

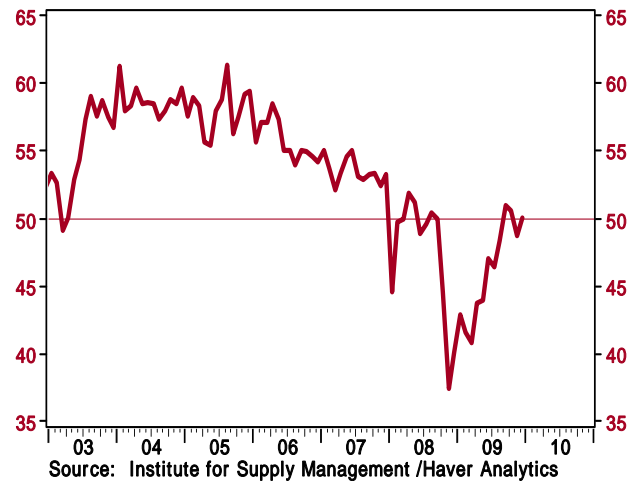
DECEMBER ISM NON-MANUFACTURING INDEX

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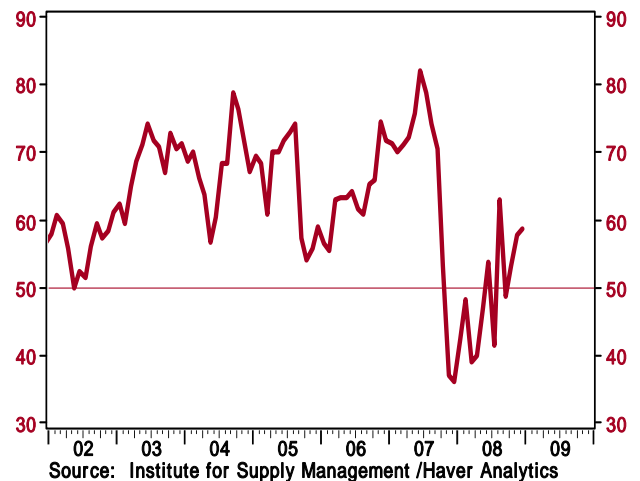
- The ISM Non-Manufacturing composite index increased to 50.1 in December from 48.7 in November. The consensus expected an increase to 50.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- All of the major sub-indexes were either up or above 50 (signaling expansion) in December. The business activity index rose to 53.7 from 49.6, the new orders index declined to 52.1, and the supplier deliveries index rose to 50.5. The employment index rose to 44.0 from 41.6.
- The prices paid index increased to 58.7 in December from 57.8 in November.

Implications: The ISM Non-Manufacturing index fell just short of consensus expectations in December but still rose above 50, signaling expansion. In particular, the business activity index – which has an even stronger statistical link with real GDP growth than the overall index – popped up 4.1 points to a healthy 53.7. The employment index also rose in December to its highest level since September 2008. And while the new orders index fell slightly, it remains above 50, signaling expansion. On the inflation front, the prices paid index increased to 58.7 in December from 57.8 in November, continuing the upward trend of recent months. In other news this morning, the ADP Employment report showed a decline of 84,000 jobs in the private sector in December, the smallest drop in 21 months, but still a loss. However, Challenger, Gray & Christmas, a Chicago-based job placement firm, says layoffs are down 72.9% versus last year. Yesterday, auto companies reported sales at an 11.2 million annual rate in December, faster than the consensus expected and up 16% versus June (before cash for clunkers). We expect further strong gains in the next couple of years as sales are still well below the scrappage rate. In other news yesterday, pending home sales (contracts on existing homes) fell 16% in November. Back in August-October, home buyers thought an \$8,000 tax credit might expire and so front-loaded contracts to make sure they could close before the credit expired. As a result, pending sales were artificially high in the prior few months and artificially low in November. Even still, pending sales in November were higher than anytime from mid-2007 through mid-2009.

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>	Dec-09	Nov-09	Oct-09	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	50.1	48.7	50.6	49.8	49.2	40.1
Business Activity	53.7	49.6	55.2	52.8	51.8	38.9
New Orders	52.1	55.1	55.6	54.3	52.5	38.9
Employment	44.0	41.6	41.1	42.2	42.7	34.5
Supplier Deliveries (NSA)	50.5	48.5	50.5	49.8	49.8	48.0
Prices	58.7	57.8	53.0	56.5	53.8	36.1

Source: Institute for Supply Management

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