

Jan. 22 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-25 / 7:30 am	Initial Claims	305,000	303,000		290,000
9:00 am	Existing Home Sales - Dec	6.275 Mil	6.250 Mil		6.277 Mil
1-26 / 7:30 am	Durable Goods - Dec	+2.1%	+6.2%		+1.6%
9:00 am	New Home Sales - Dec	1.050 Mil	1.078 Mil		1.047 Mil

Ice Cold Water at Davos

In January 2006, the global glitterati of business, politics and economics gathered in Davos, Switzerland at the World Economic Forum. A number of participants including Martin Wolf of the Financial Times, Stephen Roach and Lawrence Summers argued that the global economy was unbalanced, and they warned of a potential “adjustment.”

This “adjustment,” many felt, could have serious negative consequences for the global economy. But, even though global economic activity slowed in the second-half of 2006, led by a sharp slowdown in the US housing market, global real GDP growth was 3.9% – an acceleration from 2005 and the third year in a row of robust global growth.

Ironically, this excellent worldwide economic performance, and a continued surge in global liquidity is fueling another round of pessimism this year. With just a few days remaining before the 2007 World Economic Forum in Davos kicks off, there are already news stories that some of these same themes will be discussed again.

As reported by Bloomberg News, Lawrence Summers and ECB Bank President Jean-Claude Trichet will tell the world that it has “become too complacent about risks

Week of January 29, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-31 / 7:15 am	Employment Cost Index	+0.9%	+0.9%		+1.0%
7:30 am	Q4 GDP Advance	+3.0%	+3.2%		+2.0%
7:30 am	Q4 GDP Chain Price Index	+1.7%	+1.2%		+1.9%
8:45 am	Chicago PMI - Jan	52.0	52.0		51.6
9:00 am	Construction Spending - Dec	+0.1%	-0.2%		-0.2%
2-1 / 7:30 am	Personal Income - Dec	+0.6%	+0.5%		+0.3%
7:30 am	Personal Consumption - Dec	+0.6%	+0.7%		+0.5%
9:00 am	ISM Index - Jan	52.0	51.4		51.4
2-2 / 7:30 am	Non-Farm Payrolls - Jan	145K	175K		167K
7:30 am	Unemployment Rate - Jan	4.5%	4.4%		4.5%
7:30 am	Manufac. Payrolls - Jan	-10K	-16K		-12K
7:30 am	Average Hourly Earnings	+0.3%	+0.3%		+0.5%
7:30 am	Average Weekly Hours	33.9	33.9		33.9
9:00 am	Factory Orders - Dec	+0.9%	+3.5%		+0.9%

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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.

ranging from trade imbalances to terrorism.” Dr. Summers will warn that markets were very upbeat in mid-1914 before the world turned very ugly. He says that, “complacency can be a self-denying prophecy” – whatever that means.

According to some Nervous Nellie’s, a recent 25% drop in Venezuela’s stock market is a stress fracture in the global financial architecture and indicative of potential problems. But, this is not a very good example. Venezuela’s president Hugo Chavez has just pledged to nationalize many industries, which will cause a huge drop in investment. Economic catastrophes do not happen out of the blue, just because people are complacent, they happen because governments make mistakes.

Freedom and good public policy are the keys to long-term economic growth and market performance, not trade balances, the price of oil or how optimistic private-equity firms become. A sharp movement away from freedom, or a significant mistake in monetary policy are what markets should really worry about. Right now, these mistakes do not appear likely. As a result, the ice cold water at Davos is unlikely to spill over the globe.