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FIRST Trust ADVISORS L.P.

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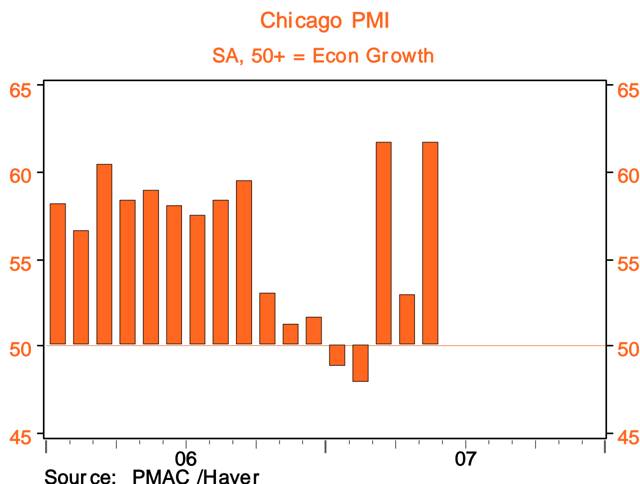
Economic Commentary

Economic Bears Being Left Behind

Many "economic bears" thought their long-awaited train had arrived when the real GDP growth rate was downwardly revised to just 0.6% in the first quarter. But that news is from more than two months ago. Recent data show a rebound in the economy, including figures released today after the GDP report. Turns out the economic bears are being left behind.

The Chicago Purchasing Managers Index for manufacturing in May increased to 61.7 from 52.9 in April. (Levels above 50 signal expansion; levels below 50 signal contraction.) The consensus had expected a slight rise to 54.0. Strength appeared in every major component of the report, including production, new orders, order backlogs, and employment. The prices paid component increased to 70.2, the highest level in nine months.

Chicago Purchasing Managers Index



Construction in April was the continued tale of two sub-sectors. Residential construction dropped 0.9% while non-residential construction increased 1.1%

(1.5% in the private sector). Overall, construction increased 0.1% in April, and was revised up to 0.6% in March from a previously reported 0.2%.

House prices increased 0.5% in the first quarter according to the Office of Federal Housing Enterprise Oversight, an agency that oversees Fannie Mae and Freddie Mac and follows same-house sales financed with conforming mortgages. That is the smallest quarterly increase since 1996 but the consensus expected a smaller gain of 0.3%. Meanwhile, the price increase for houses in the fourth quarter was revised to 1.3% from 1.1%. This measurement of house prices, which is only one of several measures, is up 4.3% versus last year.

These data are consistent with our view that the economy is already accelerating to 3% plus real growth in Q2 and beyond. Recent quarters have been weak due to the transfer of productive resources out of the housing sector as well as an inventory correction. A resumption in growth along with inflation continuing above the Federal Reserve's target range of 1% to 2% means the Fed's next move will be to raise rates, not lower them.

Brian S. Wesbury, ***Chief Economist***
Robert Stein, ***Senior Economist***
Trevor Scott, ***Economic Research Analyst***

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