First Trust
Monday Morning OUTLOOK
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# Jobs Versus Government

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After the very strong ADP employment report on Thursday, many economists marked-up their forecasts for Friday's official payroll report. We moved ours up 5,000, and went into the report at 140,000 net new private sector jobs. Ouch…the official report showed just 57,000 new private sector jobs and equities immediately headed south.

For bulls, this data was a huge disappointment. But employment is a lagging indicator. Other data have already been into, and out of, a "soft patch." Moreover, as a forecasting tool, employment data has not always been perfect.

In 2004, when the labor market was recovering from its slump of 2001-03, the month-to-month data was volatile. Private sector job growth went from a high of 330,000 (in October) to a low of 28,000 (in November). Monthly job gains in 2004 were less than 50,000 three times, and greater than 300,000 three times. Volatile, eh?

In other words, don't look at just one month. In this recovery, the US has had 16 consecutive months of private sector job growth. This year, private sector jobs are up 945,000, or 157,500 per month (versus 98,000 per month in 2010).

Don't take this the wrong way. We are disappointed with this. With new technology – like the "cloud" and "smart phones," the US economy has the potential to do much better.

The reason it isn't doing better is quite simple – excessive government spending. Federal spending in 2000 was about 18% of GDP. Today it is close to 24%. This means that 6% of private sector GDP has been "crowded out." It's simple – a bigger government = a smaller private sector = slower job growth. Just look at Europe in the 1980s and 1990s.

Liberal economists have argued that recoveries from financial crises are always slow. But this covers up the fact that government always grows in a crisis – no matter which party is in power. And it is this growth in government that slows the recovery, not the crisis that preceded it.

One recent paper suggests a 10% increase in the size of government relative to GDP reduces real growth by 0.5% to 1% per year. We think this underestimates the impact, but the message here is that shrinking the size of government will be good for the economy.

In other words, in contrast to the view that government spending and bailouts saved the US from another Great Depression, we believe government spending has been a headwind for both growth and job creation. It's created uncertainty, and that's not good. But what we are more certain about – larger government – is bad all by itself.

The bottom line is that any significant move by lawmakers to trim back the expansion in government will add to the re-acceleration we already think is coming. The next few weeks may tell us how much help will come from Washington, DC, in the form of less government rather than more.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|---|---|---|---|---|---|
| 7-12 / 7:30 am | Int'l Trade Balance - May | -$44.1 Bil | **-$44.8 Bil** | | -$43.7 Bil |
| 7-13 / 7:30 am | Export Prices - Jun | +0.1% | **-0.1%** | | +0.2% |
| 7:30 am | Import Prices - Jun | -0.6% | **-1.3%** | | +0.2% |
| 1:00 pm | Treasury Budget - Jun | -$65.5 Bil | **-$59.0 Bil** | | +$57.6 Bil |
| 7-14 / 7:30 am | Retail Sales - Jun | 0.0% | **-0.3%** | | -0.2% |
| 7:30 am | Retail Sales Ex-Autos - Jun | +0.1% | **-0.1%** | | +0.3% |
| 7:30 am | PPI - Jun | -0.2% | **-0.3%** | | +0.2% |
| 7:30 am | "Core" PPI - Jun | +0.2% | **+0.3%** | | +0.2% |
| 7:30 am | Initial Claims - July 9 | 412K | **413K** | | 418K |
| 7:30 am | Business Inventories - May | +0.8% | **+1.0%** | | +0.9% |
| 7-15 / 7:30 am | CPI - Jun | -0.1% | **-0.2%** | | +0.2% |
| 7:30 am | "Core" CPI - Jun | +0.2% | **+0.2%** | | +0.3% |
| 7:30 am | Empire State Mfg Index - Jul | 5.0 | **5.0** | | -7.8 |
| 8:15 am | Industrial Production - Jun | +0.3% | **+0.3%** | | +0.1% |
| 8:15 am | Capacity Utilization - Jun | 76.9% | **76.9%** | | 76.7% |
| 8:55 am | U. Mich. Consumer Sentiment | 72.5 | **72.5** | | 71.5 |