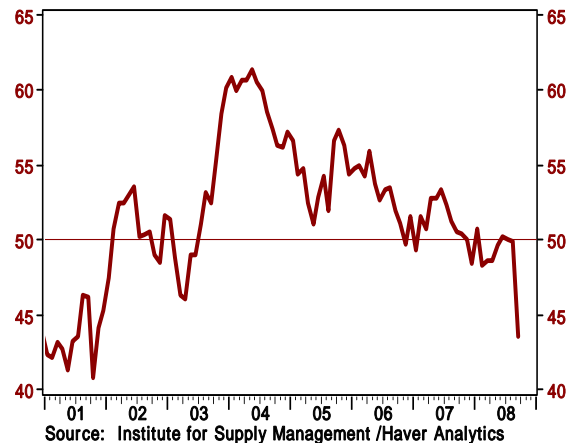
# SEPTEMBER ISM MANUFACTURING INDEX

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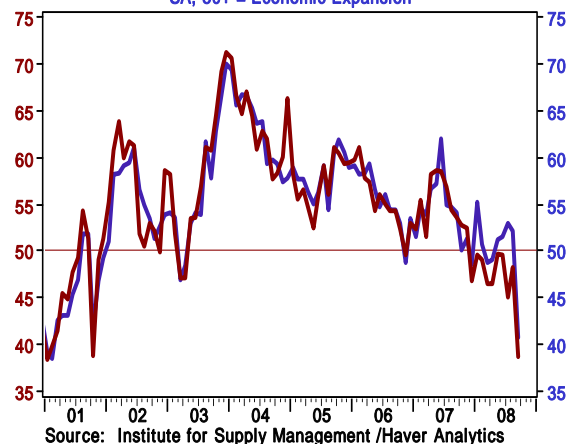
- The ISM Manufacturing index declined to 43.5 in September from 49.9 in August. The consensus had expected a slight decline to 49.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were generally weak: the index for new orders fell to 38.8 from 48.3; the production index fell to 40.8 from 52.1; the employment index fell to 41.8 from 49.7. The new orders and production indexes are the lowest since 2001; the employment index is the lowest since 2003.
- The prices paid index declined to 53.5 from 77.0, the largest one-month decline on record, reflecting the recent significant drop in oil and basic material costs.

**Implications:** Today's ISM Manufacturing report was weak, signaling a significant contraction in that sector. However, according to the Institute for Supply Management, which publishes the report, an index of above 41.1 indicates an expansion in the overall economy. So today's ISM report is consistent with our view that the overall economy is still growing, although very slowly. As we have noted before, the ISM indexes for both manufacturing and services sometimes reflect emotion and uncertainty more than real economic activity. We believe recent financial turmoil is generating this effect. Although the prices paid index fell substantially in September, this is due to the decline in energy and basic materials costs; an index above 50 still shows an inflationary trend. In other news today, construction spending was unchanged in August, which was better than the consensus expected. Gains in public-sector construction and home improvement spending were offset by the second straight monthly drop in business building. However, overall construction was revised down for June/July.

ISM Manufacturing Index  
SA, 50+ = Econ Expand



ISM Mfg: New Orders Index  
SA, 50+ = Economic Expansion  
ISM Mfg: Production Index  
SA, 50+ = Economic Expansion



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Sep-08	Aug-08	Jul-08	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>43.5</b>	49.9	50.0	47.8	48.6	50.5
<b>New Orders</b>	<b>38.8</b>	48.3	45.0	44.0	46.3	53.6
<b>Production</b>	<b>40.8</b>	52.1	52.9	48.6	49.6	54.1
<b>Inventories</b>	<b>43.4</b>	49.3	45.0	45.9	47.5	41.7
<b>Employment</b>	<b>41.8</b>	49.7	51.9	47.8	46.3	51.5
<b>Supplier Deliveries</b>	<b>52.5</b>	50.3	55.1	52.6	53.5	51.7
<b>Order Backlog (NSA)</b>	<b>35.0</b>	43.5	43.0	40.5	44.4	51.0
<b>Prices Paid (NSA)</b>	<b>53.5</b>	77.0	88.5	73.0	80.3	59.0
<b>New Export Orders</b>	<b>52.0</b>	57.0	54.0	54.3	56.4	54.5

Source: National Association of Purchasing Management

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