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FIRST Trust ADVISORS L.P.

Feb. 20 2007

Monday Morning Outlook

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
2-22 / 7:30 am	Initial Claims - Feb 17	325K	**325K**		N/A

Saving Grace

The personal saving rate was negative 1% in 2006 (equal to negative $92 billion), the second straight negative year and the lowest since at least 1947. What this means is that for every $100 in after-tax "income," US consumers spent $101. To some, this proves that Americans are living beyond their means and that calamity is virtually assured unless something changes.

We could not disagree more. The so-called personal saving rate is a highly misleading indicator of the consumer balance sheet. Other, much better measures show that the American consumer is in excellent financial health.

To calculate the personal saving rate, government statisticians subtract taxes and spending from personal income. Income includes wages, salaries, interest, dividends, rent received, small-business profits, and some government benefits. Excluded are withdrawals from IRAs and 401ks, as well as capital gains. This is inconsistent with how most people measure their private fiscal health.

For example, a retiree with no wage (or other) income, who withdraws $40,000 each year from her IRA to spend on living expenses, would drag down the savings rate. Or, as Bear Stearns economist David Malpass pointed out, the $30 billion in appreciated Berkshire Hathaway stock Warren Buffett has pledged to the Gates Foundation was never counted as income. But when that money eventually gets spent it will count as consumption and reduce "personal saving."

A basic problem with the often quoted personal saving rate is that it mixes together current workers with retirees who should be expected to spend much more than they earn. One academic economist has calculated that excluding retirees from the figures would add about 4 percentage points to the saving rate. Moreover, this error should grow over time as the US ages and healthcare costs (a major purchase for retirees) continue to grow.

Another problem with the saving rate is that when consumers buy durables – think cars, furniture and appliances – the spending is counted right away even though payments will be made over time. Amortizing these purchases would push up the saving rate another 2 percentage points. Interestingly, despite this treatment of durable goods, the government does subtract housing depreciation from income. And because home prices have climbed dramatically in recent years, depreciation has climbed. In 2006, this depreciation subtracted $226 billion from saving – it did not affect consumer cash flows, but pushed the "official" saving rate into negative territory.

In the end the saving rate, as it is currently calculated is a useless measure of household balance sheets. A much better measure of true savings is the net worth of households, a statistic calculated by the Federal Reserve. As of September 2006 (the latest data available) US households had $54 trillion more in assets than liabilities, an all-time high. Moreover, total net worth had increased by $3.5 trillion from the year before. If this $3.5 trillion increase in net worth were used as the appropriate measure of personal saving, the saving rate was 37% last year and has averaged 33% the past ten years, a far cry from the "negative saving rate" which so many pessimists decry.

Week of February 26, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-26 / 9:00 am	Existing Home Sales - Jan	6.250 Mil	**6.391 Mil**		6.217 Mil
2-27 / 7:30 am	Durable Goods - Jan	-2.8%	**-8.3%**		+3.1%
2-28 / 7:30 am	Q4 GDP Preliminary	2.5%	**3.0%**		3.5%
7:30 am	Q4 GDP Chain Price Index	1.5%	**1.4%**		1.5%
9:00 am	Chicago PMI - Feb	50.0	**49.1**		48.8
9:00 am	New Home Sales - Jan	1.096 Mil	**1.099 Mil**		1.120 Mil
3-1 / 7:30 am	Personal Income - Jan	+0.3%	**+0.3%**		+0.5%
7:30 am	Personal Spending - Jan	+0.4%	**+0.4%**		+0.7%
9:00 am	Construction Spending - Jan	+0.0%	**-0.6%**		-0.4%
9:00 am	ISM Index - Feb	50.0	**48.5**		49.3

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