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First Trust

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Economic Commentary

Velocity Watch

Earlier today, the government reported that last week, for the second week in a row, initial claims for unemployment insurance fell – by 21,000 to 509,000, after peaking at 543,000 three weeks ago.

This news supports what can only be described as pretty-darn-amazing holiday shopping reports. Putting this together, it appears that velocity has possibly turned the corner. The economy could be much stronger than conventional wisdom suspects in the months ahead.

According to ShopperTrack RCT Corp. total sales at US retailers rose during the Friday/Saturday/Sunday after Thanksgiving versus last year. While the increase was less than 1%, this was significantly better than expectation and a huge turnaround from year-over-year declines of 15% to 25% reported early in November.

Online retail spending rose 15% versus last year on the Monday after Thanksgiving (known as Cyber Monday), according to ComScore Inc. In addition, the National Retail Federation (NRF) says the number of shoppers either in stores or accessing on-line retailers, from Black Friday through Sunday, was up 17% versus last year and that the average amount spent was up 7.2%.

Obviously, these figures should be greeted with caution. It is plausible that, with relatively few shopping days this year between Thanksgiving and Christmas, consumers are buying more on a *per day* basis but will not buy more during the holiday season as a whole.

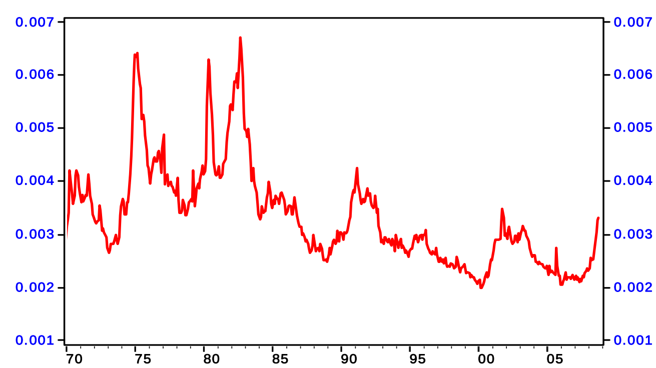
And making sweeping conclusions from just a few weeks or few days of data is risky business. For example, jobless claims are particularly volatile at this time of year, and an increase in claims could come at any time (even next week).

Nonetheless, the fact that these data points are not falling into the abyss is a very welcome sign. If the US really was entering the next Great Depression, it is hard to imagine that retail sales would have risen, while initial claims had declined.

There are two things to remember when looking at the data. First, overall economic data will still look bad for many months into the future. The majority of economic and corporate earning data is lagging, and even if the velocity of money were to snap back, the normal economic releases will still show weakness into January and February.

Second, if the consumer does snap back as panic about the economy wanes, it will take even more time before producers are convinced that the environment has improved. Rarely do consumers lead the economy, but in those rare instances when velocity drives the economy, the consumer is in charge.

Initial Claims As % of Total Employment



We will continue to watch real-time economic data, like movie theater box office receipts (the biggest November in the past 5 years), initial claims and reports on retail sales over the holiday shopping season in order to determine whether velocity has reached an inflection point. Right now, it appears that the economy may have turned a corner in late November.

Brian S. Wesbury, *Chief Economist*
Robert Stein, *Senior Economist*