

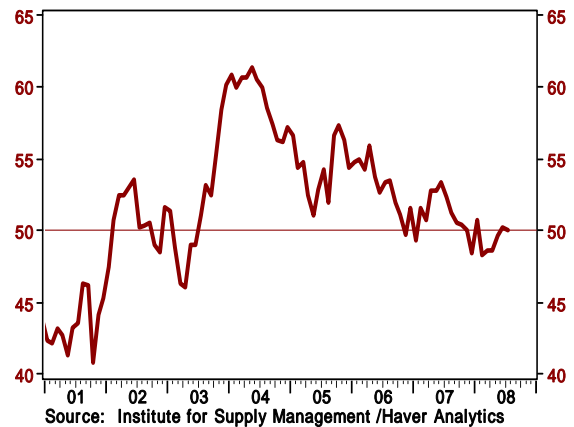
# JULY ISM MANUFACTURING INDEX

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

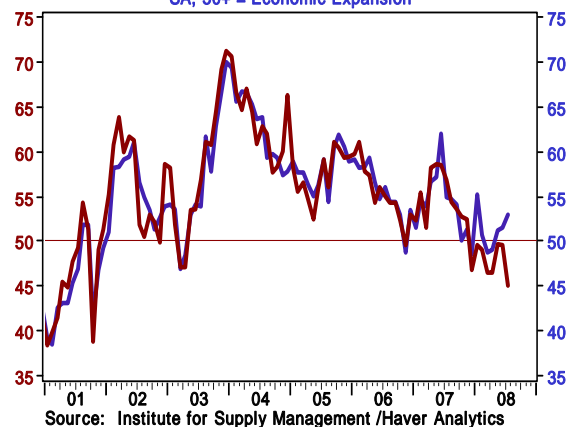
- The ISM Manufacturing index declined to 50.0 in July from 50.2 in June. The consensus had expected a larger drop to 49.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction).
- The output components of the overall index were mixed. Stronger components included production, which increased to 52.9 from 51.5, and employment, which increased to 51.9 from 43.7. The employment index is now the highest since early 2007 and the increase in July was the largest since 1983.
- Weaker components included new orders, which fell to 45.0 from 49.6, new export orders, which declined to 54.0 from 58.5, and the backlog of orders, which dropped to 43.0 from 47.5.
- The prices paid index declined to a still extremely elevated 88.5.

**Implications:** For the seventh month in a row the ISM Manufacturing Index beat consensus expectations. At 50, the index signals neither contraction nor expansion in the manufacturing sector. According to the Institute for Supply Management, which publishes the report, an index of 50 is consistent with real GDP growing at a 2.8% annual rate, very close to our 3% forecast for the third quarter. Meanwhile, the inflation news remains awful, with the prices paid index at 88.5, signaling substantial inflation pressure. In other news today, construction fell 0.4% in June, roughly as the consensus expected, while construction in May was revised upward. The drop in construction in June was all due to new single-family homes, which is nothing new. Private non-residential construction (business structures) increased 0.8% in June and is up 15.0% versus last year. The gain in June was led by electrical power plants and manufacturing buildings.

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>	Jul-08	Jun-08	May-08	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>50.0</b>	50.2	49.6	49.9	49.2	52.3
<b>New Orders</b>	<b>45.0</b>	49.6	49.7	48.1	47.7	56.9
<b>Production</b>	<b>52.9</b>	51.5	51.2	51.9	50.7	54.9
<b>Inventories</b>	<b>45.0</b>	51.2	48.0	48.1	47.1	47.7
<b>Employment</b>	<b>51.9</b>	43.7	45.5	47.0	47.0	50.3
<b>Supplier Deliveries</b>	<b>55.1</b>	55.1	53.7	54.6	53.6	51.7
<b>Order Backlog (NSA)</b>	<b>43.0</b>	47.5	46.0	45.5	46.8	52.0
<b>Prices Paid (NSA)</b>	<b>88.5</b>	91.5	87.0	89.0	85.1	65.0
<b>New Export Orders</b>	<b>54.0</b>	58.5	59.5	57.3	57.0	56.5

Source: National Association of Purchasing Management

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