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Jul 31, 2006

## Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	<b>Consensus</b>	First Trust	Actual	Previous
7-31 / 7:30 am	Jul Chicago PMI	56.0	55.0	57.9	56.5-r
8-1 / 7:30 am	Jun Personal Income	+0.6%	+0.9%		+0.4%
	Jun Personal Consumption	+0.4%	+0.3%		+0.4%
9:00 am	Jul ISM Manufacturing Index	53.5	54.0		53.8
	Jun Construction Spending	+0.1%	+0.2%		-0.4%
Sometime During	Jul Domestic Autos Sales	5.4M	5.6M		5.3M
the Day	Jul Domestic Light Truck Sales	7.3M	7.2M		7.2M
8-3 / 7:30 am	Initial Unemployment Claims	310K	295K		298K
9:00 am	Jul ISM Non-Manufacturing Index	58.0	57.5		57.0
	Jun Factory Orders	+1.8%	+1.8%		+0.7%
8-4 / 7:30 am	Jul Non-farm Payrolls	+145K	+195K		+121K
	Jul Unemployment Rate	4.6%	4.6%		4.6%
	Jul Manufacturing Payrolls	+5K	+10K		+15K
	Jul Average Hourly Earnings	+0.3%	+0.4%		+0.5%
	Jul Weekly Hours	33.9	33.9		33.9
the Economy Been Taki	ng Steroids?				

## Has the Economy Been Taking Steroids?

Last week we compared the US economy to Floyd Landis, the American cyclist who defied the pessimists and skeptics to win the Tour de France. Unfortunately, subsequent drug-testing found unusual levels of testosterone in his system. Mr. Landis claims he is innocent of doping, but he could be stripped of his victory.

Some took this opportunity to turn the analogy around on They believe that the US economy has been "artificially us. stimulated" by a bubble in the housing market (steroids), which has lifted consumer spending. With housing slowing, they expect the economy to slow as well.

This pessimism is not surprising. Since the beginning of the current recovery, conventional wisdom has underestimated the economy because of a deep misunderstanding about what is really driving growth.

Like the economy, athletic performance can be improved in one of two ways. The athlete can train right, eat right and sleep right in order to get faster and stronger. Performance enhancing drugs will also do the trick. For the economy, low taxes, limited regulation and free markets allow entrepreneurial innovation and creativity to boost productivity and efficiency. More freedom Week of August 7. 2006

equals more wealth creation. But, artificial stimulus can also be used. The equivalent of steroids for the economy is easy money.

But, just like steroids, easy money has negative side effects. Artificially low interest rates can boost growth temporarily, but in the end create only inflation.

The question for investors is how much of the recent strong performance of the economy has been caused by the good forces of growth and how much is artificial.

While it is true that the Fed has been artificially stimulating growth with easy money, the US economy would grow at a 3.5% rate or above without Fed stimulus. New technology is boosting productivity and the May 2003 tax cuts encouraged a boom in investment. The profitability of US corporations has soared, and the US economy is resilient, sturdy, and strong. Even if the Fed moves policy to "neutral," which we estimate will take place at a funds rate of 6%, the economy will continue to grow at its potential.

Moreover, Fed policy is not vet restrictive: it has not turned into an anti-steroid. As a result, while Floyd Landis may be stripped of his Tour de France title, the economy remains much stronger than the pessimists believe.

Date/Time (CDT)	U.S. Economic Data	<b>Consen sus</b>	First Trust	Actual	Previous
8-8 / 9:00 am	Q2 Productivity: Preliminary	+1.2%	+1.5%		+3.7%
	Q2 Unit Labor Cots: Preliminary	+3.5%	+3.7%		+1.6%
	FOMC Meeting	5.25%	5.50%		5.25%
8-10 / 7:30 am	Jun Trade Balance	-\$64.4B	-\$64.0B		-\$63.8B
8-11 / 7:30 am	Jul Import Prices	+0.3%	+0.3%		+0.1%
	Jul Export Prices	+0.8%	+0.7%		+0.8%
	Jul Retail Sales	+0.6%	+0.8%		-0.1%
	Jul Retail Sales Ex Autos	+0.5%	+0.5%		+0.3%
Brian S. Wesbury; Chief Economist				Bill Mulvihill; Senior Economist	

## Brian S. Wesbury; Chief 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.