

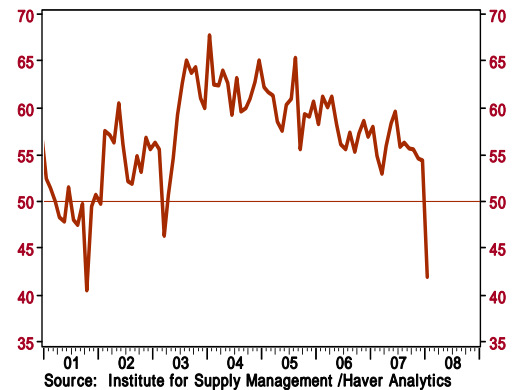
## JANUARY ISM NON-MANUFACTURING INDEX

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- The ISM non-manufacturing business barometer (a measure of activity in the service sector) plummeted to 41.9 in January from 54.4 in December. The consensus expected a much smaller decline to 53.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- January marks the introduction of a new composite index, consisting of the indexes on business activity, new orders, employment, and supplier deliveries. All of the components of the new composite index fell in January to levels below 50.
- The prices paid component declined to a still elevated 70.7 in January from 71.5 in December, continuing to signal high inflation.

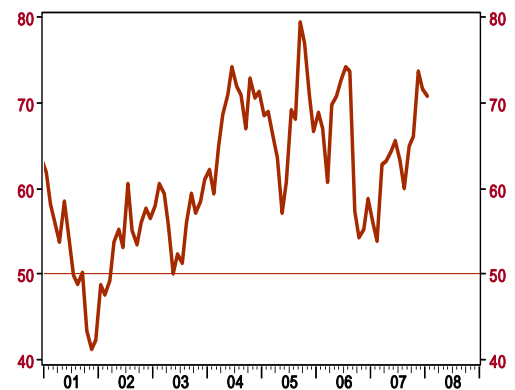
**Implications:** Today's ISM report on the service sector was horrible. The survey only dates back to 1997, but the business activity index in January fell to its lowest level ever, while the actual decline was the sharpest on record. To find anything even remotely near these weak readings we need to turn back the clock to October 2001, at the depths of the 2001 recession and in the aftermath of 9/11. Then, the survey was exaggerated to the downside as it most likely is today. Other data do not corroborate this weakness, even the ISM manufacturing index rose in January. The steepness and suddenness of the decline in January – even exceeding the aftermath of 9/11 – suggests the figure can sometimes be driven by moods and sentiment rather than underlying economic output. The ISM snapped back quickly after the 9/11-related drop, as it did after the March 2003, Iraq invasion decline, and we expect the same to happen next month. Meanwhile, the prices paid index continues to support our view that inflation is a growing problem.

ISM Non-Manufacturing Index  
SA, 50+ = Economic Expansion



Source: Institute for Supply Management /Haver Analytics

ISM Non-Manufacturing: Prices Paid Index  
SA, 50+ = Economic Expansion



Source: Institute for Supply Management /Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jan-08	Dec-07	Nov-07	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	44.6	#N/A	#N/A	#N/A	#N/A	#N/A
<b>Business Activity</b>	41.9	54.4	54.6	50.3	53.1	57.9
<b>New Orders</b>	43.5	53.9	52.0	49.8	52.4	55.6
<b>Employment</b>	43.9	51.8	51.4	49.0	50.1	52.9
<b>Supplier Deliveries (NSA)</b>	49.0	52.5	51.5	51.0	50.7	53.5
<b>Prices</b>	70.7	71.5	73.7	72.0	67.9	56.1

Source: Institute for Supply 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.