

## The Plow Horse Economy

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Like a plow horse, the US economy just puts one hoof after the other. It ain't gonna win any races, but it ain't gonna keel over and die either.

After slogging through the mud last year, and slowing down to just 1.2% annualized growth in the first three quarters of 2011, things have improved. In the fourth quarter last year, real GDP grew a solid, work-horse-like, 3%. We expect that continued in the first quarter of 2012.

If anything, other indicators suggest real GDP growth might be even stronger. Nonfarm payrolls rose 635,000 in Q1, the largest gain since 2006. Total hours worked in the private sector climbed at a 3.7% annual rate. In other words, to get 3% real GDP growth assumes some weakness in productivity.

This is clearly not the recovery heaven of 1983-84, when real GDP grew at a 6.6% annual rate for two years and the jobless rate fell 3.5 percentage points in only 21 months. It's not a double-dip, either, and after six consecutive months of 3% growth, it's not all about nice weather.

**Consumption:** Auto sales were up at a 35% annual rate in Q1 while "real" (inflation-adjusted) retail sales ex-autos were up at a 5.8% rate. Services, a major part of consumption, are not up as much, but it looks like real personal consumption – goods and services combined – probably climbed at a 2.2% annual rate in Q1, contributing 1.6 points to the real GDP growth rate. (2.2 times the consumption share of GDP, which is 71%, equals 1.6.)

**Business Investment:** Business investment in equipment and software as well as commercial construction appear to have grown at an annualized 6% rate in Q1. This should add 0.6 points to the real GDP growth rate. (6 times the business investment share of GDP, which is 10%, equals 0.6.)

**Home Building:** Led by apartment buildings – and assisted by unusually mild winter weather – residential construction appears to have grown at about a 17% annual rate in Q1. This translates into 0.4 points for the real GDP growth

rate. (17 times the home building share of GDP, which is 2.3%, equals 0.4.)

**Government:** Military spending continued to decline in Q1, but state and local government construction looks like it rose. On net, real government purchases shrank at about a 1% rate in Q1, which should subtract about 0.2 percentage points from real GDP growth. (-1 times the government *purchase* share of GDP, which is 20%, equals -0.2).

**Trade:** At this point, the government has only reported trade data through February. But, on average, the "real" trade deficit in goods has declined compared to the Q4 average. This shrinkage resembles what happened in the first quarter of 2006, when the trade sector added 0.4 points to the real GDP growth rate. We're forecasting the same for this year's first quarter.

**Inventories:** As always, inventories are the wild card. We only have "real" inventory figures through January, when they rose sharply. Nominal inventories were up at a moderate pace in February and we're assuming another moderate gain in March. This should generate a very small addition of 0.2 points to the real GDP growth rate in Q1.

Add-em-up and you get another 3% real GDP growth for Q1 – another "plow horse" report.

The pessimists will likely subtract inventories and trade, and bash the economy, but this game of trashing every piece of data for political purposes is getting really old.

After piling massive government spending, new regulation, the threat of major tax hikes, European uncertainty, higher energy prices, and a host of other things on its back, the US economy keeps plodding along. It's a testament to the resilience of the entrepreneurial spirit, determination and new technology. It's worth celebrating, not tearing down.

Don't get us wrong. We think the economy could grow faster if government were smaller and tax hikes were off the table, but we are a long way from recession and that's good news for investors.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-24 / 9:00 am	Consumer Confidence - Apr	69.8	<b>71.4</b>		70.2
9:00 am	New Home Sales - Mar	0.318 Mil	<b>0.325 Mil</b>		0.313 Mil
4-25 / 7:30 am	Durable Goods - Mar	-1.7%	<b>-3.5%</b>		+2.4%
7:30 am	Durable Goods (Ex-Trans) - Mar	+0.5%	<b>+0.2%</b>		+1.8%
4-26 / 7:30 am	Initial Claims – Apr 21	375K	<b>375K</b>		386K
4-27 / 7:30 am	Q1 GDP Advanced	2.5%	<b>3.0%</b>		3.0%
7:30 am	Q1 GDP Chain Price Index	2.1%	<b>2.0%</b>		0.9%
8:55 am	U. Mich. Consumer Sentiment	75.7	<b>76.0</b>		75.7