

Feb. 26 2007

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-27 / 7:30 am	Durable Goods - Jan	-2.0%	-8.3%		+2.9%
9:00 am	Jan Existing Home Sales	6.240 Mil	6.391 Mil		6.217 Mil
2-28 / 7:30 am	Q4 GDP Preliminary	2.4%	3.0%		3.5%
7:30 am	Q4 GDP Chain Price Index	1.5%	1.4%		1.5%
9:00 am	Chicago PMI - Feb	50.0	49.1		48.8
9:00 am	New Home Sales - Jan	1.080 Mil	1.099 Mil		1.120 Mil
3-1 / 7:30 am	Personal Income - Jan	+0.3%	+0.3%		+0.5%
7:30 am	Personal Spending - Jan	+0.4%	+0.4%		+0.7%
7:30 am	Initial Claims - Feb 24	321K	324K		332K
9:00 am	Construction Spending - Jan	-0.5%	-0.6%		-0.4%
9:00 am	ISM Index - Feb	50.0	48.5		49.3
Sometime	Domestic Auto Sales - Feb	5.2 Mil	5.3 Mil		5.3 Mil
During the day	Domestic Truck Sales - Feb	7.3 Mil	7.3 Mil		7.4 Mil

Germany: A One-Year Wonder?

German economic growth ended 2006 on a high note. Real GDP grew 3.7% in 2006, the fastest growth rate in more than 15 years, more than twice as fast as the 1.7% growth rate of 2005, and significantly above the identically disappointing 0.2% real growth rates of 2002, 2003, and 2004.

The acceleration of growth in 2006 caused many forecasters to become more optimistic about Germany, and some even began to predict an economic renaissance in Continental Europe. After years of sub-par performance, this would be welcome.

But all this excitement appears misplaced. On January 1, 2007, the German VAT tax was raised from 16% to 19%, while the top marginal income tax rate increased to 45% from 42%.

The knowledge that these tax rates would rise in 2007 created an incentive to bring income and spending forward into the lower tax year. For Germany, this means that growth was stolen from 2007, which artificially boosted economic activity in 2006.

Early data for 2007 on consumer and business confidence show a reversal from the positive news of 2006. Both industrial production and factory orders fell in December, and January retail sales are weaker than at any time since early 2004.

While the consensus has settled on a German real GDP growth rate of 1.5% to 2.0% for 2007, we suspect that this is overly optimistic. The European Central Bank is running what we would call a neutral monetary policy and the German government is planning a reduction in corporate tax rates in 2008. In other words, there will be an incentive to push income and profits from 2007 forward into 2008.

Germany remains a very high tax economy. The top marginal income tax rate is 45%, social security taxes are 19.9%, health care payroll taxes are 14.3%, while unemployment insurance is 4.2%, and corporate tax rates are roughly 40% (when local taxes are included). These high tax rates suggest the surge in 2006 economic activity was nothing but one-year wonder.

Week of March 5, 2007

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-5 / 9:00 am	ISM Non-Man. - Feb	58.0	59.4		59
3-6 / 7:30 am	Q4 Non-Farm Productivity	+2.0%	+2.4%		+3.1%
7:30 am	Q4 Unit Labor Costs	-3.0%	+2.9%		+1.7%
9:00 am	Factory Orders - Jan	-2.0%	-5.1%		+2.4%
3-9 / 7:30 am	Int'l Trade Balance - Jan	-\$59.5 Bil	-\$60.7 Bil		-\$61.2 Bil
7:30 am	Non-Farm Payrolls - Feb	120K	133K		111K
7:30 am	Unemployment Rate - Feb	4.6%	4.5%		4.6%
7:30 am	Manufacturing Payrolls - Feb	-15K	-21K		-16K
7:30 am	Average Hourly Earnings	+0.3%	+0.4%		+0.2%
7:30 am	Average Weekly Hours - Feb	33.8	33.9		33.8

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