

Markets Volatile, Economy Fine

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As you woke up this morning, US stock market futures were down again. They say it's because the Chinese stock market fell, and in spite of this every summary of Fed intentions that we read suggests a rate hike this year (possibly in September) is still very much on the table.

If we were the Fed, we would ignore China, too. Investors are allowing China to rent way more space in their brains than it deserves. In fact, some are allowing it to build an entire apartment building up there.

But the obsession about China reminds us of the obsession about Japan in the 1980s. Japan collapsed, and is still collapsing, but no one uses Japan anymore as a forecasting tool for the US economy. Eventually, this will be true about China, too. Exports to China represent just 0.7% of US GDP. Moreover, the world will continue to consume goods no matter where they are produced. What we do know about China is that centrally-planned economies never work over the long run, so if you are betting on China, you are actually betting on socialism.

One reason the Fed remains on track is that real GDP grew at a 3.7% annual rate in Q2 versus the prior estimate of 2.3% - a nice rebound from the 0.6% growth rate in Q1. The US recovered from bad winter weather, port strikes, and reduced investment in the energy sector.

Some still point to the tepid 2.2% annual US growth rate in the first half of the year. But that's actually faster than the

growth rate in the first half of 2013 or 2014, each of which were followed by faster growth in the second half of the year.

Another criticism is that real gross domestic income (GDI) – the opposite side of the ledger for GDP (production should equal income), grew at just a 0.6% annual rate in Q2 and 0.4% in Q1. Therefore, GDP could be revised lower.

But the short-term gap between GDI and GDP is always volatile and doesn't appear to be a trustworthy forecasting tool. Back in 2013, GDI was weaker than GDP and, yet, rebounded. In the past four years, real GDI is up at a 2.3% annual rate while real GDP is up at a 2.2% rate, almost no difference.

Of course, GDP data is like looking in the rearview mirror. More recent data on auto sales, housing, initial claims, inventories, and investment point to a 2% increase in real GDP for Q3. Incomes are still going up, in large part due to more jobs, and workers are translating growing purchasing power into more spending. And corporate cash flow is at a record high, both on a before-tax and after-tax basis. In other words, it looks like GDI is on the rebound, too.

We know it's tough to focus on the fundamentals of the economy and the long-term outlook when everyone around you dwells on each day's market action and comes up with all-inclusive macro-economic theories to explain them. But investors need to trust the fundamentals and those are still signaling more growth ahead.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|------------------|--------------------------------|-------------|--------------------|-------------|-------------|
| 8-31 / 8:45 am | Chicago PMI | 54.5 | 53.8 | 54.4 | 54.7 |
| 9-1 / 9:00 am | ISM Index – Aug | 52.5 | 52.6 | | 52.7 |
| 9:00 am | Construction Spending – Jul | +0.6% | +0.5% | | +0.1% |
| <i>Afternoon</i> | Total Car/Truck Sales – Aug | 17.3 Mil | 17.3 Mil | | 17.5 Mil |
| <i>Afternoon</i> | Domestic Car/Truck Sales – Aug | 13.7 Mil | 13.9 Mil | | 13.9 Mil |
| 9-2 / 7:30 am | Q2 Non-Farm Productivity | +2.8% | +3.0% | | +1.3% |
| 7:30 am | Q2 Unit Labor Costs | -1.0% | -1.2% | | +0.5% |
| 9:00 am | Factory Orders – Aug | +0.9% | -0.4% | | +1.8% |
| 9-3 / 7:30 am | Initial Claims – Aug 29 | 275K | 272K | | 271K |
| 7:30 am | Int'l Trade Balance – Jul | -\$43.0 Bil | -\$41.2 Bil | | -\$43.8 Bil |
| 9:00 am | ISM Non Mfg Index – Aug | 58.4 | 58.5 | | 60.3 |
| 9-4 / 7:30 am | Non-Farm Payrolls – Aug | 220K | 196K | | 215K |
| 7:30 am | Private Payrolls – Aug | 208K | 191K | | 210K |
| 7:30 am | Manufacturing Payrolls – Aug | 5K | 6K | | 15K |
| 7:30 am | Unemployment Rate – Aug | 5.2% | 5.2% | | 5.3% |
| 7:30 am | Average Hourly Earnings – Aug | +0.2% | +0.2% | | +0.2% |
| 7:30 am | Average Weekly Hours – Aug | 34.5 | 34.6 | | 34.6 |