First Trust
Monday Morning OUTLOOK

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Even Garth Can't Argue About Liftoff

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Plow On, Garth! Time for Liftoff, Wayne! The first report on Q2 real GDP showed Plow Horse annualized growth of 2.3%, exactly the same as the average growth rate in the past year. Now that's the definition of a Plow Horse report.

We can think of two major reasons why the economy has been growing at such a tepid pace the past several years, one "bad," one "good."

The bad reason is growth in the size of government. Contrary to popular academic belief, government spending and redistribution often have a negative multiplier on growth. And spending has been on the rise since President Clinton's last two years. President Bush continued this trend, and then President Obama oversaw the creation of a broad health care entitlement.

Worse, government spending related to Obamacare can't be fully measured because it forces redistribution through the "private" health insurance system. So, instead of taxing healthy people and giving money to sick people, the government now regulates the insurance market to achieve the same goal without directly touching the money. So it's a form of government spending even if it's not on the government's income statement.

The effect of this expansion is to fatten up the jockey who sits on top of the entrepreneurial horse. With a normal size jockey, our horse could win the Kentucky Derby every year, but with an obese jockey, the U.S. economy is just a Plow Horse.

The good reason for slow economic growth is that government statisticians are having a hard time measuring true output. Productivity and GDP growth are not as slow as the official numbers say. For example, when people download free apps to improve their communication and travel, that isn't measured in GDP, yet our standard of living is clearly higher.

One thing we are confident about is that quantitative easing (QE) hasn't made a dime's worth of difference. Although it stuffed the banking system chock full of idle excess reserves, new figures from the government show weaker economic growth in 2012-13, while the Fed was engaged in expansive QE3, and then slightly faster growth in 2014, when the Fed was tapering and then ending QE.

When we put all this together, the picture is reasonably clear. The economy has been in recovery for six years and the unemployment rate has finally fallen to a level even the Fed thinks is close to full employment. Unemployment claims have been below 300,000 for twenty-one straight weeks, and at less than 0.2% of total jobs are at historical lows.

So, even though growth remains slow, it's hard to argue rates should stay at zero. While some investors fear rate hikes, we see them as ratifying the strides the economy has made in the past several years. Surely, this is no economic boom like 1980s or 1990s. But even a modestly growing economy should have short-term rates higher than zero.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-3 / 7:30 am	Personal Income – Jun	+0.3%	**+0.3%**	+0.4%	+0.5%
7:30 am	Personal Spending – Jun	+0.2%	**+0.1%**	+0.2%	+0.9%
9:00 am	ISM Index – Jul	53.5	**54.2**	52.7	53.5
9:00 am	Construction Spending – Jun	+0.6%	**+0.6%**		+0.8%
Afternoon	Total Car/Truck Sales – Jul	17.2 Mil	**17.2 Mil**		17.2 Mil
Afternoon	Domestic Car/Truck Sales – Jul	13.5 Mil	**13.7 Mil**		13.4 Mil
8-4 / 9:00 am	Factory Orders – Jun	+1.8%	**+1.7%**		-0.9%
8-5 / 7:30 am	Int'l Trade Balance – Jun	-$43.0 Bil	**-$44.0 Bil**		-$41.9 Bil
9:00 am	ISM Non Mfg Index – Jul	56.2	**56.2**		56.0
8-6 / 7:30 am	Initial Claims – Aug 1	272K	**273K**		267K
8-7 / 7:30 am	Non-Farm Payrolls – Jul	225K	**212K**		223K
7:30 am	Private Payrolls – Jul	214K	**206K**		223K
7:30 am	Manufacturing Payrolls – Jul	5K	**16K**		4K
7:30 am	Unemployment Rate – Jul	5.3%	**5.2%**		5.3%
7:30 am	Average Hourly Earnings – Jul	+0.2%	**+0.2%**		0.0%
7:30 am	Average Weekly Hours – Jul	34.5	**34.5**		34.5
2:00 pm	Consumer Credit– Jun	$17.0 Bil	**$17.8 Bil**		$16.1 Bil