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FIRST Trust ADVISORS L.P.

Jul 24, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-25 / 9:00 am	Jun Existing Home Sales	6.60M	6.60M		6.67M
7-27 / 7:30 am	Jun Durable Goods Orders	+1.5%	+2.2%		-0.2%
	Initial Unemployment Claims	310K	298K		304K
9:00 am	Jun New Home Sales	1.18M	1.19M		1.23M
7-28 / 7:30 am	Q2 Real GDP: Advanced	+3.1%	+3.0%		+5.6%
	Q2 GDP Price Index: Advanced	+3.4%	+4.0%		+3.1%

The US Economy is Wearing Yellow

American cyclist, Floyd Landis, won the Tour de France yesterday ending one of the most dramatic races in history.

Seven different riders wore the leader's yellow jersey during the three-week race. Landis pulled it on after a dominant performance on L'Alpe d'Huez – one of most famous mountain top finishes in bike racing. He was a cinch to win.

Then, inexplicably, and in dramatic fashion, Landis cracked. He fell to a seemingly insurmountable 8 minute deficit. One TV commentator said his chances of winning "were over."

But in the last mountain stage, with what race director Jean-Marie Leblanc called "the best performance in the modern history of the Tour," Landis amazingly gained back nearly every bit of time he had lost. This virtually impossible (and incredibly painful) feat propelled him to his first Tour victory and the eighth-straight for an American. Landis will go down as one of the bravest riders in Tour history. Conventional wisdom had counted him out; but he wasn't listening.

In similar fashion, conventional wisdom has once again adopted a pessimistic outlook for the US economy. Even the Federal Reserve has forecast a sharp slowdown in US real GDP growth to 2.5%, or less, in the second half of this year. Along with many others, they fret about rising interest rates, a slowing housing market, rising energy prices, and subdued wage growth.

Despite real GDP growth of 5.6% in Q1 and a 4.0% average during the past three years, the unbelievers say that this time the slowdown is for real. Some are even talking about a recession. Like with Landis, conventional wisdom has concluded that the robust period of economic expansion is "over."

This underestimates the incredible resilience of the US economy. Productivity is strong, profits are rising and tax rates are low. The supply-side of the economy is doing well. Industrial production grew 0.8% in June. New orders for non-defense capital goods (excluding aircraft) – a harbinger of business investment – are up 9.5% in the past twelve months, while unfilled orders are up 13.1%. The willingness of entrepreneurs to invest and take risk is often the best forward looking indicator of economic performance. In the recession of 2001, consumer spending never fell, while business investment fell for nine consecutive quarters.

Moreover, the minutes from last month's FOMC meeting suggest that some Fed members have their eye on market-based indicators of inflation. The minutes said that these members partially justified the June Fed rate hike on market signals. The Fed said that a rate hike would help "preserve the decline in inflation expectations" which "appeared to be conditioned on an outlook for policy firming."

In late May and early June, when the Fed talked tough about inflation vigilance, gold prices fell, the dollar firmed and the TIPS spread narrowed. The Fed was watching these market reactions. Not tightening at the end of June would have eroded these gains. While a vast majority of Fed members and staff still use a Phillips Curve model, this hint from the Fed minutes suggest that some members are watching markets.

This gives us great hope. Forward-looking, market-based indicators are the best tool for finding "neutral." The more the Fed watches these indicators, the greater the odds that it will stop inflation without overshooting and harming the economy.

A resilient, productivity-driven-economy, and a forward-looking Fed create the best environment possible for wealth creation. Like Landis, its way to early to count the economy out.

Week of July 31, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-31 / 7:30 am	Jul Chicago PMI	57.0	55.0		56.0
8-1 / 7:30 am	Jun Personal Income	+0.6%	+0.9%		+0.6%
	Jun Personal Consumption	+0.4%	+0.3%		+0.4%
9:00 am	Jul ISM Manufacturing Index	54.0	54.0		53.9
8-3 / 9:00 am	Jul ISM Non-Manufacturing Index	58.0	57.5		57.0
8-4 / 7:30 am	Jul Non-farm Payrolls	+150K	+195K		+121K
	Jul Unemployment Rate	4.6%	4.6%		4.6%
	Manufacturing Payrolls	+5K	+10K		+15K
	Jul Average Hourly Earnings	+0.3%	+0.4%		+0.5%

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