First Trust
Monday Morning OUTLOOK
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Oil – Just Another Price

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Don't take this the wrong way: energy is important. Oil prices are important. But, we believeth those involved in economic punditry often bloweth them out of proportioneth.

Many, who previously fretted that higher oil prices meant economic doom, now say the sharp drop means an economic boom. We are happy to be paying less at the pump, but, from a macro-economic perspective, we don't expect lower prices to generate a noticeable improvement in the overall economy.

There are four pillars of economic strength (or weakness) – monetary policy, tax policy, trade policy, and spending (or regulatory) policy. Right now, money is loose, tax rates will remain stable, trade policy is improving, and for the past few years, the leftward lurch in government spending and regulation has been gridlocked.

In other words, macro conditions in the US are no worse, and probably better, than they were a few years ago. Entrepreneurship is still flourishing. The US is riding a wave of technology – 3D printing, robotics, the Cloud, smartphones, tablets, apps, bio- and nano-technology – and horizontal drilling and hydraulic fracturing. Many prices are falling as these technologies boost productivity.

The only real mystery is why it took so long for oil prices to finally collapse. It's not OPEC. The US uses roughly 19 million barrels of oil per day (bpd). Seven years ago US production was 8.5 million bpd; today, 14 million bpd, with energy independence in sight. OPEC is drowning under a gusher of tech-driven oil production.

Also, lower prices aren't a tax cut any more than free mapping and direction-finder software, or a drought-resistant corn plant, is a tax cut. Lower oil prices, lower food prices, more efficient transportation, and better communication aren't tax cuts per se, but instead are the fruits of entrepreneurship.

High oil prices stimulate drilling and more production, but squeeze consumers. Low prices slow drilling and production, but free up resources for consumers to spend on other things. It's not a zero-sum game; it's part of a process. Relative price changes cause a shift in resources, unlike a tax cut, which changes the incentives for labor and investment.

In other words, don't look for an economic boom. The drop in oil prices is just a positive reinforcement to the growth engine that has been driving the US economy, and equity values higher, in recent years. It's a Plow Horse and until a true change in policy kicks in, it will remain a Plow Horse. We need less government spending, less regulation, and lower tax rates to get a real economic boom.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-1 / 9:00 am	ISM Index – Nov	58.0	**57.6**	58.7	59.0
12-2 / 9:00 am	Construction Spending – Oct	+0.6%	**+0.7%**		-0.4%
afternoon	Total Car/Truck Sales – Nov	16.6 Mil	**16.8 Mil**		16.3 Mil
afternoon	Domestic Car/Truck Sales – Nov	13.3 Mil	**13.3 Mil**		13.0 Mil
12-3 / 7:30 am	Q3 Non-Farm Productivity	+2.4%	**+2.8%**		+2.0%
7:30 am	Q3 Unit Labor Costs	+0.1%	**-0.9%**		+0.3%
9:00 am	ISM Non Mfg Index – Nov	57.5	**57.7**		57.1
12-4 / 7:30 am	Initial Claims – Nov 29	295K	**300K**		313K
12-5 / 7:30 am	Non-Farm Payrolls – Nov	228K	**221K**		214K
7:30 am	Private Payrolls – Nov	220K	**212K**		209K
7:30 am	Manufacturing Payrolls – Nov	15K	**13K**		15K
7:30 am	Unemployment Rate – Nov	5.8%	**5.7%**		5.8%
7:30 am	Average Hourly Earnings – Nov	+0.2%	**+0.2%**		+0.1%
7:30 am	Average Weekly Hours – Nov	34.6	**34.6**		34.6
7:30 am	Int'l Trade Balance – Oct	-$41.5 Bil	**-$40.6 Bil**		-$43.0 Bil
9:00 am	Factory Orders – Oct	0.0%	**-0.7%**		-0.6%
2:00 pm	Consumer Credit– Oct	$16.5 Bil	**$16.8 Bil**		$15.9 Bil