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FIRST Trust ADVISORS L.P.

Oct 16, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-16 / 7:30 am	Oct Empire State Mfg Survey	11.2	13.0	**22.9**	13.8
10-17 / 7:30 am	Sep PPI	-0.7%	-0.8%		+0.1%
	Sep "Core" PPI	+0.2%	+0.2%		-0.4%
8:15 am	Sep Industrial Production	-0.1%	0.0%		-0.1%
	Sep Capacity Utilization	82.2%	82.3%		82.4%
10-18 / 7:30 am	Sep CPI	-0.3%	-0.4%		+0.2%
	Sep "Core" CPI	+0.2%	+0.2%		+0.2%
	Sep Housing Starts	1.64M	1.68M		1.67M
10-19 / 7:30 am	Initial Unemployment Claims	310K	305K		308K
9:00 am	Sep Leading Indicators	+0.3%	+0.4%		-0.2%
11:00 am	Oct Philly Fed Survey	7.0	8.0		-0.4

The Tigers are Back, The Economy is Still Strong

Congratulations to the Detroit Tigers, who have returned to the World Series for the first time since 1984. This reflects a breathtaking recovery from 2003, when the Tigers lost 119 games, just one game shy of the record of 120 games, which was set by the New York Mets in 1962.

This type of dramatic turnaround for a sports franchise is rare, but not unprecedented. It also happens in the business and political world, when companies or politicians, who are written-off for dead, bounce back to achieve greatness.

While the economy is made up of people and their actions, it cannot be described in the same way we describe teams or individuals. It is more like an eco-system – a rainforest, timberland or river.

Seasonal weather patterns cause these eco-systems to move through normal cycles. Sometimes, abnormal amounts of rainfall or a drought can change things, but the damage is usually reversed relatively quickly. Eco-systems rarely go into major freefalls or recoveries without some outside force. Sometimes those forces are good – such as burning off the underbrush in timberlands to help avoid major forest fires. Other times those forces are problematic for the eco-system – such as building a dam and cutting off its water supply. It's the difference between nurturing and mastering

The economy is exactly the same. Outside forces are the most damaging. For example, the Great Depression was caused by a series of really dumb policies. The Fed tightened monetary policy too much, the Smoot-Hawley Tariff Act killed global trade, and Herbert Hoover hiked tax rates in the early 1930s. Recessions are caused by policy mistakes.

They are not caused by overly indebted consumers, housing slumps, rising energy prices, or aggressive foreign competitors. Housing may fall and consumer debt may become a problem, but only after detrimental changes in monetary or fiscal policy occur. As analysts we must be certain to separate cause from effect.

Doing so allows us to remain complacent about the risk of recession today. Tax rates are still very low and the Fed is not yet excessively tight. While policymakers may have made some mistakes (on spending and regulation for sure), these mistakes are not large enough to cause a recession.

While real GDP growth likely slowed to a rate near 2.5% in the third quarter, this is not a sign of major problems. We continue to expect the economy to grow at a 3.5% real rate or more in the year ahead.

So, while teams and individuals naturally live through hardship and recovery, the economy's fate is in the hands of policy-makers. The best policy is to stay out of the way – think nurture, not master.

Week of October 23, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-25 / 9:00 am	Sep Existing Home Sales	6.21M	6.25M		6.30M
1:15 pm	FOMC Meeting	5.25%	5.25%		5.25%
10-26 / 7:30 am	Sep Durable Goods Orders	+1.0	+1.3%		-0.5%
9:00 am	Sep New Home Sales	1.06M	1.10M		1.05M
10-27 / 7:30 am	Q3 Real GDP: Advanced	+2.2%	+2.3%		+2.6%
	Q3 GDP Price Index: Advanced	+2.8%	+3.0%		+3.3%

Brian S. Wesbury; Chief Economist **Bill Mulvihill; Senior Economist**