

Jan. 1 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-2 / 9:00 am	ISM Index - Dec	50.0	50.0		49.5
1-3 / 9:00 am	Construction Spending - Nov	-0.5%	-0.3%		-1.0%
<i>Sometime</i>	Domestic Car Sales - Dec	5.3 Mil.	5.3 Mil.		5.1 Mil.
<i>during the day</i>	Domestic Truck Sales - Dec	7.3 Mil.	7.2 Mil.		7.2 Mil.
1-4 / 9:00 am	Factory Orders - Nov	+1.3%	+2.0%		-4.7%
9:00 am	ISM Non-Man. Index - Dec	57.0	58.5		58.9
1-5 / 7:30 am	Non-Farm Payrolls - Dec	+115K	+100K		+132K
7:30 am	Manufacturing Payrolls -Dec	-11K	-15K		-15K
7:30 am	Unemployment Rate - Dec	4.5%	4.5%		4.5%
7:30 am	Average Hourly Earnings	+0.3%	+0.4%		+0.2%
7:30 am	Average Weekly Hours	33.9	33.9		33.9

Gerald Ford: Nightmare Fighter

Gerald R. Ford was a Congressman from Michigan in October 1973 when Spiro Agnew (beset by scandal) resigned as Vice President of the United States. For the first time in history, the vice-presidential vacancy provision of the 25th amendment was implemented and Congressman Ford became Vice President of the United States in December 1973.

Just eight months later, after the Watergate-induced resignation of Richard Nixon, Gerald Ford became the 38th President of the United States. This progression of events was about as improbable as the final minutes of the Boise State University football victory over the University of Oklahoma in this year's Fiesta Bowl. Instead of entertainment, however, the mid-1970s were a time of deep crisis for the United States.

To make matters worse, President Ford took office in the ninth month of a severe recession that lasted from November 1973 to March 1975. Real GDP contracted by 2.5%, unemployment rose to 9%, the S&P 500 fell 48%, and inflation jumped to 12%.

Richard Nixon's wage and price controls, tax hikes, and massive spending increases killed economic growth, while easy money (that forced the closure of the gold window) fueled inflation. Gerald Ford inherited a great many nightmares from President Nixon.

Keynesianism dominated, and President Ford could not move unilaterally on economic policy as he did with his pardon

Week of January 8, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-10 / 7:30 am	International Trade - Nov	-\$59.1 Bil	-\$63.5 Bil		-\$58.9 Bil
1-12 / 7:30 am	Import Prices - Dec	+0.5%	+0.5%		+0.2%
7:30 am	Export Prices - Dec	+0.2%	+0.3%		+0.4%
7:30 am	Retail Sales - Dec	+0.6%	+0.3%		+1.0%
7:30 am	Retail Sales, Ex. Autos - Dec	+0.5%	+0.4%		+1.1%

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Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

of President Nixon. Ford succumbed to pressure from a Democratic Congress and signed onto a series of temporary tax rebates and credits in March 1975. Many credited these tax rates with a recovery in the economy and stock market.

But temporary tax cuts do not boost economic activity. The 1975 recovery was driven by the Federal Reserve when it cut the federal funds rate from 13% to 5.25% in 1974-1975. This easy money fueled more inflation, and because high marginal tax rates and intrusive government were still a drag on growth, the economy remained mired in stagflation.

Alice Rivlin, who was the director of the Congressional Budget Office in 1975, was quoted in the Washington Post just five days ago saying, "Economists don't know how to cope with inflation, slow growth and unemployment at the same time." We assume she meant "didn't know," because policy mistakes caused stagflation in the first place.

Unfortunately, President Ford's proposals to deregulate many industries failed to gain traction. President Ford lost in the 1976 election to Jimmy Carter, and policies continued to spiral out of control until the election of Ronald Reagan. While President Ford ended the political nightmare of Watergate, it was President Reagan's embrace of deregulation, permanent tax cuts and tight money that finally ended the national economic nightmare of stagflation.