

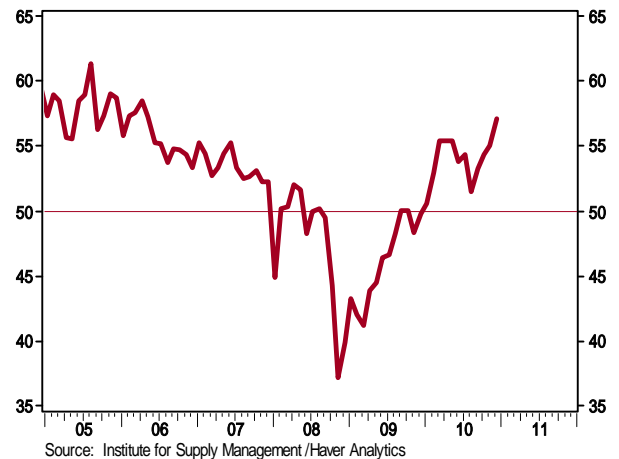
# DECEMBER ISM NON-MANUFACTURING INDEX

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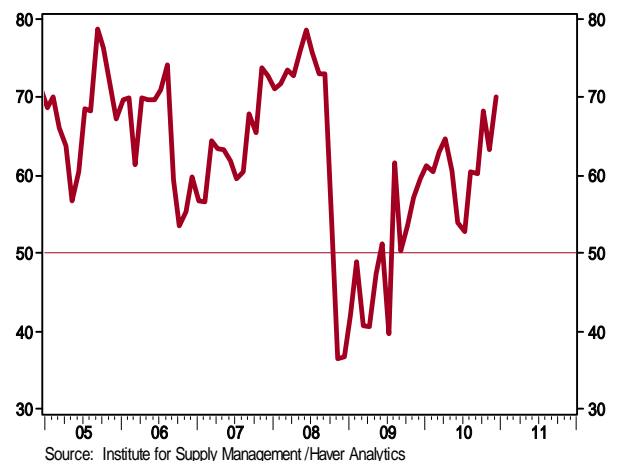
- The ISM non-manufacturing composite index increased to 57.1 in December from 55.0 in November, easily beating the consensus expected gain to 55.7. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mixed in December, but remain at levels indicating robust economic growth. The new orders index increased to 63.0 from 57.7 and the business activity index rose to 63.5 from 57.0, both multi-year highs. The employment index fell to 50.5 from 52.7 and the supplier deliveries index fell to 51.5 from 52.5.
- The prices paid index increased to 70.0 in December, the highest since the collapse of Lehman Brothers, from 63.2 in November.

**Implications:** The early stage of the economic recovery was dominated by the manufacturing sector. That phase is now over: the service sector is growing rapidly, too. The US economy continues to pick up steam, supporting our forecast of a 5% real GDP growth rate in Q4. Today's ISM Services headline of 57.1 is the highest reading since May 2006. The business activity index, which has an even higher correlation with real GDP growth, hit 63.5, the highest since 2005. The new orders index was also the highest since 2005. On the inflation front, the prices paid index increased to 70.0, the highest since the financial panic started in late 2008. In other news this morning, the ADP employment index, a measure of private sector payrolls, increased by 297,000 in December, the largest increase in the index's history, dating back to 2000. As a result, we are lifting our forecast for the gain in private sector payrolls in Friday's official Labor Department report to 230,000. (Non-farm payrolls should climb about 215,000 due to ongoing layoffs by states and localities.) In other news from late yesterday, automakers reported that sales of cars and light trucks hit a 12.5 million annual pace in December, up 2.3% from November and up 13% versus a year ago. The service sector is getting stronger, firms are hiring again, and workers are confident enough about the future to ramp up their purchases of big-ticket items. What a great way to start a new year.

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-10	Nov-10	Oct-10	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>57.1</b>	55.0	54.3	55.5	54.2	49.8
<b>Business Activity</b>	<b>63.5</b>	57.0	58.4	59.6	57.3	53.2
<b>New Orders</b>	<b>63.0</b>	57.7	56.7	59.1	56.9	52.0
<b>Employment</b>	<b>50.5</b>	52.7	50.9	51.4	50.6	43.6
<b>Supplier Deliveries (NSA)</b>	<b>51.5</b>	52.5	51.0	51.7	52.2	50.5
<b>Prices</b>	<b>70.0</b>	63.2	68.3	67.2	62.4	59.6

Source: Institute for Supply Management

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