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FIRST Trust ADVISORS L.P.

Dec, 11 2006

# Monday Morning Outlook

| Date/Time (CDT) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|---|---|---|---|---|---|
| 12-12 / 7:30 am | Oct International Trade Balance | -$63.0B | **-$62.0B** | | -$64.3B |
| 12-13 / 7:30 am | Nov Retail Sales | +0.2% | **+0.4%** | | -0.4% |
| 7:30 am | Nov "Core" Retail Sales | +0.3% | **+0.4%** | | -0.4% |
| 9:00 am | Oct Business Inventories | +0.4% | **+0.4%** | | +0.4% |
| 12-14 / 7:30 am | Nov Import Price Index | 0.0% | **-0.1%** | | -2.0% |
| 7:30 am | Nov Export Price Index | +0.1% | **+0.3%** | | -0.4% |
| 7:30 am | Initial Claims, Week of 12/9 | +320K | **+318K** | | N/A |
| 12-15 / 7:30 am | Nov Consumer Prices | +0.2% | **+0.2%** | | -0.5% |
| 7:30 am | Nov "Core" CPI | +0.2% | **+0.3%** | | +0.1% |
| 7:30 am | Dec Empire State Index | +18.0 | **+21.2** | | +26.7 |
| 8:15 am | Nov Industrial Production | +0.1% | **+0.2%** | | +0.2% |
| 8:15 am | Nov Capacity Utilization | +82.2% | **+82.3%** | | +82.2% |

## Comfort Food

The overall economic growth rate did not suffer greatly from 9/11 – consumer spending was higher in October 2001 than it was before the attacks. Nonetheless, an increase in perceived risks caused a series of long-playing and somewhat dramatic developments to unfold over the past five years.

On the very micro-level, cucumber sorbet was out, while pecan pie and bread pudding were in. A little bit up the food chain, so to speak, airline travel and hotel stays plummeted in the wake of 9/11, but consumers spent more on their homes and motor vehicles – comfort food types of investment. Even further along the pipeline of economic activity, business insurance costs soared, which led to a dip in investment and non-residential construction. This dip occurred despite the Fed's decision to drop interest rates even more sharply in the aftermath of the attacks.

Now, more than five years later, the economy is still reeling from many of these decisions. After gorging on houses and autos when interest rates were low and the appetite for risk was suppressed, these markets are now satiated. While we reject the idea of bubbles, it is clear that absurdly low interest rates (1% federal funds rate and 0% auto-financing) turbocharged these markets and stole future growth from these sectors.

Moreover, the risk aversion induced by terrorism also pulled equity prices into undervalued territory and pushed bonds (which many view as less-risky investments) into overvalued territory.

But now, comfort food is giving way to what many might call more risky fare. Housing is clearly in decline and autos are struggling, but the stock market is climbing steadily. At the same time, airline travel is at new record highs and there is a shortage of hotel rooms in many markets.

While no investment is truly risk free, aversion to risk has allowed corporate profits to more than double over the past five years without a commensurate increase in stock prices. And despite recent strength, the S&P 500 remains 25% to 30% undervalued.

Weakness in housing and autos is not bad news for equity investors because weakness in these comfort food markets is not a result of a squeeze in liquidity. The Fed is not tight, it is just less loose. Interest rates are still low, liquidity is plentiful and the results will be tasty.

***Week of December 18, 2006***

| Date/Time (CDT) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|---|---|---|---|---|---|
| 12-19 / 7:30 am | Nov PPI | **+0.4%** | **+0.2%** | | -1.6% |
| 7:30 am | Nov "core" PPI | **+0.3%** | **+0.3%** | | -0.9% |
| 7:30 am | Nov Housing Starts | **+1.55M** | **+1.56M** | | +1.486M |
| 12-21 / 7:30 am | Final Q3 GDP | **+2.2%** | **+2.2%** | | +2.2% |
| 7:30 am | Final Q3 Chain Price Index | **+1.8%** | **+1.8%** | | +1.8% |
| 11:00 am | Philadelphia Fed Index | **+6.0** | **+8.2** | | +5.1 |
| 12-22 / 7:30 am | Nov Durable Goods Orders | **+4.0%** | **+4.5%** | | -8.2% |
| 7:30 am | Nov Personal Income | **+0.3%** | **+0.5%** | | +0.4% |
| 7:30 am | Nov Personal Consumption Expen. | **+0.4%** | **+0.4%** | | +0.2% |

**Brian S. Wesbury; Chief Economist**