

No More Steroids Needed

Taking steroids or weight loss pills can help people look buff. However, working out and eating less are better ways to get sustainable results. The problem is that this takes time and dedication, which for many people seems to be lacking.

The reason we bring this up is that this same “results now...give me drugs” attitude is affecting our economic policy these days. Elections force politicians to have a short-term focus. They want faster growth no matter how they get it. *Our opinion*: things are better than they seem, drugs aren’t needed, and a more healthy and durable approach should be employed.

Three things are working to lift the US economy – productivity, easy money and the natural economic healing process. Two things are working to hold back the economy – massive increases in government spending and heavy-handed government interference in economic activity. The net-net of all this is that the US could grow faster if it stopped spending so much and interfering, but it is growing nonetheless.

Private-sector payrolls are up 96,000 per month so far this year and civilian employment – an alternative measure of jobs that surveys workers themselves rather than employers – is up 205,000 per month. Yes, that’s right the household survey shows 1.8 million net new private sector jobs this year. And, even though few believe it, consumption is at an all-time high.

But, people want even faster growth. Many want another round of quantitative easing, while some want even more government spending. This is the “it’s not working...I need steroids” attitude we mentioned above.

Unfortunately, progress that comes from steroids is artificial, potentially dangerous and temporary. Easy money cannot create long-term increases in wealth and more government spending hurts the economy.

The United States would be much better off with a patient attitude towards growth. The election is poised to change the course of government interference with economic activity, while current budget problems are already forcing austerity at the state and local level. All of this is good news for the future and will help solidify the economic progress we have already made.

Consumer purchasing power is accelerating. After falling in 2008 and most of 2009, worker pay is rising again. Total “cash” earnings in the private sector are up at

a 4.4% annual rate in 2010. Meanwhile, consumers are still paying down debt, just more slowly than they were before.

It’s important to notice that if someone makes \$50,000 and pays down \$10,000 in debt, he has \$40,000 left over to spend. If he then makes \$52,000 and pays down \$5,000 in debt, his spending capacity jumps to \$47,000. In addition, the share of after-tax earnings that households need to service their debts and make other recurring payments (rent, car leases, property taxes, etc.) soon will be at relatively low 1995 levels.

Similarly, businesses have both motive and opportunity for a substantial increase in equipment investment. In the past fifteen months, we’ve gone from using 68% of our industrial capacity to 75%. The long-term average is about 80%, and with current growth rates we should be there in a year.

Partly, this is because industrial capacity itself is declining. When money was cheap in the 2000s, we built too many houses. But business investment was not excessive. And because high-tech investment tends to depreciate more rapidly than the “low-tech” industrial equipment of prior decades, US companies will use their near-record profits and balance sheet cash to expand capacity very soon.

Lastly, many believe that housing will be weak for years. But, even if excess inventories do not get worked down to normal levels until 2013, home builders are going to have to increase housing starts by about 150% over the next few years so that when the excess inventory is gone they are meeting normal demand with normal supply. Builders can’t wait much longer, or they will fall behind and ultimately generate a shortage of homes.

None of these reasons for optimism require the Federal Reserve to ratchet up its “quantitative easing.” We don’t need more steroids. Waiting for the recovery and removing the things that are holding it back (wasteful spending and regulation) is the healthiest way to create sustainable growth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-13 / 7:30 am	Export Prices - Sep	+0.2%	+0.2%		+0.8%
7:30 am	Import Prices - Sep	-0.2%	-0.1%		+0.6%
1:00 pm	Treasury Budget - Sep	-\$35.0 Bil	-\$32.0 Bil		-\$90.5 Bil
10-14 / 7:30 am	PPI - Sep	+0.2%	+0.1%		+0.4%
7:30 am	"Core" PPI - Sep	+0.1%	+0.1%		+0.1%
7:30 am	Int'l Trade Balance - Aug	-\$44.1 Bil	-\$44.3 Bil		-\$42.8 Bil
7:30 am	Initial Claims - Oct 9	443K	443K		445K
10-15 / 7:30 am	CPI - Sep	+0.2%	+0.2%		+0.3%
7:30 am	"Core" CPI - Sep	+0.1%	+0.1%		+0.0%
7:30 am	Retail Sales - Sep	+0.4%	+0.5%		+0.4%
7:30 am	Retail Sales Ex-Autos - Sep	+0.3%	+0.4%		+0.6%
7:30 am	Empire State Mfg Index - Oct	6.0	8.0		4.1
8:55 am	U. Mich. Consumer Sentiment	69.0	69.0		68.2
7:30 am	Business Inventories - Aug	+0.5%	+0.5%		+1.0%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.