First Trust
Monday Morning OUTLOOK
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Stay Invested: Economy Looks Good

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The current recovery started in June 2009, 105 months ago, making it the third longest recovery in U.S. history.

The longest – a 120-month recovery in the 1990s – saw real GDP expand an annual average of 3.6%. The current recovery has experienced just a 2.2% average annual growth rate – what we have referred to as "plow horse" economic growth.

That's changing. In particular, the labor market is gathering strength. In February, nonfarm payrolls rose 313,000, while civilian employment, an alternative measure of jobs that includes small-business start-ups, rose 785,000.

Hourly wages rose a tepid 0.1% in February, but in the past six months, average hourly earnings are up at a 2.7% annual rate while the total number of hours worked is up at a 2.6% annual rate. Total earnings are up at 5.4% annual rate in the past six months, which is faster than the trend in nominal GDP growth the past few years.

New orders for "core" capital goods, which are capital goods excluding defense and aircraft, were up 6.3% in the year ending in January, while shipments of these capital goods were up 8.7%. Sales of heavy trucks – trucks that are more than seven tons – are up 17.4% from a year ago.

The pace of home building is set to grow in the year ahead, in spite of higher interest rates or the new tax law limiting mortgage and property tax deductions. In the fourth quarter of 2017, there were 1.306 million new housing permits issued, the highest quarterly total since 2007.

A better economy also means higher interest rates, but this doesn't spell doom. Housing has been strong despite rising mortgage rates many times in history. In fact, both new and existing home sales were higher in 2017 than they were in 2016 in spite of higher mortgage rates.

Yes, the new tax law will be a headwind for homebuyers and builders in high-tax states, but it's going to be a tailwind for construction in low tax states like Texas, Florida, and Nevada. Housing starts have increased eight years in a row. Look for 2018 to be the ninth.

In the past two months, both ISM surveys - for Manufacturing and Services - have beaten consensus expectations. The US economy is not going to grow at a 3.0% pace every quarter, but all of this data suggests that our forecast for an average pace of 3% growth this year is on steady ground.

The bottom line is that the U.S. economy is accelerating, not decelerating, and the potential for any near-term recession is basically zero. Corporate earnings growth, and forecasts of future earnings, have accelerated, and our 2018 year-end forecast for Dow 28,500 and S&P 500 3,100 remain intact. Even with higher interest rates! Stay invested.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-13 / 7:30 am	CPI – Feb	+0.2%	**+0.2%**		+0.5%
7:30 am	"Core" CPI – Feb	+0.2%	**+0.2%**		+0.3%
3-14 / 7:30 am	PPI – Feb	+0.1%	**+0.2%**		+0.4%
7:30 am	"Core" PPI – Feb	+0.2%	**+0.2%**		+0.4%
7:30 am	Retail Sales – Feb	+0.3%	**+0.5%**		-0.3%
7:30 am	Retail Sales Ex-Auto – Feb	+0.4%	**0.5%**		+0.0%
9:00 am	Business Inventories – Jan	+0.6%	**+0.6%**		+0.5%
3-15 / 7:30 am	Initial Claims – Mar 10	228K	**225K**		231K
7:30 am	Import Prices – Feb	+0.2%	**+0.3%**		+1.0%
7:30 am	Export Prices – Feb	+0.2%	**+0.2%**		+0.8%
7:30 am	Philly Fed Survey – Mar	23.0	**23.5**		25.8
7:30 am	Empire State Mfg Survey - Mar	15.0	**15.0**		13.1
3-16 / 7:30 am	Housing Starts – Feb	1.290 Mil	**1.283 Mil**		1.326 Mil
8:15 am	Industrial Production – Feb	+0.4%	**+0.5%**		-0.1%
8:15 am	Capacity Utilization – Feb	77.7%	**77.8%**		77.5%
9:00 am	U. Mich Consumer Sentiment- Mar	99.1	**100.2**		99.7