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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-13 / 7:30 am	Apr Business Inventories	+0.5%	+0.4%		+0.7%
	May PPI	+0.5%	+0.6%		+0.9%
	May "Core" PPI	+0.2%	+0.3%		+0.1%
	May Retail Sales	+0.1%	0.0%		+0.5%
	May Retail Sales Ex Autos	+0.5%	+0.5%		+0.7%
6-14 / 7:30 am	May CPI	+0.4%	+0.4%		+0.6%
	May "Core" CPI	+0.2%	+0.3%		+0.3%
1:00 pm	Fed Beige Book				
6-15 / 7:30 am	Jun NY Fed Survey	12.2	13.0		12.4
	Initial Unemployment Claims	320K	310K		302K
8:15 am	May Industrial Production	+0.2%	+0.1%		+0.8%
	May Capacity Utilization	82.0%	82.0%		81.9%
11:00 am	Jun Philly Fed Survey	11.2	13.0		14.4

Is the Economy Really Slowing Down?

Real GDP expanded at a 3.3% annual rate in the second quarter of 2005. This was followed by a 4.4% growth rate in the third quarter and then a post-Katrina swoon of 1.7% in the fourth quarter – which many took as a sign that the economy was slowing. Nonetheless, a post-Katrina rebound boosted real GDP to a barn-burner 5.3% rate in the first quarter of 2006. First Trust Economics' expects second quarter growth to slow to 2.8%.

Assuming that this forecast is correct, real GDP will have expanded at a 3.5% rate during the four quarters ending in June. Not bad for a year with nine rate hikes, \$3 gasoline, \$70 oil, \$11 natural gas, the loss of our 35th largest city to a hurricane, a slowing housing market, stumbling consumer confidence, and general malaise in most national polls regarding the health of the economy and the performance of our President.

The question, however, is not what the economy has done, but what it will do. A majority of economists, including those at the Federal Reserve, believe that the economy will continue to weaken as this year unfolds. The story line goes as follows: The cumulative (and lagged) impact of rising interest rates and energy prices, combined with a slowdown in housing will undermine consumer purchasing power.

Certainly, it appears that this is exactly what happened in our current quarter. Real consumer spending is expected to slow to 2.0% annualized growth from 5.2% in the first quarter, while real residential investment is expected to decline by 3.0% after growing at an equivalent 3.0% annual rate in the first quarter.

However, the assumption that this trend will continue is a forecast, not a given. We do not believe that the economy will slow much, if at all, in the second half of 2006. Leading indicators of business confidence remain robust. Heavy duty (above 14,000 lbs.) truck sales were 10.5% above year-ago levels in the first quarter, while capital goods orders (excluding defense and aircraft) were up 9.2% year-over-year in April.

In addition, while consumer attitudes have swooned, the actual state of the consumer has improved. The unemployment rate fell to a cycle low of 4.6% in May and average hourly earnings have increased 4.2% at an annual rate in the past six months, their fastest six-month growth rate since 2000. Moreover, household wealth hit another record high in March, rising to \$53.8 trillion. Contrary to conventional wisdom, US households are some of the best savers in the world. In an additional sign of economic strength, tax revenues are surging – up 14.6% last year and 11.2% so far in 2006.

The underlying drivers of the economy are still pointed upward. Productivity is strong, tax rates remain low and our models suggest that a "neutral" federal funds rate is roughly 6%. The Fed is definitely less loose than they have been in recent years, but monetary policy is not yet tight.

As long as these underlying forces remain pointed in their current direction the economy will continue to grow at a faster than average pace. The things we worry about have nothing to do with rate hikes, high energy prices or the housing market. The four things that can kill an economy are all policy related – tax hikes, trade protectionism, government over-spending or regulation, and bad monetary policy. Talk of a major budget summit being pushed by some in Congress and the White House, that could address entitlement spending, is especially dangerous if it leads to tax hikes. But any deal is still way off in the future. In the meantime, the economy is robust enough to grow strongly in the second half.

Week of June 19, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-20 / 7:30 am	May Housing Starts	1850K	1825K		1849K
9:00 am	May Leading Indicators	-0.4%	-0.3%		-0.1%
6-23 / 7:30 am	May Durable Goods Orders	+0.8%	+1.0%		-4.4%

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