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Nov 27, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-28 / 7:30 am	October Durable Goods	-4.5%	**-3.0%**		+8.3%
9:00 am	Oct. Existing Home Sales	6.19M	**6.0M**		6.18M
11-29 / 7:30 am	Q3 GDP	1.8%	**+1.8%**		1.6%
	Q3 GDP Deflator	+1.8%	**+1.8%**		+1.8%
9:00 am	October New Home Sales	1050K	**1040K**		1075K
11-30 / 7:30 am	Oct Personal Income	+0.5%	**+0.5%**		+0.5%
	Oct Personal Consumption Expend	+0.1%	**+0.1%**		+0.1%
	Initial Claims wk. end 11/25	316K	**310K**		321K
9:00 am	November Chicago PMI	54.5	**56.0**		53.5
12-1 / 9:00 am	October Construction Spending	-0.2%	**0.0%**		-0.3%
	Nov ISM: Manufacturing	52.0	**53.5**		51.2
Sometime	Nov Domestic Auto Sales	5.3M	**5.3M**		5.2M
During the day	Nov Domestic Light Truck Sales	7.3M	**7.3M**		7.3M

The Consumer Lives

Early reports on holiday shopping show a very strong start. According to ShopperTrak RTC Corp, traffic at 45,000 mall-based retail outlets was up more than 2.5% from year-ago levels, while total sales were up 6.0%.

To put these data in perspective, the US population has grown just 0.9% in the past year, while the Consumer Price Index has increased 1.3%. In other words, foot traffic grew by almost triple population growth, while real (or inflation-adjusted) retail sales grew by more than 4% from last year in the first days of the 2006 holiday shopping season. In addition, online sales are up 60% to 70% from last year according to PriceGrabber.com.

This good news runs counter to conventional wisdom and also a recent spate of disappointing economic data. The housing market has slowed markedly, real GDP growth has fallen below 2.0% at an annual rate in mid-2006, car sales have been stagnant, and inventories have grown rapidly. Futures markets indicate that the Fed is done hiking rates – in fact, the markets have priced in two rate cuts in next 12 months.

But if the early read on holiday shopping is correct, the Grinch has not yet arrived, which is not surprising given the economic fundamentals. Our models suggest that despite 17 rate hikes, the Fed stopped short of neutral. As a result, we do not believe that weakness in housing, or the economy for that matter, is a result of excessive Fed tightening.

Job growth, as measured by the Household Survey, remains robust – 2.6 million new jobs in the first 10 months of 2006 and 960,000 between July and October. Moreover, real average hourly earnings are up 2.8% in the past year and 8.1% at an annual rate in the three months ending in October.

Weakness in real average hourly earnings during the past few years was partly a function of sharp increases in energy prices, not fundamental economic problems. With energy prices plummeting, real earnings have turned up.

With productivity booming, profits growing, unemployment down, and wages rising, the economy is in much better shape than generally believed. The consumer lives.

Week of December 4, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-5 / 7:30 am	Q3 Non-Farm Productivity	+0.1%	**+0.2%**		+0.0%
7:30 am	Q3 Unit Labor Costs	3.8%	**+3.7%**		+3.8
9:00 am	Oct Factory Orders	-1.6	**-2.0%**		+2.1%
9:00 am	Nov ISM: Non-Manufacturing	57.0	**58.0**		57.1
12-7 / 2:00 pm	Oct Consumer Credit	$4.4B	**$2.0B**		$-1.2B
12-8 / 7:30 am	Nov Non-Farm Payrolls	125K	**125K**		92K
7:30 am	Nov Manufacturing Payrolls	-12K	**-8K**		-39K
7:30 am	Nov Unemployment Rate	4.4	**+4.4%**		+4.4%
7:30 am	Nov Average Hourly Earnings	0.3%	**+0.3**		+0.4

Brian S. Wesbury; Chief Economist