

Emotional Forecasts

We have never seen as much emotion in economic debate as we have in recent years. Part of this is driven by the Internet and the ability to post anonymously. But even that doesn't explain everything because every week we get signed emails and blog posts with language that could make some grown men blush. And all we do is make economic forecasts. Imagine what our mail would look like if we wrote about sports.

Mostly, these writers question our sanity or integrity for predicting an economic recovery. The responses fall into three groups. First, those who think debt drove the wealth creation of recent decades and until this debt unwinds nothing will be normal again. These commentators expect more shoes to fall.

Second, are those who just can't see a recovery if people are losing their jobs. They say we missed forecasting the recession in advance and are wrong to expect a V-shaped recovery. Third, are those who look at all the government spending and money printing and think this will undermine growth and boost inflation to painful levels very soon.

In response, we admit that we failed to forecast the recession. In fact, we argued strenuously last year that the economy would avoid a recession. What we missed was how badly the government would mishandle otherwise manageable problems: a combination of mark-to-market accounting and ad hoc remedies, finally allowing Lehman Brothers to fail in September 2008. This set off a rare financial panic, the velocity of money plummeted, and economic activity collapsed.

Capitalism did not fail, it was government that failed. The government perhaps never better lived up to Groucho Marx's maxim: "Politics is the art of looking for trouble, finding it, misdiagnosing it, and then misapplying the wrong remedies."

Despite this, we expect the economy to rebound from the panic and make up for the loss of growth relatively quickly.

This is hard for some people to comprehend because if you listen to the business news or read the popular press, the economy has basically stopped – had a heart attack – crashed – shut down.

But the system never shuts down. It may slow down, but as long as freedom exists, the system remains dynamic. For example, in the past 26 weeks, roughly 16 million people filed initial claims for unemployment insurance. But, as of two weeks ago, there were only 6.816 million people continuing to receive claims. In other words, possibly as many as nine million people who might still be receiving benefits are not because they found gainful employment.

The point of this is that the economy has not stopped. It is extremely vibrant and dynamic. In the midst of what some call "the worst economy since the Great Depression," job creation continues. What is needed for an end to "net" job losses is for layoffs to stop. And with the panic subsiding this should happen relatively quickly.

Yes, it is true that the government has grown almost exponentially, and the Fed is super easy, too. But the problems with all of this are long-term in nature and probably not as bad as the most vocal critics believe. We will pay a price for government growth, but that price is still at least a year or more away. For now, a recovery is coming and it will be stronger than the conventional wisdom believes, partly because the Fed is so easy.

As for our critics, please know that we always appreciate a good debate. We hope to be right with our forecast, but we know we won't always be. So, in the end, we try to present a clearly stated argument and back it up. The fact that this somehow sets off an emotional response is just a sign of our high-stress times.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-15 / 7:30 am	Empire State Mfg Index - Jun	-4.6	5.0	-9.41	-4.6
6-16 / 7:30 am	PPI - May	+0.6%	+0.7%		+0.3%
7:30 am	"Core" PPI - May	+0.1%	+0.2%		+0.1%
7:30 am	Housing Starts - May	0.485 Mil	0.506 Mil		0.458 Mil
8:15 am	Industrial Production - May	-1.0%	-1.1%		-0.5%
8:15 am	Capacity Utilization - May	68.4%	68.1%		69.1%
6-17 / 7:30 am	CPI - May	+0.3%	+0.4%		0.0%
7:30 am	"Core" CPI - May	+0.1%	+0.1%		+0.3%
6-18 / 7:30 am	Initial Claims - Jun 13	602K	602K		601K
9:00 am	Philly Fed Survey - Jun	-17.0	-14.0		-22.6
9:00 am	Leading Indicators - May	+1.0%	+1.3%		+1.0%