630-517-7756
www.ftportfolios.com

First Trust

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Monday Morning Outlook

Brian S. Wesbury - Chief Economist
Robert Stein, CFA - Senior Economist

Seismic Indicators Sense Some Inner Rumblings

Economic growth at the end of 2008 was slightly deceptive. Real GDP fell at a 3.8% annual rate, a smaller decline then the consensus expected. However, without an unwanted accumulation of inventories at businesses, real GDP would have dropped at a steeper 5.1% annual rate. This surge in inventories, and the reaction of business to it, means another steep drop in real GDP is likely on tap for Q1, as excess stockpiles are reduced.

At the same time, the widespread severity of winter weather this year has likely pulled business activity down artificially – making the recession look worse. In other words, lagging economic data about home sales or GDP from late last year or early this year is not very helpful as a signal of what growth may be doing in the spring.

As a result, it is even more important to look elsewhere for early signals of the Fed's loose monetary policy, which should generate faster economic growth. Despite continued problems in financial markets, sensitive commodity and transportation prices – the seismic indicators of economic geology – suggest that the economy may be "catching gear." For certain, these are very early rumblings. But they are rumblings nonetheless.

The price of gold has increased about $200 per ounce in the past 10 weeks. Some argue that this represents a flight to safety, but Treasury bill, note and bond yields are up recently, suggesting this may not be the case.

Meanwhile, oil prices bottomed in the mid-$30s and appear range-bound just above the $40 per barrel price. Another positive sign is that the Baltic Freight Index, a measure of international shipping prices, appears to have bottomed two months ago in early December and is up about 60% since then. This is a small rebound from the massive 94% drop from June to December, but it represents a notable turning point in direction.

Other key commodity prices, such as copper, nickel and aluminum have stabilized after bottoming in November. If "Great Depression II" were truly upon us, these commodities would not have found a bottom.

During recessions, it is typical for investors to reach a point where they start to think that "this time around" monetary policy will not work. The long lags while we wait for the Fed's bullets to hit the target cause many to lose faith.

We doubt things are really different this time. Monetary policy is extremely loose and the seismic drums are scratching away. Some early warning signals suggest that despite real GDP weakness, an economic recovery should start taking hold by mid-year.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-2 / 7:30 am	Personal Income - Dec	-0.4%	**-0.2%**	-0.2%	-0.2%
7:30 am	Personal Spending - Dec	-0.9%	**-0.9%**	-1.0%	-0.6%
9:00 am	ISM Index - Jan	32.5	**31.8**	35.6	32.9
9:00 am	Construction Spending - Dec	-1.2%	**-1.4%**	-1.4%	-0.6%
2-3 / *sometime*	Domestic Auto Sales - Jan	3.5 Mil	**3.7 Mil**		3.6 Mil
during the day	Domestic Truck Sales - Jan	4.0 Mil	**4.4 Mil**		4.1 Mil
2-4 / 9:00 am	ISM Non-Man. - Jan	39.0	**38.7**		40.1
2-5 / 7:30 am	Q4 Non-Farm Productivity	+1.5%	**+2.2%**		+1.3%
7:30 am	Q4 Unit Labor Costs	+3.0%	**-2.4%**		+2.8%
7:30 am	Initial Claims - Jan 31	585K	**564K**		588K
9:00 am	Factory Orders - Dec	-3.1%	**-1.8%**		-4.6%
2-6 / 7:30 am	Non-Farm Payrolls - Jan	-533K	**-522K**		-524K
7:30 am	Unemployment Rate - Jan	7.5%	**7.4%**		7.2%
7:30 am	Average Hourly Earnings - Jan	+0.2%	**+0.3%**		+0.3%
7:30 am	Average Weekly Hours - Jan	33.3	**33.4**		33.3
7:30 am	Manufacturing Payrolls - Jan	-143K	**-145K**		-149K
2:00 pm	Consumer Credit – Dec	-$3.5 Bil	**-$2.3 Bil**		-$7.9 Bil