First Trust
Monday Morning OUTLOOK
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Clear Skies Ahead

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You know the old saying about every cloud having a silver lining? Well, if you listen to some of the financial press, you'd think their motto was that clear skies are just clouds in disguise.

Friday's GDP report showed the economy grew 2.5% in 2017, an acceleration from the average rate of 2.2% from the start of the recovery in mid-2009 through the end of 2016. Notably, what we call "core" GDP – inflation-adjusted GDP growth excluding government purchases, inventories, and international trade – grew at a 4.6% annual rate in the fourth quarter and was up 3.3% in 2017.

However, some pessimistic analysts were calling attention to a drop in the personal saving rate to 2.6% in the fourth quarter, the lowest level since 2005. The pessimists' theory is that if the personal savings rate is so low, consumers must be in over their heads again, so watch out below!

But this superficial take on the saving rate leaves out some very important points.

First, consumers don't just get purchasing power from their income; they also get it from the value of their assets. And asset values soared in 2017 as investors (correctly) anticipated better economic policies. The market cap of the S&P 500 rose $3.7 trillion, while owner-occupied real estate looks like it increased about $1.5 trillion. That could be a problem if we thought stock market or real estate was overvalued, but our capitalized profits approach says the stock market is still undervalued and the price-to-rent ratio for residential real estate is near the long-term norm, not wildly overvalued like in 2005.

Second, the tax cut that's taking effect is going to raise after-tax income. According to congressional budget scorekeepers, the tax cut on individuals should reduce tax payments by $189 billion in 2019, which is equal to 1.3% of last year's after-tax income. So, consumers are going to be able to save more in the next few years, even if we don't include the extra income that should be generated by extra economic growth.

Third, the personal saving rate doesn't include withdrawals from 401Ks and IRAs, many of which are swollen with capital gains. So, let's say a worker contributed $5,000 of their income into a 401K at the end of 1988 and kept that money in the S&P 500 ever since. Today they can withdraw more than $97,000 and spend it. When calculating the saving rate, the government counts every penny of that spending while not counting a penny of it as income. As the population ages and spends down wealth they've already made, the saving rate tells us less and less about the saving habits of today's workers.

Sometimes good news is really just good news. Unfortunately, some analysts can't look at clear skies without imagining clouds.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-29 / 7:30 am	Personal Income – Dec	+0.3%	**+0.3%**	+0.4%	+0.3%
7:30 am	Personal Spending – Dec	+0.4%	**+0.6%**	+0.4%	+0.8%
1-31 / 8:45 am	Chicago PMI – Jan	64.0	**67.7**		67.8
2-1 / 7:30 am	Initial Claims – Jan 28	235K	**238K**		233K
7:30 am	Q4 Non-Farm Productivity	+0.8%	**+0.1%**		+3.0%
7:30 am	Q4 Unit Labor Costs	+0.9%	**+1.3%**		-0.2%
9:00 am	ISM Index – Jan	58.6	**58.7**		59.3
9:00 am	Construction Spending – Dec	+0.3%	**+0.8%**		+0.8%
afternoon	Total Car/Truck Sales – Jan	17.2 Mil	**17.0 Mil**		17.8 Mil
afternoon	Domestic Car/Truck Sales – Jan	13.5 Mil	**13.2 Mil**		13.7 Mil
2-2 / 7:30 am	Non-Farm Payrolls - Jan	180K	**180K**		148K
7:30 am	Private Payrolls – Jan	181K	**175K**		146K
7:30 am	Manufacturing Payrolls – Jan	20K	**18K**		25K
7:30 am	Unemployment Rate – Jan	4.1%	**4.1%**		4.1%
7:30 am	Average Hourly Earnings – Jan	+0.2%	**+0.2%**		+0.3%
7:30 am	Average Weekly Hours - Jan	34.5	**34.5**		34.5
9:00 am	Factory Orders – Dec	+1.4%	**+1.6%**		+1.3%
9:00 am	U. Mich Consumer Sentiment- Jan	95.0	**95.0**		94.4