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FIRST Trust ADVISORS L.P.

Feb. 12 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-13 / 7:30 am	International Trade - Dec	-$59.5 Bil	**-$60.7 Bil**		-$58.2 Bil
7:30 am	Goods & Services Exports	$125.8 Bil	**$125.7 Bil**		$124.8 Bil
7:30 am	Goods & Services Imports	$185.3 Bil	**$186.4 Bil**		$183.0 Bil
2-14 / 7:30 am	Business Inventories - Dec	+0.0%	**+0.3%**		+0.4%
7:30 am	Retail Sales - Jan	+0.4%	**+0.4%**		+0.9%
7:30 am	"Core" Retail Sales - Jan	+0.4%	**+0.3%**		+1.0%
2-15 / 7:30 am	Empire State Index - Feb	11.0	**15.0**		9.1
7:30 am	Export Price Index - Jan	+0.0%	**+0.3%**		+0.7%
7:30 am	Import Price Index - Jan	-1.0%	**-0.7%**		+1.1%
7:30 am	Initial Claims - Feb 10	310K	**310K**		N/A
8:15 am	Industrial Production - Jan	-0.1%	**-0.1%**		+0.4%
8:15 am	Capacity Utilization - Jan	+81.6%	**+81.6%**		+81.8%
11:00 am	Philadelphia Fed Index - Feb	6.0	**4.0**		8.3
2-16 / 7:30 am	Producer Price Index - Jan	-0.5%	**-0.5%**		+0.9%
7:30 am	"Core" Producer Price Index	+0.2%	**+0.2%**		+0.2%
7:30 am	Housing Starts - Jan	1.600 Mil	**1.607 Mil**		1.642 Mil

Bernanke Goes to the Hill

This week, Federal Reserve Board Chairman Ben Bernanke goes to Capitol Hill to give his semiannual testimony to Congress. Many members of Congress seem ready to grill him about the economy in general. Newly elected Ohio Senator, Sherrod Brown said, "While the economy is good for people at the top, it's not so good for a steelworker in Lorain, Ohio, or a small-business owner in Dayton. I'd like to hear a recognition from [Bernanke] of that and what he's going to do about it."

This is an interesting question. It gets to the heart of what monetary policy can and cannot do. We have no idea how Chairman Bernanke will answer it, but a truthful answer would not give much satisfaction to Senator Brown.

While many people think the Federal Reserve controls interest rates, and some even think the Fed controls the entire economy, in reality, the Fed only controls one policy tool – the amount of money circulating in the economy.

By adding money to, or subtracting money from, the US banking system, the Fed can impact the economy in the short-term, and influence the level of interest rates. But printing money creates no lasting wealth. If it did, counterfeiting would be legal and no nation on earth would experience poverty.

The number one job of monetary policy is to keep the value of money stable – balancing money supply and demand. If the Fed supplies too much money, inflation climbs and the dollar loses purchasing power. If the Fed allows the money supply to contract, (as it did in the 1930s) it causes deflation. Neither of these is good. A stable currency creates the best environment for conducting business and building long-term wealth.

Judging the perfect monetary policy is not an easy task. This is where the Fed creates problems for itself. For years, the Fed has suggested that a low unemployment rate and rising wages signal inflationary pressures. Then when the Fed tightens to fight those issues, it creates an anti-prosperity appearance, often infuriating congress.

A much more meaningful and appropriate signal of impending inflation can be found in low real interest rates, rising commodity prices and a declining value of the dollar. These signals indicate an excess supply of money.

It is fiscal policy that has the most impact on economic growth, jobs and incomes. In this regard, keeping tax rates low, regulation to a minimum, and markets free provides the most potential to increase living standards for all.

Week of February 19, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-21 / 7:30 am	Consumer Price Index - Jan	+0.1%	**+0.1%**		+0.5%
7:30 am	"Core" CPI - Jan	+0.2%	**+0.3%**		+0.2%
9:00 am	Leading Indicators - Jan	+0.2%	**+0.1%**		+0.3

Brian S. Wesbury; Chief Economist **Robert Stein, Senior Economist**