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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

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Still No Recession

When we add up almost all the components of GDP – consumption, business investment, home building, trade, and government – we get a great big goose-egg (0%) for the first quarter of 2008. Consumption, business investment, and trade add to GDP, while weakness in housing and government fully offset these gains.

However, the one component we left out – inventories – looks like it rebounded strongly in Q1, after a large decline in Q4. As a result, we expect the first report on Q1 real GDP to show a growth rate of 1.5%, which is near the high end of what economists are forecasting.

At this point, we are forecasting 0.5% growth in Q2, with a sharp rebound in the second half of 2008 to real growth rates near 4%. The weakness we expect in Q2 is primarily due to inventories, with the other components of GDP (such as consumption) generally rebounding.

With our forecasts in Q1 and Q2 driven largely by an inventory cycle – and inventories being the part of GDP where the government generates the least timely data – we think it's best to look at our forecast for these two quarters in tandem. So if real GDP ends up being lower than our forecast in Q1, it's likely to grow faster than 0.5% in Q2.

Another potential source of error in our forecast is inflation. We estimate that the GDP deflator went up at a 3.7% annual rate in Q1, versus a 4.3% rate of increase in consumer prices and a 9.0% rate for producer prices. If GDP inflation turns out to have been higher than our forecast, it may have taken a bigger bite out of real GDP than we assume today.

In our view, the economy has been slow in the first half of 2008 due to an almost irrational level of fear and risk-aversion. This risk aversion can be seen in very rapid growth in money market mutual fund assets – from $2.4 trillion a year ago to roughly $3.5 trillion today. Fed rate cuts, which are likely to end this week, have temporarily created a self-fulfilling prophecy of economic slowness, as some businesses and consumers postpone activity until they are confident rates have hit bottom.

But that scenario makes us confident in a sharp rebound in the second half of the year. With rates days away from their bottom, the full force of the Fed's loose monetary policy is about to be unleashed.

Faster growth is just around the corner.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-30 / 7:30 am	Q1 GDP Advance	0.4%	**1.5%**		0.6%
7:30 am	Q1 GDP Chain Price Index	3.0%	**3.7%**		2.4%
9:00 am	Chicago PMI - Apr	48.0	**47.3**		48.2
5-1 / 7:30 am	Personal Income - Mar	+0.4%	**+0.3%**		+0.5%
7:30 am	Personal Spending - Mar	+0.2%	**+0.4%**		+0.1%
7:30 am	Initial Claims - Apr 26	360K	**352K**		342K
9:00 am	ISM Index - Apr	48.0	**48.1**		48.6
9:00 am	Construction Spending - Mar	-0.6%	**-1.0%**		-0.3%
sometime	Domestic Auto Sales - Apr	4.9 Mil	**5.2 Mil**		4.9 Mil
during the day	Domestic Truck Sales - Apr	6.2 Mil	**6.4 Mil**		6.2 Mil
5-2 / 7:30 am	Non-Farm Payrolls - Apr	-78K	**-40K**		-80K
7:30 am	Unemployment Rate - Apr	5.2%	**5.1%**		5.1%
7:30 am	Average Hourly Earnings - Apr	+0.3%	**+0.3%**		+0.3%
7:30 am	Average Weekly Hours - Apr	33.7	**33.7**		33.8
7:30 am	Manufacturing Payrolls - Apr	-35K	**-45K**		-48K
9:00 am	Factory Orders - Mar	0.2%	**0.3%**		-1.3%