

Freedom and Optimism

Our favorite non-religious holiday is Independence Day, celebrating the Declaration of Independence, which declared freedom from the Kingdom of Great Britain.

In 1776, America was an agricultural economy, with levels of productivity that lagged significantly behind most of Western Europe. Since then, on a very consistent basis, these United States have increased living standards and wealth. Today, US GDP is more than double the next largest country (Japan), and no country is as powerful – economically or militarily.

This nation is blessed with abundant natural resources, ports and an agreeable climate. But, the number one attribute of economic success is freedom, which allows people to find and exploit their own God-given talents. This freedom creates a sense of adventurism and entrepreneurship that many other societies strive to emulate. It also breeds optimism, which has been consistently reinforced by more than two centuries of success.

Despite this history, Pouting Pundits of Pessimism refuse to let go of their doom and gloom. And rarely has this pessimism been as widespread or unrepentant as it is currently. It's as if the longer the pessimists are wrong, the more they are convinced they are about to be right.

It is true that this can also be said of optimists. They also tend to dig in their heels and fight against bad news when it comes. But the big difference, at least when it comes to America, is that the optimists have been right.

The past ten months are a perfect test case. At the beginning of the so-called “sub-prime crisis,” forecasts of recession (even depression) became commonplace. Housing was supposed to drag the consumer into the abyss, credit problems were supposed to undermine small businesses, the financial markets were supposed to seize up, and to top it off, energy prices have climbed sharply.

But the economy has not cooperated. Excluding home building (which is now roughly 4% of the economy), real GDP has expanded at a 3.3% annualized rate in the past three quarters. Including the effects of housing, total real GDP grew 0.6% at an annual rate in Q4-2007 and 1.0% in Q1-2008. Moreover, Q2-2008 real GDP growth will likely accelerate to a 2%+ growth rate. Never in history has a recession been declared with GDP data like this.

And despite collapsing consumer confidence, real consumption is up at a 3.1% annual rate in the past three months, while shipments of “core” capital goods (which exclude defense and aircraft) are up at a 9.4% rate. Meanwhile, at long last, home sales appear to be bottoming.

One would think that these data would end some of the more intense pessimism, but not so. In just the past few days, the Washington Post's Steven Pearlstein, and the Bank for International Settlements have written or released very pessimistic outlooks on the US economy.

But, monetary policy is easy, tax rates are still low, and productivity is strong. These conditions create growth, not contraction. Happy Fourth of July!

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-30 / 9:00 am	Chicago PMI - Jun	48.0	49.7	49.6	49.1
7-1 / 9:00 am	ISM Index - Jun	48.6	49.7		49.6
9:00 am	Construction Spending - May	-0.5%	-1.0%		-0.4%
<i>sometime</i>	Domestic Auto Sales - Jun	5.3 Mil	5.3 Mil		5.3 Mil
<i>during the day</i>	Domestic Truck Sales - Jun	5.0 Mil	4.6 Mil		5.1 Mil
7-2 / 9:00 am	Factory Orders - May	0.4%	+0.1%		+0.9%
7-3 / 7:30 am	Non-Farm Payrolls - Jun	-60K	-15K		-49K
7:30 am	Unemployment Rate - Jun	5.4%	5.3%		5.5%
7:30 am	Average Hourly Earnings	+0.3%	+0.3%		+0.3%
7:30 am	Average Weekly Hours - Jun	33.7	33.7		33.7
7:30 am	Manufacturing Payrolls - Jun	-30K	-30K		-26K
7:30 am	Initial Claims - Jun 28	385K	381K		384K
9:00 am	ISM Non-Man. - Jun	51.0	51.5		51.7