

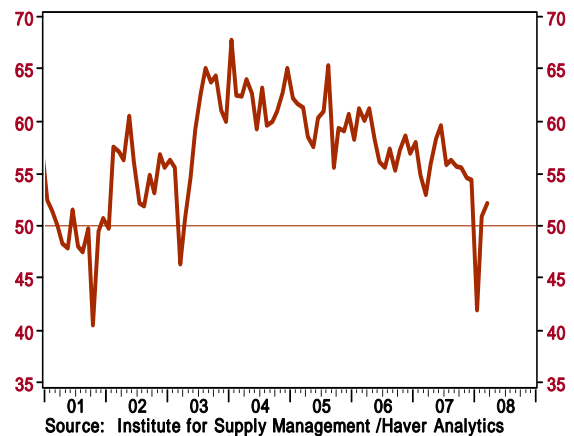
MARCH ISM NON-MANUFACTURING INDEX

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

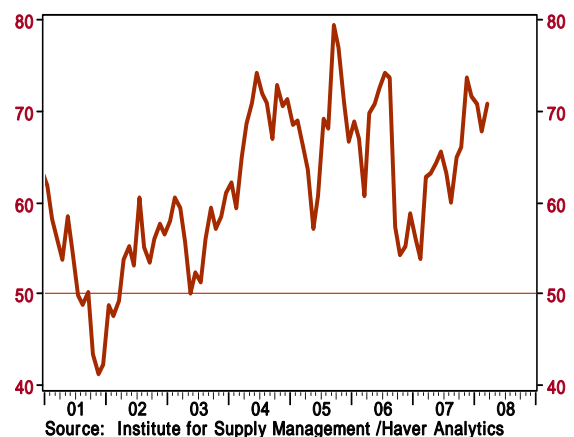
- The ISM non-manufacturing composite index increased to 49.6 in March from 49.3 in February. The consensus expected a decline to 48.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The indexes for business activity and new orders both increased and are at levels above 50.0 (signaling expansion). The employment index was unchanged at 46.9 while the index for supplier deliveries fell to 49.0 in March from 50.0 in February.
- The prices paid index increased to 70.8 in March from 67.9 in February, continuing to signal high inflation.

Implications: The ISM index for the services sector continues to rebound, supporting the case for sluggish growth in the first quarter, not recession. We believe the sudden drop in the index in January was related to a temporary collapse in confidence about the overall economy, not an actual decline in activity at the firms being surveyed. Similar temporary drops occurred after the terrorist attacks on 9/11 and upon the start of the Iraq War in early 2003. Meanwhile, the prices paid index continues to support our view that inflation is a growing problem. In other news this morning, new claims for unemployment benefits soared 38,000 last week to 407,000, the highest level since 2003 (excluding the aftermath of Hurricanes Katrina/Rita in 2005). Continuing claims increased 97,000 to 2.937 million, the highest since 2004. However, the spike in initial claims last week may have been distorted by the Easter holiday, as some claims that normally would have been processed the week of Good Friday (two weeks ago) were backlogged until last week. All eyes are now on tomorrow's employment report. We forecast an overall decline in payrolls of 35,000 with the unemployment rate ticking up to 4.9% from 4.8% in February.

ISM Non-Man. Business Activity Index
SA, 50+ = Economic Expansion



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Mar-08	Feb-08	Jan-08	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	49.6	49.3	44.6	47.8	50.4	52.1
Business Activity	52.2	50.8	41.9	48.3	51.6	53.0
New Orders	50.2	49.6	43.5	47.8	50.8	54.2
Employment	46.9	46.9	43.9	45.9	48.9	51.3
Supplier Deliveries (NSA)	49.0	50.0	49.0	49.3	50.3	50.0
Prices	70.8	67.9	70.7	69.8	70.1	62.9

Source: Institute for Supply Management

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