First Trust
Monday Morning OUTLOOK

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No Sign of Recession in the Data

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So far this year, the S&P 500 is down around 9% and has been down as much as 10.5%, a garden variety correction. But some pessimistic pundits, analysts, and investors are treating the correction as a harbinger of the recession they've predicted multiple times before, ever since the economy started to recover in mid-2009.

The idea is that if we're falling into recession, then the decline in stocks isn't really a correction but the end of the bull market that began in March 2009 and the start of a new bear market, with at least another 10% decline to go.

The problem for them is that the data on the economy are simply not cooperating with the recession theory.

New claims for unemployment insurance fell to 269,000 last week and remain very low by historical standards. Usually, new claims for jobless benefits spike higher right before or in the early stages of a recession, but that hasn't happened.

Instead, jobs keep growing and workers are generating more and more purchasing power. Even if we exclude fringe benefits and irregular bonuses/commissions, workers are earning 4.7% more than they did a year ago. Meanwhile, consumers' debt service ratio – the share of their after-tax income they need to make monthly debt payments on mortgages and other consumer debt – are hovering near the lowest levels since the early 1980s.

Yes, it's theoretically possible that consumers have low debt service ratios overall because the highest earners are earning more and so those who aren't high income might be under growing financial stress

But the data don't show this. The share of household debt where borrowers are "current" (or not delinquent at all) increased for the sixth year in a row in 2015, and that includes student loans. After peaking in 2009 at 2 million, the number of consumers with new foreclosures fell to 400,000 in 2015, the lowest on record going back to 2001.

Cars and light trucks continue to fly off of dealer lots, reflecting growing earnings and consumer savings from lower gas prices. Yes, the median credit score on auto loans is down from 2009, but it's equal to where it was in 2003 and higher than every other year between 2000 and 2008.

Yes, energy companies continue to get hammered. But companies outside that sector, overall, have been doing fine, with earnings up slightly from a year ago.

In the past, recessions have usually been led by spikes upward in inflation that led the Federal Reserve to tighten monetary policy, not just become less loose. We think inflation will gradually move higher in the next couple of years. But, as of yet, there's simply no sign of a recession-causing spike in inflation. Those who argued that the Fed was causing hyperinflation have been flat out wrong.

Nor do we have some sort of overhang in home building caused by a combination of loose monetary policy or government subsidies for housing. Home builders started 1.1 million homes last year, including both single-family homes and apartment units. That's roughly double the bottom in 2009, but still well off the roughly 1.5 million homes we need to start each year just to keep up with population growth and "scrappage" (from voluntary knock-downs, fires, floods, hurricanes, tornadoes earthquakes,…etc.).

In other words, the kinds of numbers we need to see before a recession just aren't there. Yes, the current Plow Horse expansion is almost seven years old. But, as a recent Fed paper makes clear, modern economic expansions don't end just because they're old. As an expansion ages, the odds of a recession starting soon barely budge.

Of course, a future recession is inevitable. We're just not there yet and unlikely to get there any time in at least the next couple of years.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-16 / 7:30 am	Empire State Mfg Survey – Feb	-10.5	**-10.0**	-16.6	-19.4
2-17 / 7:30 am	Housing Starts – Jan	1.170 Mil	**1.180 Mil**		1.149 Mil
7:30 am	PPI – Jan	-0.2%	**-0.2%**		-0.2%
7:30 am	"Core" PPI – Jan	+0.2%	**0.0%**		+0.1%
8:15 am	Industrial Production – Jan	+0.3%	**+0.4%**		-0.4%
8:15 am	Capacity Utilization – Jan	76.7%	**76.7%**		76.5%
2-18 / 7:30 am	Initial Claims – Feb 13	275K	**276K**		269K
7:30 am	Philly Fed Survey – Feb	-3.0	**-2.8**		-3.5
2-19 / 7:30 am	CPI – Jan	-0.1%	**-0.1%**		-0.1%
7:30 am	"Core" CPI – Jan	+0.2%	**+0.2%**		+0.1%