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FIRST Trust ADVISORS L.P.

Oct 9, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-11 / 1:00 pm	Fed Beige Book				
10-12 / 7:30 am	Aug Trade Balance	-$66.8B	-$66.0B		-$68.0B
	Initial Unemployment Claims	311K	300K		302K
10-13 / 7:30 am	Sep Retail Sales	+0.2%	+0.4%		+0.2%
	Sep Retail Sales Ex Autos	0.0%	+0.2%		+0.2%
	Sep Import Prices	-1.4%	-1.6%		+0.8%
	Sep Export Prices	+0.2%	+0.3%		+0.4%

Jobs Growth – Strong or Weak

On its surface, the Bureau of Labor Statistics' September employment report, which reported just 51,000 new payroll jobs, confirmed the pessimism of many analysts and investors. But, upon further review, the report confirmed our belief that the economy retains much of its forward momentum despite a weak housing market and concerns about Fed tightening.

August payrolls were revised up by 60,000, and now show a gain of 188,000. The household survey reported 271,000 new jobs in September after a gain of 250,000 in August. And the unemployment rate fell to 4.58% in September, its lowest level since November 2001. Average hourly earning increased by 0.2% in September and are 4.0% above year-ago levels, significantly stronger growth than the 25-year average growth rate of 3.3%

To top it off, the BLS released its preliminary estimate of its benchmark revision to the payroll employment data. Every year, the BLS gathers lagged data from state unemployment insurance systems and updates its estimate of the total number of jobs in the economy. This is similar to adjusting a scale for the tare weight of a container. The benchmark gives the BLS a baseline to work from when producing its jobs data each month.

This year the benchmark revision shows that there were 810,000 more jobs in March 2006 than originally thought – one of the biggest revisions in history.

These revisions should not be a surprise. Because the payroll employment data comes from a survey of existing establishments it misses new small business formations, independent contractors and the self-employed. It misses software programmers working out of their grandmother's attic and those who make their living on eBay.

The household survey, because it asks people directly whether they are working is a much better set of data for catching these non-traditional jobs. And, for at least a decade, we have tried to make the case that the market should watch the household survey, not the establishment survey.

Doing so gives a much stronger picture of economic activity this year. In the past two months, the household survey shows an average of 271,000 new jobs per month, while the payroll survey shows just 120,000. When combined with initial unemployment claims that remain very near 300,000 per week, the data show that the economy maintains strong forward momentum.

As a result, the market is now reconsidering its belief that the next move by the Fed will be a rate cut. We expect this process to continue. The economy is much stronger than many believe and we continue to expect the Fed to return to its rate hiking sometime later this year or early next year. We remain convinced that a neutral federal funds rate is near 6% and that inflationary pressures will continue to build as long as the Fed holds rates below that level.

Week of October 16, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-16 / 7:30 am	Oct Empire State Mfg Survey	15.0	14.0		13.8
10-17 / 7:30 am	Sep PPI	-0.6%	-0.8%		+0.1%
	Sep "Core" PPI	+0.2%	+0.2%		-0.4%
8:15 am	Sep Industrial Production	+0.1%	+0.1%		-0.1%
	Sep Capacity Utilization	82.4%	82.4%		82.4%
10-18 / 7:30 am	Sep CPI	-0.2%	-0.1%		+0.2%
	Sep "Core" CPI	+0.2%	+0.3%		+0.2%
	Sep Housing Starts	1.64M	1.65M		1.67M
10-19 / 9:00 am	Sep Leading Indicators	+0.4%	+0.4%		-0.2%
11:00 am	Oct Philly Fed Survey	10.0	7		-0.4

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