First Trust
Monday Morning OUTLOOK
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Focus on the Economy

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Investors remain on edge and stocks are down about 2% around the world today. Combine last week's sell-off, the intense debt ceiling debate, financial instability in Europe, the recent soft patch, and a downgrade by S&P and this fear is somewhat understandable. Short-sellers and pessimists are in their glory. And for the umpteenth time, Nouriel Roubini said that a double-dip recession is on its way.

We understand the uncertainty created by all this noise. What we don't get is why it is so hard for economists to look at economic data. Yes, there was a "soft patch" – which we acknowledged at the time – but, no, it is not getting worse. In fact, economic data has been visibly improving.

Job growth, which slowed in the soft-patch – has now begun to pick up. Private-sector jobs grew 154,000 in July, after just 80,000 in June and 99,000 in May (both of which were revised upward from even weaker readings). Average hourly earnings – cash earnings, excluding fringe benefits – rose 0.4% in July and are up 2.3% versus a year ago. Combined with a 2% increase in the number of hours worked in the past year, worker incomes are outpacing inflation.

Meanwhile, high frequency data on the labor market show continued improvement. New claims for unemployment insurance fell back to 400,000 last week after peaking at 478,000 back in April.

Much of the "soft patch" was due to the disasters in Japan and now that those problems are dissipating, the economic numbers have been getting better. Auto production schedules continue to show very solid growth for the third quarter. Auto sales increased 6% in July from the recent bottom in June and the replenishment of dealer inventories should lift sales further. A virtuous cycle is taking hold, with more production generating more sales, which should in turn generate even more production as dealers opt to hold more inventories.

Even housing appears to be at an upward inflection point. Pending home sales – contracts on existing homes – are up about 11% in the past two months, suggesting a rebound in existing home sales when that report arrives late next week.

Meanwhile, home building is showing signs of the turn. Multi-family construction, particularly apartment buildings, has been on an upward trend since late 2009 even as single-family building has languished. But single-family starts increased 9.4% in June, the largest gain for any month in two years. And, for the first time in five years, the total number of homes under construction in the US is increasing.

Looking ahead over the next few weeks, we think the data will affirm the rebound from the soft-patch story. Retail sales, reported this Friday, should increase by about 0.7%. Next week's report on industrial production should show a gain of about 0.4% and the following week's report on July durable goods new orders could be an outright boom because of orders for new planes from Boeing.

In other words, we have yet to see any real, data-centric, sign that the economy is falling back into recession. Nouriel is finding a receptive audience because fear levels are high, not because he has the data to back up his forecast. And even though fundamentals remain robust, the markets have moved lower based on fear. As a result, the market is once again presenting a buying opportunity. Stocks were cheap two weeks ago, and even cheaper today.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-9 / 7:30 am	Q2 Non-Farm Productivity	-0.8%	**-0.5%**		+1.8%
7:30 am	Q2 Unit Labor Costs	+2.4%	**+0.9%**		+0.7%
8-11 / 7:30 am	Int'l Trade Balance - Jun	-$48.0 Bil	**-$47.7 Bil**		-$50.2 Bil
7:30 am	Initial Claims - Aug 6	401K	**400K**		400K
8-12 / 7:30 am	Retail Sales - Jul	+0.5%	**+0.7%**		+0.1%
7:30 am	Retail Sales Ex-Autos- Jul	+0.2%	**+0.1%**		0.0%
7:30 am	Business Inventories - Jun	+0.5%	**+0.5%**		+0.9%
8:45 am	U. Mich. Consumer Sentiment	62.0	**60.0**		63.7