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Feb. 5 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-5 / 9:00 am	ISM Non-Mfg Index - Jan	57.0	57.7		56.7
2-7 / 7:30 am	Q4 Non-Farm Productivity	+2.2%	+2.3%		+0.2%
7:30 am	Q4 Unit Labor Costs	+2.0%	+4.7%		+2.3%
1:00 pm	Consumer Credit - Dec	\$6.0 Bil	\$9.3 Bil		\$12.3 Bil
2-8 / 7:30 am	Initial Claims - 3 Feb	310K	310K		N/A
9:00 am	Wholesale Trade Sales - Dec	+0.7%	+0.8%		+1.0%

No Need for Tax Hikes, Surplus on Tap for 2009

If you think the offensive production of Peyton Manning and the Super Bowl Champion Indianapolis Colts was spectacular, you ain't seen nothing yet. When January budget data comes out this week, our models predict that tax revenues continued to surge and the federal budget will show a surplus of more than \$40 billion.

This would pull the budget deficit on a 12-month moving average basis below \$200 billion for the first time since September 2002 – a massive reduction from the peak deficit of \$455 billion in the 12-months ending April 2004.

Tax revenues were \$2.479 trillion in the 12 months ending in January 2007, a \$255 billion increase from the 12 months ending in January 2006. Tax revenues have surged for almost three consecutive years now, ever since the tax cuts of 2003 stimulated a strong economic recovery.

But putting points on the scoreboard is not a guarantee of victory. The defense has to play well too. And for the budget this means spending restraint. Federal spending was \$2.667 *Week of February 12, 2007*

trillion in the 12 months ending January 2007, a \$134 billion increase from the 12 months ending in January 2006.

On a 12-month versus 12-month basis, federal revenues increased 11.5%, while federal spending increased just 5.3%. This is great news. As long as spending growth remains in check, the budget deficit will continue to decline.

In fact, our models expect average tax revenue growth of 9% over the next three years and spending growth of between 4% and 5%. This will generate a well below consensus deficit in FY07 of just \$115 billion. Next year in FY08, we forecast a deficit of only \$35 billion. On a 12-month basis, we suspect that the budget will move into balance early in FY2009, well before the Office of Management and Budget or the Congressional Budget Office expect.

All of this is fabulous news for the markets. With gridlock holding spending back and the economy continuing to generate spectacular revenue growth, earlier than expected budget surpluses will significantly reduce the odds of tax hikes.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-13 / 7:30 am	International Trade - Dec	-\$59.0 Bil	-\$60.5 Bil		-\$58.2 Bil
7:30 am	Goods & Services Exports	\$125.4 Bil	\$125.7 Bil		\$124.8 Bil
7:30 am	Goods & Services Imports	\$184.6 Bil	\$186.2 Bil		\$183.0 Bil
214 / 7:30 am	Business Inventories - Dec	+0.4%	+0.3%		+0.4%
7:30 am	Retail Sales - Jan	+0.4%	+0.3%		+0.9%
7:30 am	"Core" Retail Sales - Jan	+0.5%	+0.3%		+1.0%
2-15 / 7:30 am	Empire State Index - Feb	12.7	15.0		9.1
7:30 am	Export Price Index - Jan	+0.3%	+0.3%		+0.7%
7:30 am	Import Price Index - Jan	-1.8%	-0.7%		+1.1%
8:15 am	Industrial Production - Jan	+0.0%	-0.1%		+0.4%
8:15 am	Capacity Utilization - Jan	+81.6%	+81.6%		+81.8%
11:00 am	Philadelphia Fed Index - Feb	5.6	4.0		8.3
2-16 / 7:30 am	Producer Price Index - Jan	-0.5%	-0.7%		+0.9%
7:30 am	"Core" Producer Price Index	+0.1%	+0.2%		+0.2%
7:30 am	Housing Starts - Jan	1.650 Mil	1.603 Mil		1.642 Mil
Brian S. Wesbury; Chief Eco	Robert Stein, Senior Economist				

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.