First Trust
Monday Morning OUTLOOK
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Consumer Fundamentals Are Strong

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Now that Black Friday has come and gone and Cyber Monday is upon us, you're going to hear a blizzard of numbers and reports about the US consumer. So far, these numbers show blowout on-line sales and a mild decline in foot traffic at brick-and-mortar stores. Both are better than expected given the ongoing transformation of the retail sector.

But Black Friday isn't all that it used to be. Sales are starting earlier in November and have become more spread out over the full Christmas shopping season, so the facts and figures we hear about sales over the past several days are not quite as important as they were in previous years. Add to that the fact that this year's shopping season is longer than usual due to an early Thanksgiving holiday.

But all this focus on the consumer is a mistake. It's backward thinking. We think the supply side – innovators, entrepreneurs, and workers, combined – generates the material wealth that makes consumer demand possible in the first place. The reason we produce is so we can consume. Consuming doesn't produce wealth, production does.

Either way, we expect very good sales for November and December combined. Payrolls are up 2 million from a year ago. Meanwhile, total earnings by workers (excluding irregular bonuses/commissions as well as fringe benefits) are up 4.1%.

Some will dismiss the growth as "the rich getting richer," but the facts say otherwise. Usual weekly earnings for full-time workers at the bottom 10% are up 4.6% versus a year ago; earnings for those at the bottom 25% are up 5.3% from a year ago. By contrast, usual weekly earnings for the median worker are up 3.9% while earnings for those at the top 25% and top 10% are up less than 2%.

Yes, that's right, incomes are growing faster at the bottom of the income spectrum than at the top. A higher economic tide is lifting all boats and helping those with the smallest boats the most. This is not a recipe for stagnating sales.

And so the voices of pessimism have had to pivot their story lately. Just a short while ago, they were still saying the economy really wasn't improving at all. Now some are saying it's a consumer debt-fueled bubble.

It is true that total household debt is at a new record high. But debts relative to assets are much lower than before the Great Recession. Debts were 19.4% of household assets when Lehman Brothers went bust; now they're 13.7%, one of the lowest levels in the past generation. Meanwhile, for the past four years the financial obligations ratio – debt payments plus the cost of car leases, rents, and other monthly payments relative to incomes – has been hovering near the lowest levels since the early 1980s.

Yes, auto and student loan delinquencies are rising. But *total* serious (90+ day) delinquencies, including not only autos and student loans, but also mortgages, home equity loans, and credit cards are down 61% from the peak in 2010.

The bottom line is that investors should be *less* worried about consumer debt today than at any time in recent decades. Some think this could change if the Fed continues to raise interest rates, while selling off its bond portfolio. But interest rates are still well below normal levels and the U.S. banking system is sitting on trillions in excess reserves.

The US economy is less leveraged and looking better in recent quarters than it has in years. And better tax and regulatory policies are on the way. The Plow Horse is picking up its pace and consumer spending is in great shape.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-27 / 9:00 am	New Home Sales – Oct	0.626 Mil	**0.629 Mil**	0.685	0.667 Mil
11-29 / 7:30 am	Q3 GDP Second Report	3.2%	**3.4%**		3.0%
7:30 am	Q3 GDP Chain Price Index	2.2%	**2.2%**		2.2%
11-30 / 7:30 am	Initial Claims – Nov 26	240K	**239K**		239K
7:30 am	Personal Income – Oct	+0.3%	**+0.3%**		+0.4%
7:30 am	Personal Spending – Oct	+0.2%	**+0.3%**		+1.0%
8:45 am	Chicago PMI – Nov	63.0	**66.5**		66.2
12-1 / 9:00 am	ISM Index – Nov	58.3	**58.5**		58.7
9:00 am	Construction Spending – Oct	+0.5%	**+0.4%**		+0.3%
Afternoon	Total Car/Truck Sales – Nov	17.5 Mil	**17.2 Mil**		18.0 Mil
Afternoon	Domestic Car/Truck Sales – Nov	13.5 Mil	**13.4 Mil**		14.0 Mil