

Expect Strong Christmas Spending

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We are watching Christmas season sales data very carefully, but we also warn investors that the early data are not very useful. No matter what initial readings show, the underlying fundamentals look relatively strong.

First, nonfarm payrolls are up 2.8 million in the past twelve months (through October), the strongest one-year increase leading up to a holiday shopping season since Christmas 1999.

Second, we're seeing early signs of accelerating wage growth. Average hourly earnings have risen 2.5% in the past year, the fastest pace so far in the current Plow Horse economic expansion.

And third, consumers' financial obligations are still hovering near the lowest share of income since the early 1980s. These are the payments consumers need to make month-in, month-out based on what they've already bought, including mortgage payments, rent, car payments, and debt service on student loans, credit cards, and other lending arrangements.

These are the same three key reasons why auto sales have been so strong lately. We expect November auto sales to be 18+ million, on an annualized basis, for a record third month in a row. Strong fundamentals beat cash for clunkers every time.

Some analysts bemoan a decline in credit quality in auto lending, saying the surge in auto sales is due to overly easy credit. For example, the total balance on seriously delinquent auto loans (90+ days in arrears) is up 20% in the past year,

according to the NY Federal Reserve. That's an increase of \$6 billion in serious delinquencies. Meanwhile, seriously delinquent student loans are up \$14 billion in the past year.

But all serious delinquencies (including mortgage debt, home equity loans, auto loans, student debt, and credit cards, combined) are down \$50 billion from a year ago. In other words, the fear-mongers focus on numbers showing tough news, while ignoring the major trend in declining debt delinquency among consumers.

The early surveys on Christmas season spending appear as useful as ever, which is to say not much at all.

Last year, the National Retail Federation said Thanksgiving weekend sales were down 11%, but overall retail sales ended up rising 4% for November/December 2014 versus the same two months in 2013. This year, the NRF says sales should be up 3.7% from a year ago.

Shoppertrak, a survey of 12,000 brick and mortar stores, said Thanksgiving and Black Friday sales were down this year, but noted that sales have crept much earlier into November. We'd add that sales are also more likely to creep deeper into the holiday season, as internet shopping grows more competitive every year.

In the end, don't get caught up in following the headlines on how sales are going so far. If you focus on the fundamentals, like jobs and wages, you're likely to get much closer to the truth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-30 / 8:45 am	Chicago PMI – Nov	54.0	53.5	48.7	56.2
12-1 / 9:00 am	ISM Manufacturing Index – Nov	50.5	50.4		50.1
9:00 am	Construction Spending – Oct	+0.6%	+0.6%		+0.6%
Afternoon	Total Car/Truck Sales – Nov	18.1 Mil	18.2 Mil		18.1 Mil
Afternoon	Domestic Car/Truck Sales – Nov	14.3 Mil	14.5 Mil		14.1 Mil
12-2 / 7:30 am	Q3 Non-Farm Productivity	+2.2%	+2.2%		+1.6%
7:30 am	Q3 Unit Labor Costs	+1.0%	+1.5%		+1.4%
12-3 / 7:30 am	Initial Claims – Nov 28	268K	268K		260K
9:00 am	Factory Orders – Oct	+1.4%	+1.6%		-1.0%
12-4 / 7:30 am	Non-Farm Payrolls – Nov	200K	172K		271K
7:30 am	Private Payrolls – Nov	190K	162K		268K
7:30 am	Manufacturing Payrolls – Nov	0	-10K		0
7:30 am	Unemployment Rate – Nov	5.0%	5.0%		5.0%
7:30 am	Average Hourly Earnings – Nov	+0.2%	+0.1%		+0.4%
7:30 am	Average Weekly Hours – Nov	34.5	34.5		34.5
7:30 am	Int'l Trade Balance – Oct	-\$40.5 Bil	-\$40.6 Bil		-\$40.8 Bil