

JULY ISM NON-MANUFACTURING INDEX

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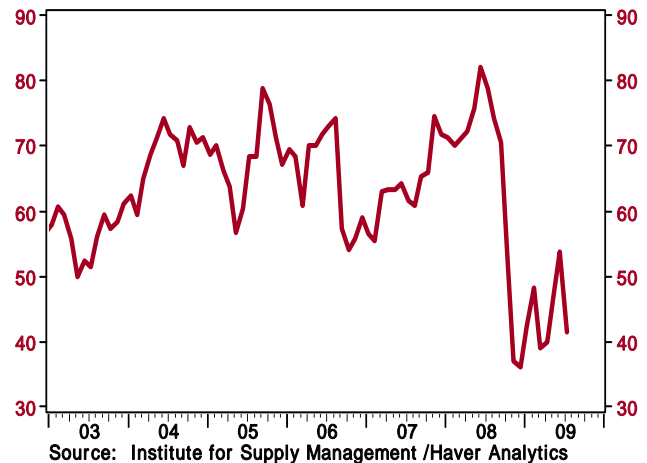
- The ISM Non-Manufacturing composite index decreased to 46.4 in July from 47.0 in June, lower than the consensus expected increase to 48.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major components of the composite index mostly decreased in July. The business activity, new orders, and employment indexes all decreased, while the supplier deliveries index increased.
- The prices paid index decreased to 41.3 in July, from 53.7 in May.

Implications: Today's ISM Non-Manufacturing Index report was weaker than the consensus expected, dropping 0.6 points in July from 47.0 in June. Despite this slight decline in today's report, we expect the upward trend to continue in the months ahead and for the index to break the 50 mark (which signals expansion in the services sector) relatively quickly. We believe part of the reason for the drop in today's report is because the ISM Non-manufacturing index sometimes reflects uncertainty and emotion rather than actual economic output. After the June employment report (which was released at the beginning of July), doubt about the economic recovery became the conventional wisdom. Stock market weakness, as well as increased economic pessimism in early July may have influenced sentiment in this report. Today's report is only one disappointing report in a sea of many positive pieces of data, including autos sales, falling unemployment claims, and rising home sales. Meanwhile, on the inflation front, the prices paid index declined to 41.3 from 53.7 in June, a substantial pullback. Despite this pullback in inflationary pressure last month, we believe inflation will become a growing concern in the economy as the "V"-shaped recovery continues. In other news this morning, the ADP Employment index showed a loss of 371,000 private sector jobs in July, the smallest job loss in nine months. We believe Friday's employment report will show fewer jobs lost in July than the 328,000 payroll decline expected by the consensus.

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>	Jul-09	Jun-09	May-09	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	46.4	47.0	44.0	45.8	43.9	49.6
Business Activity	46.1	49.8	42.4	46.1	44.6	50.1
New Orders	48.1	48.6	44.4	47.0	44.6	48.0
Employment	41.5	43.4	39.0	41.3	38.4	46.8
Supplier Deliveries (NSA)	50.0	46.0	50.0	48.7	47.9	53.5
Prices	41.3	53.7	46.9	47.3	44.9	78.8

Source: Institute for Supply Management

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