First Trust
Monday Morning OUTLOOK

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The Bears Get Excited Again

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Since March 9, 2009, stock market bears have used every negative piece of economic data to argue their case. Last week they were hyperventilating over first quarter real GDP growth estimates. After recent inventory data, the Atlanta Fed GDPNow Model said annualized growth will be just 0.1% in Q1. It could be zero, or even negative.

But before you get overly worried, remember "the big fat zero" employment report in August, 2011? That number set off a massive social-media meltdown and worry-fest from the Pouting Pundits of Pessimism.

Oops!!! That payroll report was revised to a "gain" of 107,000 jobs, rather than zero. Since then, the job market hasn't come close to zero, the unemployment rate has continued to fall and the stock market is up significantly.

And more to the point, twice in the past seven years, real GDP growth was actually negative – in the first quarter of 2011 and first quarter of 2014. There seems to be something wrong with seasonal factors in Q1, because the first quarter of 2015 was weak, too. Each time, the economy recovered and growth data improved during the remaining part of the year.

GDP is the broadest measure of economic activity, and while we can't say it's a leading or lagging indicator, it does come out late. More recent, real-time data do not reflect anything like the weakness we are likely to see in GDP.

Last year, as energy and commodity prices fell, drilling and mining activity collapsed. Pipes, pumps, rigs, railcars, and a wide array of manufacturing activity was impacted.

The Institute of Supply Management (ISM) manufacturing index fell below 50 for five consecutive months – October 2015 to February 2016. However, it popped up to 51.8 in March. And, the first quarter average was above the fourth quarter. Moreover, the new orders component of the index rose to 58.3 in March, its highest reading since November 2014.

The ISM non-manufacturing activity index (which measures services), fell to 53.9 in January, but has now zoomed back up to 59.8 in March 2016.

Job growth remains robust and wage growth is exceeding inflation. Initial unemployment claims, a true leading indicator, show no sign of rising and have been below 300,000 for 57 straight weeks. And, on top of all this, the labor force has grown strongly in recent months, while job openings remain at lofty levels.

The most likely cause of any recession is monetary policy and there is no way to argue that the Fed is tight. The M2 money supply has grown 10.2% at an annual rate in the past three months, while commercial and industrial loans are up 16.6% at an annual rate in the same period. In addition, there are still roughly $2 trillion in excess reserves in the system

At 0.5%, the federal funds rate is below the rates of growth in both inflation and spending growth. In other words, there is no evidence that money is tight.

The bottom line is that we have seen weak data, and especially weak first quarter GDP growth before. But, the Plow Horse keeps plowing. There is no reason to believe that this time it will be any different. Yes, the Chicago Cubs are 5-1 right now. That's highly unusual. But we expect the economy to follow the Cubs, not the fears of the Bearish Pouting Pundits.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-12 / 7:30 am	Import Prices – Mar	+1.0%	**+2.0%**		-0.3%
7:30 am	Export Prices – Mar	-0.2%	**0.0%**		-0.4%
4-13 / 7:30 am	Retail Sales – Mar	+0.1%	**+0.1%**		-0.1%
7:30 am	Retail Sales Ex-Auto – Mar	+0.4%	**+0.3%**		-0.1%
7:30 am	PPI – Mar	+0.3%	**+0.1%**		-0.2%
7:30 am	"Core" PPI – Mar	+0.1%	**+0.1%**		0.0%
9:00 am	Business Inventories – Feb	-0.1%	**-0.1%**		+0.1%
4-14 / 7:30 am	Initial Claims – Apr 9	270K	**267K**		267K
7:30 am	CPI – Mar	+0.2%	**+0.2%**		-0.2%
7:30 am	"Core" CPI – Mar	+0.2%	**+0.2%**		+0.3%
4-15 / 7:30 am	Empire State Mfg Survey - Apr	2.0	**5.0**		0.6
8:15 am	Industrial Production – Mar	-0.1%	**-0.2%**		-0.5%
8:15 am	Capacity Utilization – Mar	75.3%	**75.1%**		75.4%
9:00 am	U. Mich Consumer Sentiment- Apr	92.0	**92.0**		91.0