

## Get Ready for a Wild Week

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Weeks with lots of data are always interesting; but this one will be more wild than most.

Wednesday is the initial report on Q2 GDP and we expect a pretty tepid growth rate of 1.2%, which is down slightly from last week when we thought 1.5%. But this quarter government statisticians will do benchmark GDP revisions. Data will change, in some cases all the way back to 1929. So, we wouldn't be surprised by any number between 0% and 2.5%

Over the past few years of recovery, real economic growth has often lagged our expectations, in large part due to shortfalls in business investment and inventories. This quarter could be similar. But recent numbers signal a turnaround. In the past three months, orders for “core” capital goods (ex-defense, ex-aircraft) are up at a 17% annual rate. Hiring has also accelerated. We expect any weakness in Q2 to reverse in Q3 and Q4, with growth rising to 3%+ in the months ahead.

All this may be lost as reporting on Wednesday will probably focus on the revisions to GDP data. The biggest change is treating R&D spending as a form of investment, just like buying equipment. The theory is that it expands the stock of knowledge, which is then used to discover or develop new products. A similar change is being made for art that lasts more

than a year, like movies, books, or hit TV shows. (One day, they'll include homemaking, which counts when we hire someone, but not when we do it ourselves!). The net effect of these revisions will be to boost the level of GDP by about 3%.

So with the top-line level of real GDP revised up, get ready because some portion of those who don't like the president will claim this is part of a conspiracy to make the economy look better than it actually is.

We're certainly no fans of many recent policy actions, and we can debate these changes to GDP data, but suggest you tune out the conspiracy-mongers. The changes have been considered for many years and just as easily could have been made under a President Romney...except then it would be different people claiming conspiracy.

The most important thing to know is that the revisions don't actually change our current standard of living; they just use a different number to describe it. It's like back when they changed the SAT so you could get a higher score even with the same number of wrong answers. You're no smarter than you were before, you just have a higher score.

The data alone should make this a wild week in the markets; don't let nutty theories make it any wilder.

| Date/Time (CST) | U.S. Economic Data             | Consensus | First Trust     | Actual | Previous |
|-----------------|--------------------------------|-----------|-----------------|--------|----------|
| 7-30 / 9:00 am  | Consumer Confidence – Jul      | 81.0      | <b>81.2</b>     |        | 81.4     |
| 7-31 / 7:30 am  | Q2 GDP Advance Report          | 1.0%      | <b>1.2%</b>     |        | 1.8%     |
| 7:30 am         | Q2 GDP Chain Price Index       | 1.0%      | <b>1.0%</b>     |        | 1.2%     |
| 8:45 am         | Chicago PMI                    | 54.0      | <b>54.0</b>     |        | 51.6     |
| 8-1 / 7:30 am   | Initial Claims - Jul 27        | 344K      | <b>345K</b>     |        | 343K     |
| 9:00 am         | ISM Index – Jul                | 52.0      | <b>50.9</b>     |        | 50.9     |
| 9:00 am         | Construction Spending – Jun    | +0.4%     | <b>+0.4%</b>    |        | +0.5%    |
| afternoon       | Total Car/Truck Sales – Jul    | 15.8 Mil  | <b>15.8 Mil</b> |        | 15.9 Mil |
| afternoon       | Domestic Car/Truck Sales – Jul | 12.4 Mil  | <b>12.4 Mil</b> |        | 12.4 Mil |
| 8-2 / 7:30 am   | Non-Farm Payrolls – Jul        | 185K      | <b>159K</b>     |        | 195K     |
| 7:30 am         | Private Payrolls – Jul         | 187K      | <b>163K</b>     |        | 202K     |
| 7:30 am         | Manufacturing Payrolls – Jul   | 0         | <b>-8K</b>      |        | -6K      |
| 7:30 am         | Unemployment Rate – Jul        | 7.5%      | <b>7.6%</b>     |        | 7.6%     |
| 7:30 am         | Average Hourly Earnings – Jul  | +0.2%     | <b>+0.2%</b>    |        | +0.4%    |
| 7:30 am         | Average Weekly Hours – Jul     | 34.5      | <b>34.5</b>     |        | 34.5     |
| 7:30 am         | Personal Income – Jun          | +0.4%     | <b>+0.3%</b>    |        | +0.5%    |
| 7:30 am         | Personal Spending – Jun        | +0.5%     | <b>+0.4%</b>    |        | +0.3%    |
| 9:00 am         | Factory Orders – Jun           | +2.3%     | <b>+2.3%</b>    |        | +2.1%    |