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First Trust

Aug 25, 2008

Monday Morning Outlook

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Long Term Trend Still Bullish

While some economists argue a recession is underway, it is hard to tell from the data. Yes, the unemployment rate has been rising, but almost all the weakness is coming from housing and high energy prices. Other areas of the economy are still doing well and overall economic growth has been positive. What is clear is that strong productivity growth is allowing the US economy to move forward despite headwinds.

While gross domestic product measures the *total output* of goods and services, productivity measures *output per hour*. And even as the number of hours worked has declined, output per hour has gone up enough to keep total output rising.

In fact, output per hour in the non-farm business sector is up 2.8% versus last year and is likely to be revised up to about 3% when new figures arrive in the first week of September. In the past ten years, productivity is up at an annual rate of 2.6%, a sharp acceleration from the 1.7% annual rate in the previous ten-year period, which, in turn, was faster than the 1.3% rate that prevailed in the ten years before that.

This is good news after productivity growth slowed sharply in the 1970s and early 1980s, when tax rates were too high, regulations were too burdensome, and inflation eroded the underpinnings of a strong entrepreneurial environment. From 1973 through 1982, productivity averaged less than 1% per year.

It was the move to lower marginal tax rates, deregulation, and a much more stable currency in the 1980s and 1990s that led to a rebound in technology investment, entrepreneurship and productivity growth.

In response, the economy has remained resilient for a generation; overcoming without great difficulty threats like the 1987 stock market crash, the S&L crisis, the rapid decline of oil prices in the 1980s (think Texas), the rapid rise of oil prices in the 2000s (think almost everywhere else), 9/11, hurricanes Katrina and Rita, and the Asian Contagion, along with the collapse of Long-Term-Capital Management. Since 1982, the US economy has been in recession just 5.2% of the time, versus 31% of the time between 1969 and 1982.

This does not mean there is no economic pain. A high productivity economy will often generate problems for those whose skills are becoming obsolete. A skill acquired by age 20 or 25 is no longer going to last a lifetime when the world is changing so rapidly. It might not even last a decade. And companies face competition from new entrants using radically different technology (think traditional newspaper classified ads versus Craigslist). This forces businesses to work harder at squeezing out operational inefficiencies, potentially resulting in job losses, even during periods of strong economic growth.

But year by year, and decade by decade, productivity growth is the key source of rising standards of living. It's what makes it possible for us to live longer and better than our parents; it's what makes it possible for our children to live longer and better than we do.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-25 / 9:00 am	Existing Home Sales - Jul	4.910 Mil	**4.890 Mil**		4.860 Mil
8-26 / 9:00 am	New Home Sales - Aug	0.525 Mil	**0.521 Mil**		0.530 Mil
8-27 / 7:30 am	Durable Goods - Jul	0.0%	**+0.4%**		+0.8%
7:30 am	Durable Goods (Ex-Trans) - Jul	-0.6%	**-1.3%**		+2.0%
8-28 / 7:30 am	Q2 GDP Preliminary	2.7%	**2.9%**		1.9%
7:30 am	Q2 GDP Chain Price Index	1.1%	**1.1%**		1.1%
7:30 am	Initial Claims - Aug 23	425K	**429K**		432K
8-29 / 7:30 am	Personal Income - Jul	-0.2%	**+0.2%**		+0.1%
7:30 am	Personal Spending - Jul	+0.3%	**+0.2%**		+0.6%
9:00 am	Chicago PMI - Aug	50.0	**49.7**		50.8
8:45 am	U. Mich. Consumer Sentiment	62.0	**63.0**		61.7