First Trust
Monday Morning OUTLOOK
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Here We Go Again

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Here we go again. For the third year in a row, some economic data have begun to raise red flags.

Initial claims for jobless benefits have drifted back above 380,000, after bottoming at 361,000 in February. Private payroll growth slowed to 121,000 in March. Industrial production was unchanged the past two months. The Empire State, Philly Fed and Chicago manufacturing indices all dipped in April. And on Friday, we all heard real GDP grew at a modest 2.2% annual rate in Q1.

As a result, the economic vultures are circling again. Some are concerned about a relapse into recession, while others fret about a collapse in the dollar if the Fed does QE3. In other words, here we go again. It's the same message we heard in 2010 and 2011 when the data softened. Maybe the third time will be the charm, but as we said in both previous years, we don't think so. The economy is more robust than commonly believed.

In 2010, unemployment claims jumped, but the economy kept its forward momentum. In 2011, after Japan's disasters, jobless claims shot up 25,000 in a month, but the economy kept growing. Right now, even with initial claims elevated in recent weeks, they are still running 9-10% below year ago levels. True, payroll growth slowed in March, but that's after an average increase of 231,000 private sector jobs per month in the prior four months.

And while overall industrial production was flat in February/March, that's largely due to a slowdown in the volatile mining sector. But manufacturing alone increased at a solid 3.9% annual rate in those two months. Like last year, the Empire, Philly, and Chicago reports showing slower growth also show faster hiring, which suggests any slowdown is likely temporary.

We are not saying the negative data is meaningless. It's not. But some of the reaction is, once again, overdone. For example, in Q1, real GDP was pulled down by significant weakness in government spending. Excluding purchases by government, "private" real GDP expanded at a solid 3.4% annual rate. Meanwhile, housing is clearly starting to rebound, with sales and construction up from a year ago and prices up in February, while private wages and salaries are up 5.3% YOY.

Debating the worry-warts has become a full-time job and we can't prove them wrong until the future becomes the present. So, let's look back to last year when we said "in a few months we will be looking back at recent reports as just statistical noise." Sounded good then, so let's not mess with success. The more things change, the more they stay the same.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-30 / 7:30 am	Personal Income - Mar	+0.3%	**+0.5%**	+0.4%	+0.2%
7:30 am	Personal Spending - Mar	+0.4%	**+0.6%**	+0.3%	+0.8%
8:45 am	Chicago PMI - Apr	60.0	**62.7**	56.2	62.2
5-1 / 9:00 am	ISM Index - Apr	53.0	**52.5**		53.4
9:00 am	Construction Spending - Mar	+0.5%	**+0.3%**		-1.1%
Afternoon	Dom. Auto & Truck Sales - Apr	11.1 Mil	**11.1 Mil**		10.9 Mil
5-2 / 9:00 am	Factory Orders - Mar	-1.7%	**-2.1%**		+1.3%
5-3 / 7:30 am	Q1 Non-Farm Productivity	-0.6%	**-0.3%**		+0.9%
7:30 am	Q1 Unit Labor Costs	+2.7%	**+1.1%**		+2.8%
7:30 am	Initial Claims - Apr 28	375K	**383K**		388K
9:00 am	ISM Non-Man. - Apr	55.4	**56.4**		56.0
5-4 / 7:30 am	Non-Farm Payrolls - Apr	162K	**165K**		120K
7:30 am	Private Payrolls - Apr	169K	**175K**		121K
7:30 am	Unemployment Rate - Apr	8.2%	**8.2%**		8.2%
7:30 am	Average Hourly Earnings - Apr	+0.2%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours - Apr	34.5	**34.5**		34.5
7:30 am	Manufacturing Payrolls - Apr	20K	**25K**		37K