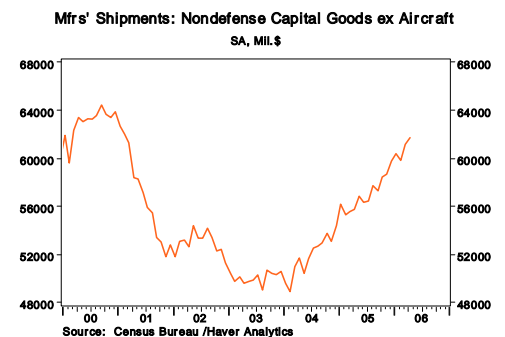
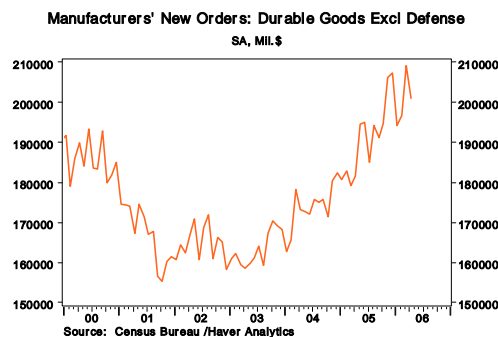
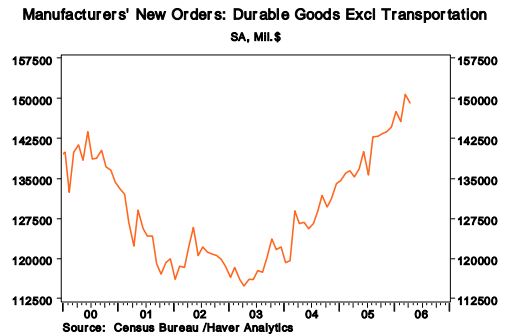
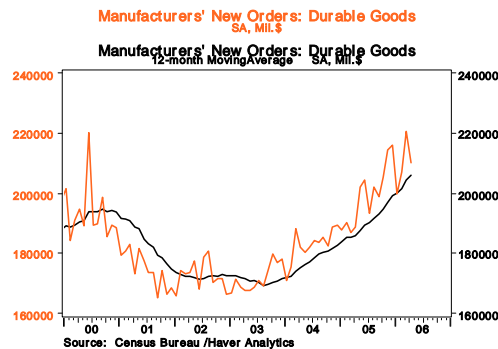


APRIL DURABLE GOODS

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

- New orders for durable goods fell by a more-than-expected 4.8% in April. But this decline follows a 6.6% increase in March and a 3.6% gain in February. Durable goods new orders are up a strong 11.3% in the past year.
- Transportation orders slid 12.7% in April. Excluding transportation, new orders fell 1.1% after a 3.5% gain in March, and are up 10.3% in the past year. Excluding defense, orders declined 3.8% in April versus a 6.3% surge in March.
- Shipments of durable goods fell 0.9% last month. Shipments of non-defense capital goods, ex aircraft (a proxy for capital investment) rose 0.9% in April, and are an annualized 10.5% higher than the Q1 average.



Implications: Durable goods orders fell 4.8% in April, an understandable correction after gains in February and March totaling 10.4%. Durable goods data are notoriously volatile and thus it is best to look at the long term trend. In the past year, durable goods orders are up 11.3%, orders ex transportation are up 10.3% and orders ex defense are up 10.8%. Moreover, shipments of non-defense, non-aircraft capital goods jumped 0.9% in April and are an annualized 10.5% higher than their Q1 average. This suggests that business investment remains strong and the non-residential investment component of GDP should increase at a double digit rate again in Q2. As a result, we continue to forecast Q2 real GDP to be a healthy 3.3%. Moreover, with tax rates low and the Fed still holding interest rates below "neutral," business investment should remain strong throughout 2006 and into 2007.

Durable Goods Orders <i>All data seasonally adjusted</i>	Apr-06	Mar-06	Feb-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Durable Goods Orders	-4.8%	6.6%	3.6%	22.4%	4.9%	11.3%
Ex Defense	-3.8%	6.3%	1.2%	14.9%	6.5%	10.8%
Ex Transportation	-1.1%	3.5%	-1.2%	4.8%	8.3%	10.3%
Primary Metals	3.2%	4.3%	-3.6%	15.5%	5.9%	16.6%
Industrial Machinery	-0.2%	5.7%	-7.4%	-9.3%	7.7%	12.1%
Computers and Electronic Products	-10.4%	12.0%	6.3%	29.3%	15.3%	10.0%
Transportation Equipment	-12.7%	13.9%	17.1%	84.1%	-2.9%	13.8%
Shipments	-0.9%	0.3%	0.3%	-1.5%	3.7%	6.0%
Unfilled Orders	1.5%	3.2%	1.2%	26.3%	24.1%	23.0%
Capital Goods Orders	-8.1%	12.3%	11.6%	76.0%	9.8%	19.2%
Defense	-24.2%	15.3%	130.7%	1558.0%	-28.3%	25.5%
Nondefense Capital Goods	-6.0%	11.9%	4.7%	47.3%	15.6%	18.6%

Source: Bureau of the Census

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