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FIRST Trust ADVISORS L.P.

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Monday Morning Outlook

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The Economy's Not Landing, It's Taking Off

Former Treasury Secretary Robert Rubin said last week that there were only two near-term paths for the US economy – either a soft landing or recession. His comments resonated because they were put down right in the middle of a consensus of economists and public commentators who believe the same thing.

The only problem is that, right now, there is very little evidence to support this view. While most analysts are mesmerized by the weak housing sector, the rest of the economy seems to be taking off.

Last week's data is a microcosm of the past several months. Housing continued to slump, grabbing the major headlines. Meanwhile, incomes kept rising, consumption spiked upward, manufacturing indicators improved – with one hitting a record high – and the best real-time gauge of the labor market blew past everyone's expectations.

We've never seen such divergence between what most commentators are saying about the economy and how it's actually performing. Last week there were three solid reports on manufacturing.

First, the Richmond Federal Reserve Bank released its index of activity at factories in a region that covers the Carolinas, Washington DC, Maryland, Virginia, and West Virginia. The index rose to 14 in September, the highest since April 2006. Then, the Chicago Purchasing Managers Index, which measures activity in the Midwest, rose to 54.2, the highest in three months. And finally, the Milwaukee-area purchasing managers' index rose to 70 in September, a record high for a series that dates back to 1998, when the dot.com technology boom had not yet reached its zenith.

News on the labor market, construction, and consumer behavior were also bullish. Initial claims for jobless benefits dropped to 298,000, the lowest level since May. Along with a drop in continuing claims versus August, these data suggest a healthy report for September payrolls is in the pipeline for Friday.

Construction data showed that despite the credit crunch and weakness in housing, non-residential business building was up 2.3% in August. Meanwhile, personal consumption was up at an inflation-adjusted 8% annual rate in August, the fastest pace in two years. In the past 12 months, real (or inflation-adjusted) after-tax income is up 4.4% and real consumption is up 3.4%.

Not all the news outside of housing was good. New orders for durable goods dropped 4% in August. However, this decline followed increases in the previous two months of 1.8% and 6.1%, while shipments of "core" capital goods (ex-defense and aircraft) in August were up 0.8%, so all in all, not a horrible report.

Those who believe the credit crunch slowdown story argue that all this strong economic data should be ignored because it will eventually turn down. But this is far from clear. Our view is that the reports from last week reflect a relatively strong economy. Rather than coming in for a landing, it looks like the re-acceleration in growth to 3%+ real GDP that began in Q2 will continue in the year ahead. It still looks like a takeoff, not a landing.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-1 / 9:00 am	ISM Index - Sep	52.5	**52.6**	***52.0***	52.9
10-2 *sometime*	Domestic Auto Sales - Sep	5.2 Mil	**5.2 Mil**		5.1 Mil
during the day	Domestic Truck Sales - Sep	7.1 Mil	**7.4 Mil**		7.6 Mil
10-3 / 9:00 am	ISM Non-Man. - Sep	55.0	**55.0**		55.8
10-4 / 7:30 am	Initial Claims - Sep 29	310K	**311K**		298K
9:00 am	Factory Orders - Aug	-2.6%	**-2.7%**		+3.7%
10-5 / 7:30 am	Non-Farm Payrolls - Sep	110K	**147K**		-4K
7:30 am	Unemployment Rate - Sep	4.7%	**4.7%**		4.6%
7:30 am	Average Hourly Earnings - Sep	+0.3%	**+0.3%**		+0.3%
7:30 am	Average Weekly Hours - Sep	33.8	**33.9**		33.8
7:30 am	Manufacturing Payrolls - Sep	-10K	**-20K**		-46K