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FIRST Trust ADVISORS L.P.

Oct 23, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-25 / 9:00 am	Sep Existing Home Sales	6.21M	6.35M		6.30M
1:15 pm	FOMC Meeting	5.25%	5.25%		5.25%
10-26 / 7:30 am	Sep Durable Goods Orders	+2.0%	+3.0%		-0.5%
	Initial Unemployment Claims	308K	300K		299K
9:00 am	Sep New Home Sales	1.05M	1.10M		1.05M
10-27 / 7:30 am	Q3 Real GDP: Advanced	+2.0%	+2.5%		+2.6%
	Q3 GDP Price Index: Advanced	+2.8%	+2.8%		+3.3%

Let the Voting Begin

After deliberating for two days, the Federal Reserve Board will vote on its interest rate policy, and the wording of its official statement, on Wednesday October 25th. The outcome of this vote is not in doubt. We expect a vote of 10-1 to keep the funds rate stable at 5.25%.

As he has done at the past two meetings, Jeffrey M. Lacker, President of the Richmond Fed, is likely to dissent. He believes that inflation remains a problem and would like another 25 basis point rate hike.

We agree with Mr. Lacker. Our views are summed up by the president of the Chicago Fed, Michael Moskow, who recently said that "the risk of inflation remaining too high is greater than the risk of growth being too low."

While the wording of the statement is not as easy to predict, our inclination is to expect some slightly more hawkish language. This would be a surprise to the futures markets who have priced in a Fed rate cut in the middle of 2007.

We base our view on two underlying developments. First, inflation is not dead. Second, the Fed is beginning to believe that the economy's potential growth is slower than it previously thought.

Even though the overall Consumer Price Index fell by 0.5% in September, the "core" CPI (excluding food and energy) expanded by a high 0.2% - un-rounded 0.24% - for the second month in a row. In the past 12 months, the 'core' CPI has jumped by 2.9%, its fastest growth in 10 years.

In an additional sign of rising inflationary pressures, the CRB Spot Commodity Price Index (which does not include oil or precious metals) climbed to a record high last week, and is up 16.6% in the past year. If the Fed was tight, commodity prices would be falling, not rising.

The second development was reported today by Craig and Carlos Torres of Bloomberg. They report that the Fed staff has lowered its estimate of potential real GDP growth.

Until recently, the Fed and many economists have expected a slowdown to below trend growth that would pull inflation down. But if potential growth is weaker than once thought, Fed models will no longer show any significant decline in inflation this year and could forecast an increase next year.

While we do not believe that potential growth is slowing, or that slow growth tames inflation, the Fed does. Moreover, our models suggest that the Fed is still holding rates below neutral. As a result, no matter what the vote is on Wednesday, rate hikes are more likely than rate cuts in the year ahead.

Week of October 30, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-30 / 7:30 am	Sep Personal Income	+0.3%	+0.5%		+0.3%
	Sep PCE	+0.2%	0.0%		+0.1%
10-31 / 9:00 am	Oct Chicago PMI	58.0	60.0		62.1
11-1 / 9:00 am	Oct ISM Index	53.5	54.0		52.9
Sometime During	Oct Domestic Car Sales	5.4M	5.5M		5.3M
the Day	Oct Domestic Truck Sales	7.5M	7.6M		7.7M
11-2 / 7:30 am	Q3 Productivity: Preliminary	+1.5%	+1.8%		+1.6%
	Q3 Unit Labor Costs: Preliminary	+3.5%	+3.8%		+4.9%
11-2 / 9:00 am	Sep Factory Orders	+1.8%	+2.1%		0.0%
11-3 / 7:30 am	Oct Non-farm Payrolls	+125K	+180K		+51K
	Oct Manufacturing Payrolls	-3K	+5K		-19K
	Oct Unemployment Rate	4.6%	4.5%		4.6%
	Oct Average Hourly Earnings	+0.3%	+0.3%		+0.3%
11-3 / 9:00 am	Oct ISM Non-Man Index	54.5	55.0		52.9

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