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First Trust

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Monday Morning Outlook

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Wall Street Dips, Main Street Turns the Corner

A real, but brief, correction hit the markets last week. We may never know exactly what caused the Wall Street drop, but the lack of an uptick rule didn't help. Nonetheless, at the bottom on Thursday, the market experienced its first true 10% correction in 14 months. Short-sellers were basically gleeful and many politically motivated pundits took the drop as a sign of economic trouble.

But this correction came just when economic data took a very visible turn for the better. Friday's employment report provided a huge "thumbs up" for the V-shaped recovery. The fundamentals of Main Street are improving.

Since the middle of last year the economy has been growing at about a 4% annual rate. And like most recoveries the labor market has been a lagging indicator. But that typical lag is clearly over.

Private-sector payrolls have grown four months in a row and have expanded at an average rate of 200,000 in the past two months. Meanwhile, civilian employment – an alternative measure of jobs that includes the self-employed and new start-up businesses – jumped 550,000 in April, pushing the total for the past four months to 1.9 million. That's right 1.9 million new jobs - better than at any time in the booming late 1990s.

These rapid and persistent gains in civilian employment are extremely important. The government's measure of civilian employment is usually very volatile from month to month, a function of a small sample size by the Labor Department. So getting four straight gains is quite a feat and signals a great deal of underlying strength. After the recession that ended in March 1991, we did not get four straight gains until late 1992/early 1993, when the labor market recovery was finally in full swing. After the recession that ended in November 2001, we didn't get four straight gains until late 2003.

Those who want to bad-mouth the economic recovery are now left grasping at straws. Take former Labor Secretary Elaine Chao, who focused on the rise in the unemployment rate and told Stuart Varney on Fox Business News that Friday's report was not a good sign.

She focused on the uptick in the unemployment rate to 9.9% in April, but this was due to an 805,000 surge in the labor force. With all due respect, Ms. Chao's argument, in effect, was that when someone who doesn't have a job finally decides his prospects are good enough to start looking again, that that's somehow a bad sign. That's ridiculous.

Moreover, the labor force has grown at an annualized 3.8% rate in the past four months – this is nearly five times faster than the 10-year average of 0.8%. If the labor force would have grown at its normal rate (with population growth) in the past four months, the unemployment rate would be 9% today, not 9.9%. Soon, the labor force growth rate will slow, and with job growth now at roughly 200,000+ per month, the unemployment rate will fall rapidly.

Another concern of the pessimists is that average hourly earnings have been stagnating of late. But they are missing the fact that workers are getting more hours. Average weekly earnings are up at a 3.5% annual rate in the past six months. The benefits are two-fold – slower hourly wage growth translates into higher profits, while rising hours translates to more consumer spending power.

Month-in, month-out, the fundamentals for the US economy keep getting better. Corrections happen, no matter what the cause. But corrections are temporary. The Bull Market will live on.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-12 / 7:30 am	Int'l Trade Balance - Mar	-$40.0 Bil	**-$41.2 Bil**		-$39.7 Bil
5-13 / 7:30 am	Import Prices - Apr	+0.8%	**+1.1%**		+0.7%
7:30 am	Export Prices - Apr	+0.4%	**+0.5%**		+0.7%
7:30 am	Initial Claims - May 8	440K	**445K**		444K
5-14 / 7:30 am	Retail Sales - Apr	+0.2%	**+0.1%**		+1.9%
7:30 am	Retail Sales Ex-Autos - Apr	+0.4%	**+0.8%**		+0.9%
7:30 am	Business Inventories - Mar	+0.4%	**+0.5%**		+0.5%
8:15 am	Industrial Production - Apr	+0.6%	**+0.8%**		+0.1%
8:15 am	Capacity Utilization - Apr	73.7%	**73.8%**		73.2%
8:45 am	U. Mich. Consumer Sentiment	73.5	**73.0**		72.2