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First Trust

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Monday Morning Outlook

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Not So Disappointing

Last week, even before Friday's employment data, the most popular economic word was "disappointing." After months of trying to explain away stronger-than-expected economic reports, the pouting pundits of pessimism finally had some slightly weaker-than-expected data to wring their hands over.

What strikes us as a little bit odd about all this hand-wringing is that the conventional wisdom was so strong in its belief that the economy could not get better unless housing got better. But now that housing data has clearly improved, the conventional wisdom is downplaying and even ignoring the sector they used to think was the key behind understanding the whole economy.

New home sales have risen for five straight months. Existing home sales are up in four of the last five months and – given strong figures on pending home sales in August – should be up substantially in September. After declining for 39 straight months, private construction of new homes increased for the third straight month in August. Meanwhile, home inventories are falling and given the low level of construction will continue to do so in the months ahead.

Even home prices are bouncing, although not uniformly in all 50 states. On a national average basis, prices for houses financed by conforming mortgages are up three consecutive months. And according to the S&P/Case-Shiller home price index, the bellwether indicator for so many bears, home prices on a seasonally-adjusted basis are up two months in a row. Moreover, in 15 of the largest 20 metropolitan areas across the country home prices are up on a three-month basis, and that includes homes financed by both conforming and non-conforming loans. Why is this not important anymore?

And certainly not disappointing was last week's economic data that showed a 30% drop in corporate layoffs versus last year and an ISM Manufacturing report that, although weaker than anticipated, signaled the second consecutive month of growth in the manufacturing sector.

What disappointed some were three reports: consumer confidence, auto sales, and employment. On consumer confidence, the small decline in September followed a large increase in August. And now that private-sector wages and salaries are starting to rise again, we think consumer optimism will start to trump pessimism in the months ahead.

On auto sales, everyone knew that auto sales in July/August were artificially high due to "cash for clunkers" and September would show a large drop. The only issue was how deep the drop would be. Though the September drop was larger than anticipated, we take this as a sign that a greater share of the sales that the clunkers law robbed from future months came out of September, meaning October and beyond will show less of a "clunkers" effect and higher rates of sales.

On the employment situation, we like to focus on what's happening in the private sector. Private payrolls fell 210,000 in September, a bit larger than the 182,000 decline in August. But this happened back in June when payrolls fell 391,000, a bigger drop than in May when they fell 292,000. Stocks weakened on the June jobs report, but then strengthened as corporate profits showed larger than expected gains and economic data continued to improve. We expect the same to happen in the weeks ahead.

We also can't help but notice that a higher minimum wage was implemented two months ago and seems to be having the usual (but temporary) job-killing effects for teenagers. In the year ending in July, 10.6% of the decline in civilian employment was due to teenagers. In the two months since the minimum wage hike, teenagers have accounted for 23.3% of the drop in employment.

When you put it under a microscope, even a V-shaped recovery is not a smooth, perfect line. The closer you look at a coastline the more jagged it appears. For the economy, there are always weeks or months when things don't advance as rapidly as before. But this does not mean that the trend has changed. With housing in recovery and monetary policy extremely loose, the disappointments in the months ahead will remain outliers, while the good news rolls on.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-5 / 9:00 am	ISM Non-Man. - Sep	50.0	**50.4**	50.9	48.4
10-7 / 2:00 pm	Consumer Credit - Aug	-$10.0 Bil	**-$10.7 Bil**		-$21.6 Bil
10-8 / 7:30 am	Initial Claims - Oct 3	540K	**548K**		551K
10-9 / 7:30 am	Int'l Trade Balance - Aug	-$33.0 Bil	**-$29.3 Bil**		-$32.0 Bil