FIRST Trust ADVISORS L.P.

Monday Morning Outlook

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Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-21 / 9:00 am	Jan Leading Indicators	+0.5%	+0.5%	**+1.1%**	+0.3% - r
2-22 / 7:30 am	Jan CPI	+0.5%	+0.5%		-0.1%
	Jan "Core" CPI	+0.2%	+0.3%		+0.2%
2-23 / 7:30 am	Initial Unemployment Claims	298K	280K		297K
2-24 / 7:30 am	Jan Durable Goods	-1.0%	-0.4%		+1.8%

Growth and Taxes

Halfway through the first quarter, the US economy is firing on all cylinders. Initial claims have been below 300K for five consecutive weeks – a streak not seen since 2000. Non-farm payrolls have grown by an average of 229K during the past three months, the unemployment rate fell to a post recession low of 4.7% in January, and average hourly earnings jumped 0.4%.

A booming labor market and rising incomes have offset pessimistic fears of elevated energy prices. Retail sales jumped 2.3% in January and Q1 consumption is on pace to rise at its fastest rate since the post-9/11 surge in Q4 2001.

While business investment grew only 2.8% in Q4, the weakness appears to be hurricane related, not structural. Durable goods orders jumped 5.4% in November and 1.2% in December. Healthy corporate balance sheets, and another quarter of double digit profit growth, cause us to be optimistic about business investment in 2006.

As a result, we expect first quarter real GDP to rise at a 5.5% annual rate. This would be the fastest growth since Q3 2003 and squelch any fears that weakness late in 2005 was a sign that the economy was wobbly.

Economic contractions do not just happen – they are caused by either monetary of fiscal policy mistakes. For example, Smoot-Hawley tariffs caused the Great Depression, while excessive Fed tightening caused the recession of 2001.

Currently, both Fed policy and fiscal policy are tilted towards growth. Even after 14 rate hikes, the 4.5% funds rate remains below the 5.4% average rate during the late 90s boom.

The 2003 tax cut on marginal income and investment continues to provide incentives for risk taking and entrepreneurial activity – the lifeblood of any economy. Nowhere is the power of these incentives more evident than business investment, which had declined for nine consecutive quarters prior to the tax cut – the longest decline on record – only to snap back and rise for 11 consecutive quarters at an average real rate of 8.4% once the tax cuts were passed.

Unfortunately, the tax cut on dividends and capital gains is set to expire at the end of 2008 because a permanent tax cut was scored (estimated) to be too expensive. "Static" scoring models, such as those used by Congress, which assume tax cuts create no benefit for the economy or asset values, consistently overestimate the "cost" of tax cuts.

In 2003, before the tax cut, CBO estimated that capital gains tax revenues would total $408 billion between 2003 and 2008. The 2004 forecast for the same 6-year period estimated revenues of $335 billion – the tax cut was scored to "cost" $73 billion. The latest estimates put total capital gains tax revenues for the 2003-08 period at $464 billion, $129 billion higher than estimated. This is a huge forecasting error.

As Congress attempts to extend the successful dividend and capital gains tax relief past 2008, these estimators are at it again. Because the 2006 budget only allows for $70 billion in tax relief, Congress is forced to use accounting gimmicks to bring the inaccurate "static" cost below this artificial line. This needless tinkering threatens the outlook for the extension of the lower tax rates past 2008.

Policy matters. Failure to extend the investment tax cuts this year could cause near-term problems for the stock market. Regardless, we expect the economy to remain strong through 2008.

Week of February 27, 2006

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-27 / 9:00 am	Jan New Home Sales	1.288M	1.300M		1.269M
2-28 / 7:30 am	Q4 Real GDP: Preliminary	+1.4%	+1.4%		+1.1%
	Q4 GDP Price Index: Preliminary	+3.0%	+3.0%		+3.0%
9:00 am	Jan Existing Home Sales	6.80M	6.85M		6.60M
	Feb Chicago PMI	58.8	59.0		58.5
3-1 / 7:30 am	Jan Personal Income	+0.6%	+0.6%		+0.4%
	Jan Personal Consumption	+0.8%	+1.5%		+0.9%
9:00 am	Feb ISM Manu Index	55.5	56.0		54.8
Sometime During	Feb Domestic Auto Sales	6.2M	6.5M		6.5M
the Day	Feb Domestic Light Truck Sales	7.5M	7.6M		7.7M
3-3 / 7:30 am	Feb ISM Non Manu Index	58.3	58.5		56.8

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