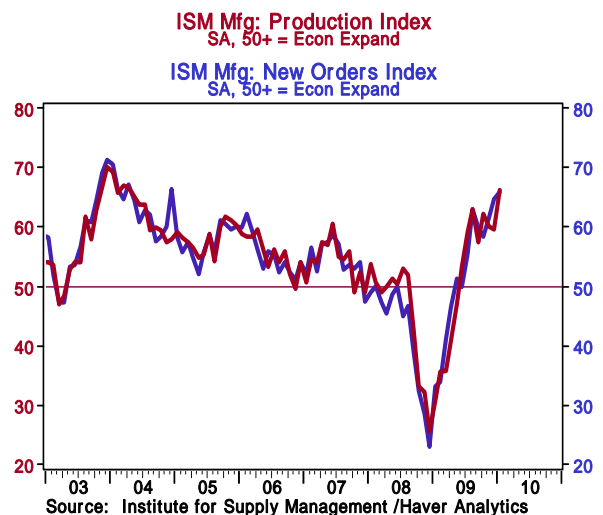
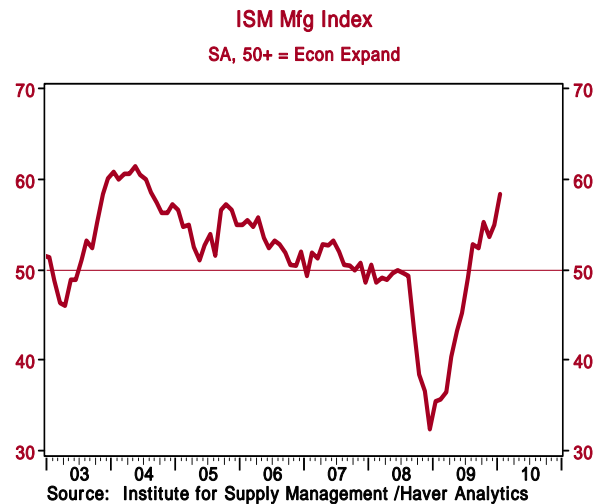


JANUARY ISM MANUFACTURING INDEX

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

- The ISM Manufacturing index spiked up to 58.4 in January from 54.9 in December. The consensus expected an index level of 55.4. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major components of the overall index all increased and remained well above 50, signaling expansion. The new orders index increased to 65.9 from 64.8. The production index increased to 66.2 from 59.7. The employment index increased to 53.3 from 50.2.
- The prices paid index rose to 70.0 in January from 61.5 in December.

Implications: If this isn't a V-shaped recovery, we don't know what is. Today's ISM Manufacturing report blew away consensus expectations, surging to the highest level since 2004. The increase in the ISM shows that the strong real GDP growth of late 2009 was not some kind of one-off inventory-related fluke, but is continuing into 2010. According to the Institute for Supply Management, which publishes the ISM report, an overall index reading of 58.4 is consistent with real economic growth at a 5.5% annual rate. The sub-indexes in the report were also very impressive, with new orders and production both above 65. Meanwhile, the employment index hit 53.3, driving deeper into positive territory and consistent with our view that payrolls increased in January. On the inflation front, the prices paid index rose dramatically to 70.0, the highest since the summer of 2008. The Fed is way behind the monetary 8-ball and needs to act to curb rising inflation, the sooner the better. In other news this morning, construction fell 1.2% in December. However, including large upward revisions to October/November, construction was up 0.3%. The upward revisions were due to a steeper rebound in home building, now up 10% versus the low in mid-2009.



Institute for Supply Management Index	Jan-10	Dec-09	Nov-09	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	58.4	54.9	53.7	55.7	54.6	35.5
<i>New Orders</i>	65.9	64.8	61.5	64.1	62.2	33.2
<i>Production</i>	66.2	59.7	60.2	62.0	61.5	30.8
<i>Inventories</i>	46.5	43.0	41.4	43.6	42.4	38.4
Employment	53.3	50.2	49.6	51.0	49.7	29.0
<i>Supplier Deliveries</i>	60.1	56.8	55.7	57.5	57.0	45.9
<i>Order Backlog (NSA)</i>	56.0	50.0	52.0	52.7	52.9	29.5
<i>Prices Paid (NSA)</i>	70.0	61.5	55.0	62.2	63.3	29.0
<i>New Export Orders</i>	58.5	54.5	56.0	56.3	55.8	37.5

Source: National Association of Purchasing Management

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