First Trust
Monday Morning OUTLOOK
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Two Species of Bear: Both Wrong

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USA soccer lost to Germany last Thursday, but moved to the Sweet Sixteen of the World Cup anyway because it had previously beat Ghana and tied Portugal. US fans celebrated wildly after the loss to Germany, with some saying US soccer had come of age.

Confusing? Yep!

The same confusion affected many investors and political analysts last week when first quarter real GDP was downwardly revised to a -2.9% annualized growth rate and the stock market moved higher anyway. The bears finally got their data point, but the market didn't cooperate.

There are two types of bears out there these days. The first type believes that a fundamental crack, a fault-line, opened up under the US financial system back in 2008. They think the system is broken at its core. They also believe the only reason the economy has grown in the past five years is that QE, TARP, stimulus,…etc. have created a "sugar high" – a false recovery. Some of them think tapering led to the decline in Q1 GDP.

The second type of bear is a 100% political beast. As long as President Obama is in office they will be convinced that another recession is right around the corner. They put the blame for the Q1 GDP decline at the doorstep of the Whitehouse, specifically Obamacare.

These bears have been roaming the landscape for the past five years, predicting that a recession and market crash are right around the corner. The quintessential TV moment came on a very popular cable channel when a group of political journalists spent ten minutes discussing the GDP report without one single comment from an actual economist.

This is the world we live in these days. Every data point is either twisted to prove the end of the world is very near, or is used to make some political point.

With the Fourth of July around the corner, we thought we might inject a uniquely American perspective – the facts and pragmatism.

First of all, the winter was brutal and clearly had an impact. Second, inventory accumulation plummeted and the trade deficit widened. Yet, consumption is still rising and US oil production (now including more exports), are trends that will reverse both those points of weakness in future quarters.

Final sales to private domestic purchasers (an underlying measure of demand in the US) rose 0.5% at an annual rate in Q1 and were up 2.3% in the past year. More importantly, data already in for Q2 (which ends today), show about a 3% growth rate. In other words, no matter how many ways the bears try to spin the Q1 data, it will prove to be a temporary negative blip.

The reason these bears have been so wrong for the past five years is that they can't put the whole picture together. The financial system returned to normal once mark-to-market accounting was fixed. And, at the same time, new technology exploded in the US. Yes, government is too big and intrusive, that's why the growth trend is slow. But, the first quarter was a fluke, the bears may growl, and, yet, the Plow Horse economy continues.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-30 / 8:45 am	Chicago PMI	63.0	**65.4**		65.5
7-1 / 9:00 am	ISM Index – June	55.9	**55.4**		55.4
9:00 am	Construction Spending – May	+0.5%	**+0.7%**		+0.2%
afternoon	Total Car/Truck Sales – June	16.3 Mil	**16.3 Mil**		16.8 Mil
afternoon	Domestic Car/Truck Sales – June	13.0 Mil	**13.0 Mil**		13.1 Mil
7-2 / 9:00 am	Factory Orders – May	-0.3%	**-0.4%**		+0.7%
7-3 / 7:30 am	Initial Claims - Jun 28	312K	**314K**		312K
7:30 am	Non-Farm Payrolls – Jun	215K	**203K**		217K
7:30 am	Private Payrolls – Jun	215K	**198K**		216K
7:30 am	Manufacturing Payrolls – Jun	10K	**7K**		10K
7:30 am	Unemployment Rate – Jun	6.3%	**6.3%**		6.3%
7:30 am	Average Hourly Earnings – Jun	+0.2%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours – Jun	34.5	**34.5**		34.5
7:30 am	Int'l Trade Balance – May	-$45.0 Bil	**-$46.0 Bil**		-$47.2 Bil
9:00 am	ISM Non Mfg Index – Jun	56.3	**56.7**		56.3