First Trust
Monday Morning OUTLOOK
630-517-7756 • www.ftportfolios.com
May 4th, 2015

@WSJopinion vs. @BenBernanke

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

The Wall Street Journal's editorial page and former Fed Chair Ben Bernanke are in a tiff. In a nutshell, the WSJ says growth is slow (which is true) and the Fed has overestimated economic growth (true, too); therefore, monetary policy is not working. Interestingly, after saying this, the WSJ says it does think quantitative easing (QE) has boosted the stock market.

Bernanke defends the Fed by saying real GDP has been weak due to slow growth in productivity and the lingering effects of the financial crisis. If we want more growth, Bernanke suggests more infrastructure projects. But, don't kid yourself he says, the unemployment rate has dropped because of the Fed's "aggressive actions" – namely QE.

There seems to be only one thing the WSJ and Bernanke agree on – that the world is best understood through "Fed-centric glasses." Through these spectacles, anything that QE can explain, the stock market to the WSJ, the jobless rate to Bernanke, they use it. When it can't explain it, they both find other scapegoats.

But we think both sides make key mistakes. First, the WSJ made a basic factual error, using the wrong GDP numbers to assess the Fed's forecasts. Real GDP grew 3.1% in 2013 (Q4/Q4), beating the Fed's prediction of 3% or less, so the Fed's track record is not as biased upward as the WSJ portrays.

But, more importantly, the WSJ provides no explanation for how QE lifted stocks, but not economic growth. The most important reason for the bull market is profits, not a rise in P-E ratios. How does QE raise profits, but not economic growth?

That's not the only pretzel the WSJ twists itself into. The WSJ says QE1 was "necessary" and "worked," but QE2 and QE3 did not. We understand how the WSJ could think that QE1 was reasonable during the panic. But, looking back, the stock market fell another 40% *after* QE1 began in September 2008. So, we ask: how did it work? It wasn't until after mark-to-market accounting rules were loosened in March 2009, well after QE started, that the rebound in equities began.

What Bernanke skips over is an explanation for QE bringing down the unemployment rate. The Fed has stuffed the banking system with about $2.5 trillion in excess reserves that banks are sitting on instead of lending. But if these monies aren't being lent, they can't be generating any extra economic growth, which is what's needed to push down the unemployment rate. And if QE were really creating jobs, wouldn't that extra money floating around have generated higher inflation by now?

In sum, Bernanke cherry picks the good data (lower unemployment) and ties it to QE, while disregarding the lack of solid economic growth, and ignoring the inflation that would have resulted if QE were really having an impact.

In other words, all the Fed-centric explanations of the post-panic world, by both the WSJ and Bernanke, eventually hit intellectual dead ends they can only explain by resorting to alternative, and highly suspect, theories.

Instead, investors need to stay focused on what matters: entrepreneurs and profits. Yes, things would be even better if the government was spending less, taxing less, and easing up on many regulations, but the US continues to heal and better times are ahead even though QE4 is a figment of the imagination.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-4 / 9:00 am	Factory Orders – Mar	+2.0%	**+1.4%**	+2.1%	+0.2%
5-5 / 7:30 am	Int'l Trade Balance – Mar	-$41.3 Bil	**-$44.6 Bil**		-$35.4 Bil
9:00 am	ISM Non Mfg Index – Apr	56.0	**56.2**		56.5
5-6 / 7:30 am	Q1 Non-Farm Productivity	-1.9%	**-1.4%**		-2.2%
7:30 am	Q1 Unit Labor Costs	+4.4%	**+4.5%**		+4.1%
5-7 / 7:30 am	Initial Claims – May 2	278K	**277K**		262K
2:00 pm	Consumer Credit – Mar	$15.9 Bil	**$14.4 Bil**		$15.5 Bil
5-8 / 7:30 am	Non-Farm Payrolls – Apr	225K	**281K**		126K
7:30 am	Private Payrolls – Apr	225K	**276K**		129K
7:30 am	Manufacturing Payrolls – Apr	5K	**7K**		-1K
7:30 am	Unemployment Rate – Apr	5.4%	**5.4%**		5.5%
7:30 am	Average Hourly Earnings – Apr	+0.2%	**+0.2%**		+0.3%
7:30 am	Average Weekly Hours – Apr	34.5	**34.6**		34.5