

Upside Down and Backwards

The United States economy is in a V-shaped recovery from the bottom of the Panic of 2008. A vast (and we mean vast) majority of the data signals a very sharp recovery from the lows of last winter. Commodity prices, stock prices, department store sales, housing, manufacturing indices, credit spreads, and dozens of other economic measures reflect a recovery.

The only thing that hasn't turned around yet is the job market. The unemployment rate has jumped to 10.2% and the US is still losing jobs. However, the job market is, and always has been, a lagging indicator of economic recovery.

Stack it all up and it should be a no brainer to accept the fact that the economy is on the mend. But wait a minute...it ain't that easy. No matter where we go, no matter who we talk to, optimism is argued with, put down, dismissed, and ignored.

This has to be the most disrespected economic recovery in history. It's like the Northwestern University football team – despite going 9-3 and 8-4 in the past two seasons, and beating two top 20 teams in the past three weeks, they remain underdogs. I bet when you hear Northwestern and football in the same sentence you chuckle inside. When the Wildcats beat a top 20 team, the pundits say there must have been something wrong with the other team.

Isn't that what's happening now with the economy? When real GDP grew solidly in the third quarter, the pouting pundits of pessimism said it was all due to government stimulus. They can't explain why "real" consumer spending on services and non-durable goods (in other words, non-cash-for-clunkers spending) increased at a 3.8% annual rate in August and September, its strongest growth since January 2007.

But when confronted with this fact, they say that in a normal recovery, the growth would have been stronger. So, the

very same pundits who said recovery would be extremely tepid – a new normal of less than 2% real growth, now argue that the optimists can't be right because the recovery is not 7% real growth. (For the record, we have consistently forecast a 3% to 4.5% recovery for late 2009 and 2010.)

The recovery-deniers also argue that the stock market is riding a sugar high and that if you price it in gold, it's not up. But since March 9th, when the market bottomed because of reform in mark-to-market accounting, gold is up 26.1% and the S&P 500 is up 64.1%.

Gold has quadrupled since 2001, while stocks are flat from eight years ago. The Federal Reserve has not quadrupled the money supply, so it would seem that gold is overstating the actual inflation rate. At the same time, corporate profits are up 55% from their eight year-ago level. Gold is probably overvalued right now, while stocks remain undervalued.

The real fear is the direction of government policy. National healthcare moved one step closer to passage on Saturday, but there is an incredible amount of division in Congress. What's most disturbing is that many Republicans are arguing against Democratic policies on the grounds that government interference in the economy is bad for growth. They are right, of course, but they have little moral standing because many of them supported the \$150 billion Bush stimulus in February 2008, TARP, and other government interference.

So, when data is good, it's considered not good enough. And if government is growing it's only bad when a Democrat is in office. It's all Upside Down and Backward.

To help understand it all, and where it is going, pick up a copy of "It's Not As Bad As You Think," Brian Wesbury's new book out November 9, 2009, from Wiley.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|--------------------------------|-----------|------------------|----------|-----------|
| 11-23 / 9:00 am | Existing Home Sales - Oct | 5.700 Mil | 5.700 Mil | 6.10 Mil | 5.570 Mil |
| 11-24 / 7:30 am | Q3 GDP Preliminary | 2.8% | 2.7% | | 3.5% |
| 7:30 am | Q3 GDP Chain Price Index | 0.8% | 0.9% | | 0.8% |
| 9:00 am | Consumer Confidence - Nov | 47.5 | 48.2 | | 47.7 |
| 11-25 / 7:30 am | Initial Claims - Nov 21 | 500K | 504K | | 505K |
| 7:30 am | Durable Goods - Oct | 0.5% | 2.1% | | 1.4% |
| 7:30 am | Durable Goods (Ex-Trans) - Oct | 0.6% | 0.4% | | 1.2% |
| 7:30 am | Personal Income - Oct | 0.1% | 0.2% | | 0.0% |
| 7:30 am | Personal Spending - Oct | 0.5% | 0.8% | | -0.5% |
| 9:00 am | New Home Sales - Oct | 0.405 Mil | 0.413 Mil | | 0.402 Mil |
| 8:45 am | U. Mich. Consumer Sentiment | 67.0 | 70.0 | | 66.0 |