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FIRST Trust ADVISORS L.P.

Oct 30, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-30 / 7:30 am	Sep Personal Income	+0.3%	+0.5%	**+0.5%**	+0.4%-r
	Sep PCE	+0.3%	+0.1%	**+0.1%**	+0.2%-r
10-31 / 9:00 am	Oct Chicago PMI	58.0	60.0		62.1
11-1 / 9:00 am	Oct ISM Index	53.0	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%	+1.6%		+1.6%
	Q3 Unit Labor Costs: Preliminary	+3.5%	+3.8%		+4.9%
	Initial Unemployment Claims	310K	302K		308K
11-2 / 9:00 am	Sep Factory Orders	+2.8%	+4.0%		0.0%
11-3 / 7:30 am	Oct Non-farm Payrolls	+125K	+135K		+51K
	Oct Manufacturing Payrolls	-5K	+5K		-19K
	Oct Unemployment Rate	4.6%	4.5%		4.6%
	Oct Average Hourly Earnings	+0.3%	+0.3%		+0.2%
11-3 / 9:00 am	Oct ISM Non-Man Index	54.2	55.0		52.9

A Pause in Growth and Questionable Polls

Four months ago, we felt that third quarter real GDP growth would print near 3.5%, but as data rolled in we reduced our forecast to roughly 2.5%. Even that proved too optimistic when Q3 real GDP growth was reported at 1.6%.

Even more disappointing, from our point of view, was the extremely weak 3.4% annualized growth rate of nominal GDP (or aggregate demand), which reduced the year-over-year growth rate to 5.8% and the two-year average annualized rate to 6.2%.

We use the growth rate of nominal GDP as a proxy for Fed interest rate policy. Specifically, we have argued that a neutral federal funds rate is roughly 1% below the two-year average annual growth rate of nominal GDP.

With the federal funds rate at 5.25%, our model suggests that the Fed has reached neutral. This does not mean that the Fed should cut rates, or that the economy is in trouble. After all, monetary policy is not yet tight. However, it does suggest that the Fed's pause could last longer than we once thought.

It is highly unusual for the economy to slow sharply without Fed policy actually becoming tight, and in the past 45 years, the US has not experienced a recession unless the federal funds rate climbed above the 2-year annualized growth rate of nominal GDP. As a result, we remain convinced that the economy is not in any danger of recession.

With the CRB Spot Commodity Price Index (which does not include precious metals or oil) at an all-time high, gold over $600/oz. and the dollar back above $1.27 per Euro, there is little evidence of tight money in sensitive markets. At the same time, monetary liquidity is plentiful. As a result, excessively tight money is not the cause of our recent slowdown and we forecast a rebound in growth during the months ahead.

In another important area of analysis, we are convinced that national polls are overstating the potential for Republicans to lose both houses of Congress. Our local congressional contest (IL-6), between Peter Roskam (R) and Tammy Duckworth (D), for the seat being vacated by long serving house member Henry Hyde (R), is considered a toss-up by many national pollsters.

This seat is mostly in DuPage County, a staunch Republican stronghold. If the polls are correct, there has been a groundswell of Democratic support. But there is scant evidence to support this notion.

In the 2004 primary, an uncontested Hyde received 50,583 votes, while two Democrats split 36,158 votes. Hyde went on to win 139,627 to 110,470. In the 2006 primary, an uncontested Peter Roskam received 50,794 votes, while three Democratic challengers (who spent almost $1 million combined) split 32,575 votes. Republican votes went up by 211, while Democratic votes fell by 3,583. Where's the groundswell?

While we have not analyzed every race in the country, based upon hard data from IL-6, we are discounting national polls, and we continue to believe that Republicans will maintain control of both houses of Congress this election.

Week of November 6, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-09 / 7:30 am	Oct Import Prices	-0.6%	-0.3%		-2.1%
	Oct Export Prices	0.0%	+0.4%		-0.5%
	Sep Trade Balance	-$67.0B	-$65.5B		-$69.9B

Brian S. Wesbury; Chief Economist