

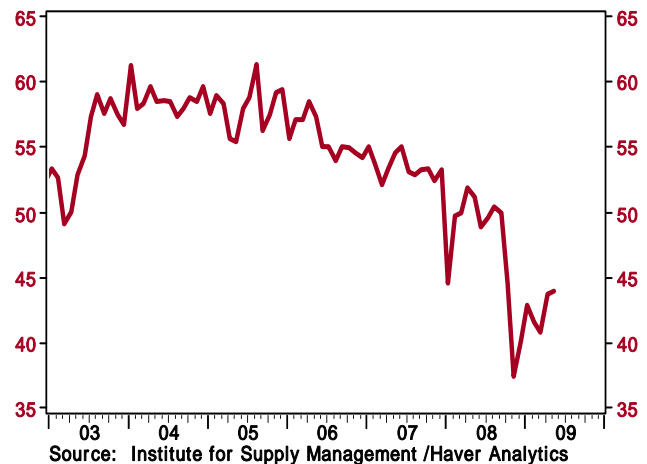
# MAY ISM NON-MANUFACTURING INDEX

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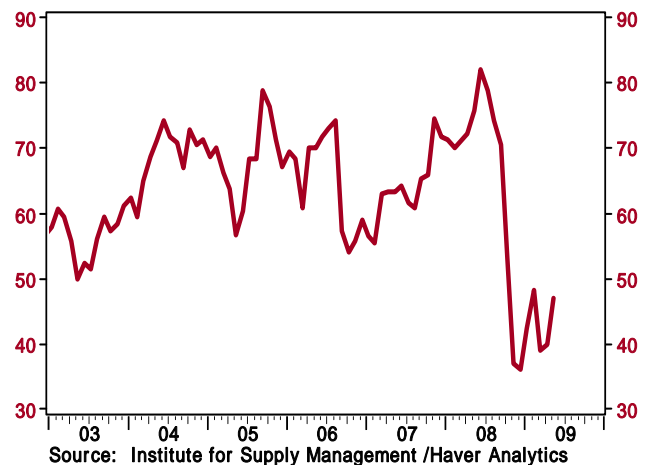
- The ISM Non-Manufacturing composite index increased to 44.0 in May from 43.7 in April. The consensus had expected an increase to 45.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major components of the composite index were mixed in May. The employment and supplier deliveries indexes both increased while the indexes for business activity and new orders both declined.
- The prices paid index increased significantly in May to 46.9 from 40.0 in April.

**Implications:** The ISM Non-Manufacturing index did not rise as much as the consensus expected in May, but did increase to the highest level since October. Given recent data on rebounding home sales and auto sales (discussed below), we expect the index to rise to 50 or more within the next couple of months. In other news this morning, the ADP Employment index, a forecast of private sector payrolls, fell 532,000 in May. While this is still a substantial loss, it is the smallest in six months, signaling that the worst of the job losses are likely behind us. In other recent news, automakers yesterday reported that total light vehicles (cars and light trucks, such as SUVs and pick-ups) were sold at a 9.9 million annual rate in May, up 6.4% from April and the fastest pace so far this year. We expect auto sales to continue to climb back toward a 16 million annual pace in the next two years (See, Bright Prospects for a Steep Auto Sector Recovery, March 23, 2009), despite the bankruptcies of Chrysler and GM. We think this increase will happen even without “cash for clunkers” legislation. Also, pending home sales yesterday rose dramatically in April, increasing 6.7% versus March, handily beating consensus expectations. This marks the third monthly increase and suggests existing home sales are likely jumping again in May, as 80% of pending home sales will become existing home sales in the next two months according to the National Association of Realtors, who release the data. “Pending sales” are counted when contracts are signed on existing homes; they become “existing home sales” at closing.

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



ISM: Nonmfg: Prices Index  
SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-09	Apr-09	Mar-09	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>44.0</b>	43.7	40.8	42.8	42.2	51.2
<b>Business Activity</b>	<b>42.4</b>	45.2	44.1	43.9	42.5	52.9
<b>New Orders</b>	<b>44.4</b>	47.0	38.8	43.4	41.9	52.4
<b>Employment</b>	<b>39.0</b>	37.0	32.3	36.1	35.8	48.3
<b>Supplier Deliveries (NSA)</b>	<b>50.0</b>	45.5	48.0	47.8	48.5	51.0
<b>Prices</b>	<b>46.9</b>	40.0	39.1	42.0	42.1	75.6

Source: Institute for Supply Management

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