

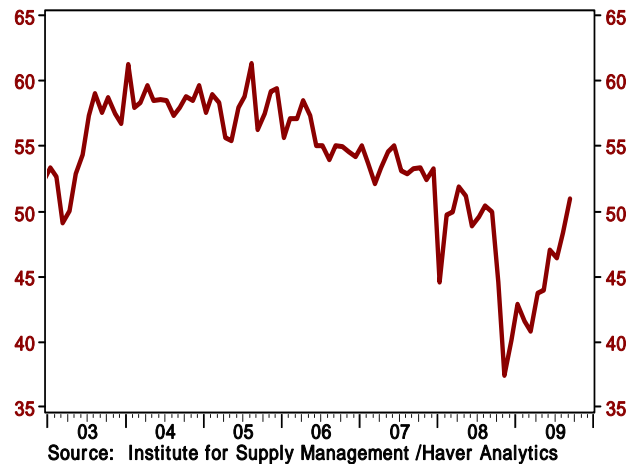
# SEPTEMBER ISM NON-MANUFACTURING INDEX

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

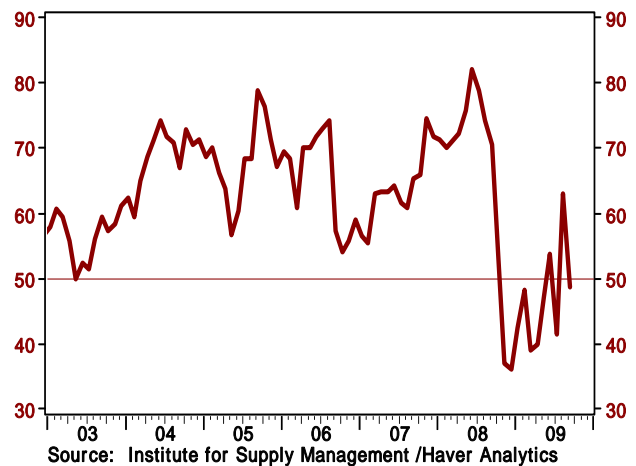
- The ISM Non-Manufacturing composite index increased to 50.9 in September from 48.4 in August, better than the consensus expected increase to 50.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major components of the composite index all increased in September. The business activity index rose substantially again to 55.1, the new orders and supplier deliveries index rose to 54.2 and 50.0 respectively, and the employment index increased to 44.3.
- The prices paid index dropped 48.8 in September from 63.1 in August.

**Implications:** The ISM Non-Manufacturing index came in better than the consensus expected and signals positive growth in the services sector for the first time since the collapse of Lehman Brothers. The business activity and new orders indexes, at 55.1 and 54.2, respectively, are each at their highest levels in almost two years. Although the employment index improved to 44.3 from 43.5 in August, it still signals relatively weak demand for labor. The gap between the business activity index and the employment index is similar to the early stages of the last economic recovery in 2002. We think this gap will shrink quickly in the months ahead as overall economic growth is strong enough to generate positive job creation by late this year. Meanwhile, on the inflation front, the prices paid index decreased to 48.8 in September from 63.1 in August. This decline comes after the largest monthly increase ever recorded in the survey's 12-year history so a pullback was not unusual. Since the end of last year the prices paid index has been trending upward but in a "jagged" pattern (see chart to right). We think the upward trend will continue as monetary velocity accelerates and the Federal Reserve remains incredibly loose. With each passing month, the Fed's target interest rate of near 0% becomes more and more inflationary.

ISM Nonmanufacturing: NMI Composite Index  
SA, 50+=Increasing



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-09	Aug-09	Jul-09	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>50.9</b>	48.4	46.4	48.6	46.7	50.0
<b>Business Activity</b>	<b>55.1</b>	51.3	46.1	50.8	48.3	51.5
<b>New Orders</b>	<b>54.2</b>	49.9	48.1	50.7	48.7	50.6
<b>Employment</b>	<b>44.3</b>	43.5	41.5	43.1	41.5	44.2
<b>Supplier Deliveries (NSA)</b>	<b>50.0</b>	49.0	50.0	49.7	48.4	53.5
<b>Prices</b>	<b>48.8</b>	63.1	41.3	51.1	49.0	70.6

Source: Institute for Supply Management

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