

## The Plow Horse is Trotting

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In October 2012, we raised our recession odds from 10% to 25%. We saw an increase in uncertainty and fear over the election and the fiscal cliff as having the potential to cause a drop in velocity. Panics (falling velocity) are rare. As a result, our base case (75% odds) was for a 2.5% to 3% increase in real GDP for 2013. Real GDP increased just 0.1% in Q4, but now it appears the Plow Horse is starting to trot a little.

The ISM Manufacturing index jumped to 54.2 and the ISM Services index hit 56.0 for February. These indexes often pick up sentiment, so, it would not have been surprising if fears about the spending sequester had caused them to temporarily underestimate growth.

In addition, with the exception of the one-month surge after Superstorm Sandy, sales of autos and light trucks are the fastest since 2007. And now the latest employment report shows a very solid increase of 236,000 in nonfarm payrolls, a longer workweek, and the jobless rate slipping to 7.7%.

With February data so strong, forecasters have increased expectations for 2013. Bill Gross, at PIMCO, who was forecasting around 1.5% real GDP growth as recently as December, has now joined the club at 3%.

This optimism is not lost on the equity market. Stocks have surged with the S&P 500 hitting our year-end 2012 forecast of 1475 just two weeks behind schedule, in mid-January.

Today, the Dow is just 7.5% from 15,500 and the S&P 500 is just 9.5% from 1700 – our year-end 2013 targets. We won't rule out a correction, but don't know how to trade it and think investing is a game of patience, not trading.

One thing we have noticed is that the better things get, the more the economic naysayers have to twist and spin to make good news actually look bad and generate a negative spin. The latest obsession is that the number of people “not in the labor force” (NLF) is at a record high. This is true, but we don't think it means much at all. What the naysayers don't mention (or, maybe don't even know) is that the NLF number is *usually* at a record high.

Given the general upward trend in the population, anytime the labor force participation rate is either unchanged or falling, NLF must go up. In fact, with enough population growth, NLF can go up *even when the participation rate goes up slightly!* NLF was at a record high in the year 2000 when the jobless rate was below 4%; it was at a record high in 2007 when the jobless rate was 4.5%. But now the record high in people not in the labor force is supposed to signal an economy teetering on the brink of catastrophe. Give us a break!

All this really means is that the labor force participation rate is falling. But, [as we've pointed out before](#), most of the decline is consistent with the aging of the population.

Monetary policy is loose, corporate profits and cash are at record highs, and the housing market is in a full blown recovery. New advances in technology (fracking, the cloud, 3D printing) continue to boost wealth and our recession odds are back down to 10%. We look for continued growth and higher stocks in 2013. The Plow Horse is trotting for the time being.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-13 / 7:30 am	Retail Sales – Feb	+0.5%	<b>+1.0%</b>		+0.1%
7:30 am	Retail Sales Ex-Auto – Feb	+0.5%	<b>+1.0%</b>		+0.2%
7:30 am	Import Prices – Feb	+0.5%	<b>+0.6%</b>		+0.6%
7:30 am	Export Prices – Feb	+0.3%	<b>+0.3%</b>		+0.3%
9:00 am	Business Inventories – Jan	+0.4%	<b>+0.5%</b>		+0.1%
3-14 / 7:30 am	Initial Claims – Mar 9	350K	<b>345K</b>		340K
7:30 am	PPI – Feb	+0.7%	<b>+0.8%</b>		+0.2%
7:30 am	“Core” PPI – Feb	+0.2%	<b>+0.1%</b>		+0.2%
3-15 / 7:30 am	CPI – Feb	+0.5%	<b>+0.5%</b>		+0.0%
7:30 am	“Core” CPI – Feb	+0.2%	<b>+0.2%</b>		+0.3%
7:30 am	Empire State Mfg Survey - Mar	10.0	<b>10.0</b>		10.0
8:15 am	Industrial Production – Feb	+0.4%	<b>+0.5%</b>		-0.1%
8:15 am	Capacity Utilization – Feb	79.4%	<b>79.4%</b>		79.1%
8:55 am	U. Mich Consumer Sentiment- Mar	77.8	<b>78.0</b>		77.6