

## All-Clear on the Economy

If you're a member of the not very exclusive club called the Pouting Pundits of Pessimism, you couldn't wait for the July employment report. It was going to confirm your weak economy mantra. Oops! It was a slap in the face. Jobs, wages, and hours all beat expectations and even the labor force showed healthy growth. Yes, the labor force was up 400,000 in July and 2.2 million in the past year.

But perhaps even better news arrived later in the day when the Atlanta Fed crunched its numbers and upped its forecast for third quarter real GDP growth to a 3.8% annual rate. You read that right, almost 4% real GDP growth! The Atlanta Fed updates its quarterly estimate of GDP as new data arrive. So, the current forecast for Q3 includes the most recent data. Real GDP rose at an annual rate of 0.8% in Q1 and 1.2% in Q2. At the same time the UK voted to leave the EU – Brexit. In spite of this, with a strong consumer, GDP data are accelerating.

This doesn't mean we're fully on board with the Atlanta Fed's prediction for Q3. That 3.8% real GDP growth forecast assumes a strong rebound in inventories and further strong growth in consumer spending.

So far, we don't have much actual data to confirm this (it's early in the quarter), so the best anyone can do with inventories, is make an educated guess. Meanwhile, early data on consumer spending shows strength, but probably not as much as the Atlanta Fed thinks. The New York Fed has a completely different method for forecasting real GDP and currently projects 2.6% growth in Q3.

Even so, to have a prediction of 3.8% from the Atlanta Fed, which probably has the widest following of any GDP forecasting group, shows that the pouting pundits are losing their grip on the pessimistic narrative. It's hard to spin a story of impending doom when the economy is reaccelerating.

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

Payrolls rose 255,000 in July, overwhelming consensus expectations. Civilian employment, another measure of jobs that includes small-business start-ups, rose 420,000. Both of these measures are up more than 200,000 per month in the past year. Meanwhile, the labor force has grown 180,000 per month in the past year and average hourly earnings are up 2.6% in spite of the retirement of relatively high-wage Baby Boomers.

No wonder all the major equity indices are at all-time highs. Bearish hedge funds have taken a beating and the story that "five consecutive quarters of declining earnings means bear market recession" looks pretty weak. Non-energy earnings were up 1.3% on a share-weighted basis and 8.1% on a market-cap weighted basis in Q2 from a year ago. So, the declining earnings story is all driven by energy company earnings.

With 434 S&P 500 companies reporting so far, 71.1% have beaten estimates, while 11.3% have matched. That means only 17.6% have missed. And, don't give us that poppycock about reduced expectations – this entire recovery has faced reduced expectations. We call it a Plow Horse, and totally disagree with the Dead Horse crowd.

None of this means the economy couldn't be doing much better. Big government is a burden that entrepreneurs fight every day. But elections give us a chance to cut tax rates, reduce spending, and lighten the burden of regulations.

For the time being, though, look for more negative analysts to throw in the towel. Growth is accelerating, and even though we are ignored by the pouting pundits in the press, our year-end forecast of 2,375 for the S&P 500 and a 20,000+ Dow Jones Industrial Average remain intact. The Dog Days of Summer aren't so gloomy after all.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-9 / 7:30 am	Q2 Non-Farm Productivity	+0.4%	<b>+0.2%</b>		-0.6%
7:30 am	Q2 Unit Labor Costs	+1.8%	<b>+1.5%</b>		+4.5%
8-11 / 7:30 am	Initial Claims – Aug 6	265K	<b>265K</b>		269K
7:30 am	Import Prices – Jul	-0.4%	<b>-0.6%</b>		+0.2%
7:30 am	Export Prices – Jul	-0.1%	<b>-0.1%</b>		+0.8%
8-12 / 7:30 am	Retail Sales – Jul	+0.4%	<b>+0.4%</b>		+0.6%
7:30 am	Retail Sales Ex-Auto – Jul	+0.2%	<b>+0.2%</b>		+0.7%
7:30 am	PPI – Jul	+0.1%	<b>0.0%</b>		+0.5%
7:30 am	"Core" PPI – Jul	+0.2%	<b>+0.2%</b>		+0.4%
9:00 am	Business Inventories – Jun	+0.1%	<b>+0.2%</b>		+0.2%
9:00 am	U. Mich Consumer Sentiment- Aug	91.5	<b>90.5</b>		90.0