

## No Vicious Consumer Cycle

Friday's jobs report was awful, but contrary to popular belief does not signal the death of the consumer. This notion – that fewer people working means less consumption – has become conventional wisdom. And those who believe this, think government “stimulus” is the only way to prevent an economic bloodbath.

It's easy to get dour. Along with the sharp decline in jobs during December, total hours worked plummeted 1.1%, in large part due to a sudden rise in the number of workers who want to work full-time but who can only find part-time jobs. Except for an unusual East Coast blizzard in 1996, this was the biggest drop since 1982. And since December saw some of the worst snowstorms to hit the US in decades, it is possible the weather again played a role.

Despite this, hourly wages rose 0.3% in December and were up 3.7% from December 2007. With the CPI expected to *decline* by 1.2% in December (data released this Friday), real (or, inflation-adjusted) wages likely increased 1.5%. Moreover, those real wages are likely up 4.8% from a year-ago, the fastest increase since 1972.

In addition, the real purchasing power of workers' cash earnings (total hours\*real hourly earnings) actually increased by about 0.3% in December, putting it about 0.1% ahead of where it was a year ago. In other words, declines in energy

prices, as well as some other prices, have roughly offset the damage to consumer purchasing power caused by job cuts and fewer hours for the remaining workforce.

Surely, major job cuts will continue to put downward pressure on earnings for at least the next few months. However, the decline in gasoline prices alone is saving consumers \$410 billion in annual expenditures. This drop in energy prices, which will keep the CPI in negative territory for months to come, combined with moderate wage gains, will continue to offset any decline in purchasing power due to falling employment.

Meanwhile, despite the fear (some of which is stoked by political salesmanship) that the US faces the worst economic crisis since the Great Depression, initial claims for unemployment insurance have fallen dramatically, from 589,000 the week before Christmas to 467,000 in New Year's week. If initial claims come in for last week at the consensus expected 501,000, the four-week moving average would be down to 512,000, the lowest since November.

These figures signal that the most intense period of the recession is behind us, not in front of us. Any “stimulus” applied by government has less to do with creating the recovery than letting politicians take credit when the recovery happens.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-13 / 7:30 am	Int'l Trade Balance - Nov	-\$51.0 Bil	<b>-\$52.8 Bil</b>		-\$57.2 Bil
1:00 pm	Treasury Budget - Dec	-\$50.0 Bil	<b>-\$84.3 Bil</b>		\$164.4 Bil
1-14 / 7:30 am	Retail Sales - Dec	-1.2%	<b>-0.6%</b>		-1.8%
7:30 am	Retail Sales Ex-Autos - Dec	-1.4%	<b>-0.7%</b>		-1.6%
7:30 am	Import Prices - Dec	-5.3%	<b>-5.3%</b>		-6.7%
7:30 am	Export Prices - Dec	-2.0%	<b>-1.8%</b>		-3.2%
7:30 am	Business Inventories - Nov	-0.5%	<b>-0.5%</b>		-0.6%
1-15 / 7:30 am	PPI - Dec	-2.0%	<b>-2.9%</b>		-2.2%
7:30 am	"Core" PPI - Dec	+0.1%	<b>+0.1%</b>		+0.1%
7:30 am	Empire State Mfg Index - Jan	-25.0	<b>-20.0</b>		-25.8
7:30 am	Initial Claims - Jan 10	501K	<b>501K</b>		467K
9:00 am	Philly Fed Survey - Jan	-35.0	<b>-41.3</b>		-36.1
1-16 / 7:30 am	CPI - Dec	-0.9%	<b>-1.2%</b>		-1.7%
7:30 am	"Core" CPI - Dec	+0.1%	<b>+0.1%</b>		+0.0%
8:15 am	Industrial Production - Dec	-1.0%	<b>-1.3%</b>		-0.6%
8:15 am	Capacity Utilization - Dec	74.6%	<b>74.3%</b>		75.4%
8:45 am	U. Mich. Consumer Sentiment	59.8	<b>60.0</b>		60.1