630-322-7756
www.ftportfolios.com

FIRST Trust ADVISORS L.P.

Mar. 5 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-5 / 9:00 am	ISM Non-Man. Index - Feb	57.5	**59.5**	***54.3***	59
3-6 / 7:30 am	Q4 Non-Farm Productivity	+1.5%	**+1.5%**		+3.0%
7:30 am	Q4 Unit Labor Costs	+3.2%	**+6.2%**		+1.7%
9:00 am	Factory Orders - Jan	-4.5%	**-4.7%**		+2.3%
3-8 / 7:30 am	Initial Claims - Mar 3	330K	**335K**		N/A
3-9 / 7:30 am	Int'l Trade Balance - Jan	-$59.5 Bil	**-$59.8 Bil**		-$61.2 Bil
7:30 am	Non-Farm Payrolls - Feb	100K	**42K**		111K
7:30 am	Manufacturing Payrolls - Feb	-16K	**-24K**		-16K
7:30 am	Unemployment Rate - Feb	4.6%	**4.5%**		4.6%
7:30 am	Average Hourly Earnings - Feb	+0.3%	**+0.4%**		+0.2%
7:30 am	Average Weekly Hours - Feb	33.8	**33.9**		33.8

It's Not the Economy

From the peak last Monday, to the close last Friday, the Dow Jones Industrial Average fell 5.3%, the NASDAQ tumbled 5.5% and the S&P 500 slid 4.3%.

Some blame rising delinquencies in the US sub-prime loan market, while others blame China for attempting to slow down its supposedly overheating economy and markets. These explanations fit snuggly into the widespread belief that investors have underestimated risk and become complacent. Alan Greenspan's use of the R-word last week also fed a fear that the current recovery is long in the tooth and trouble may be looming.

The fact that Alan Greenspan is worried about a recession is somewhat ironic. One of the major issues facing the economy today is the aftershock of the rollercoaster the Fed forced the economy to ride beginning in 1999.

The Fed lifted rates too high in 1999 and 2000, causing a recession and deflation. It then cut rates too much in 2001, 2002 and 2003 in an almost panicked response designed to keep deflation from spreading. Because of those rate cuts, deflation did not spread, but a federal funds rate of 1% led to a rapid expansion of credit – especially in the housing market.

Now that the Fed has lifted rates 17 times, and pushed the funds rate back to 5.25%, those who over-leveraged in the midst of extremely low interest rates have found themselves in trouble. These credit problems are not because interest rates are too high today; they are the result of absurdly low rates of the recent past. This is important because most recessions occur when the Fed tightens too much and causes liquidity problems to spread.

But the Fed is not too tight, it's just less loose. In fact, inflation is still on the rise and both our top down macro-models and our bottom-up estimates of weekly data, continue to point to 3% real growth in the first quarter, despite a below trend February employment report. Fear is the market's problem, not the economic fundamentals. Stocks are still cheap.

Week of March 12, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-12 / 1:00 pm	Treasury Budget - Feb	-$112.5 Bil	**-$115.4 Bil**		$32.2 Bil
3-13 / 7:30 am	Retail Sales - Feb	+0.4%	**+0.4%**		+0.0%
7:30 am	"Core" Retail Sales - Feb	+0.4%	**+0.2%**		+0.3%
9:00 am	Business Inventories - Jan	+0.1%	**+0.5%**		+0.0%
3-14 / 7:30 am	Import Prices - Feb	+0.7%	**+0.2%**		-1.2%
7:30 am	Export Prices - Feb	+0.2%	**+0.2%**		+0.3%
3-15 / 7:30 am	Empire State Index - Mar	17.5	**20.0**		24.4
7:30 am	PPI - Feb	+0.4%	**+0.4%**		-0.6%
7:30 am	"Core" PPI - Feb	+0.2%	**+0.1%**		+0.2%
11:00 am	Philly Fed Survey - Mar	3.3	**2.1**		0.6
3-16 / 7:30 am	CPI - Feb	+0.3%	**+0.3%**		+0.2%
7:30 am	"Core" CPI - Feb	+0.2%	**+0.2%**		+0.3%
8:15 am	Industrial Production - Feb	+0.3%	**+0.3%**		-0.5%

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