

## Obama's 8%: Sounds Right

Given his advisers' track record, you would think President Obama would be very cautious when making predictions about the unemployment rate. Back in January 2009, fresh off his inauguration, his economic team forecast that the \$800 billion "stimulus" bill would keep the jobless rate below 8%.

As we all now know, even though the "stimulus" bill was fully implemented, the jobless rate kept heading north, peaking at 10.1% in October 2009 and never once falling even remotely close to 8%. Nevertheless, President Obama is doing it again and predicting unemployment will be 8% around Election Day.

This time, we think he's right.

It's important to recognize that 8% unemployment is not good. The unemployment rate was lower than 8% for 25 straight years, from early 1984 through early 2009. During that time no one would have been proud of an 8% jobless rate.

The difference between then and now is the size of government. Spending, regulation and expanded jobless benefits have made the US look more like Europe, where even in the best of times unemployment rates rarely fall below 7%. Nonetheless, the US economy is growing today, it is creating new jobs, and unemployment will continue to fall in the months ahead just as the President has predicted.

Here's why we think 8% makes sense. Just two years ago, in the last quarter of 2009, the jobless rate averaged 10%. In the current quarter, unemployment will probably end up averaging 8.8%. (We look for an 8.7% rate in December).

That's a drop of 1.2 percentage points over two years, when real GDP was growing around 2.5% per year. And notice that the drop in the jobless rate was not due to people leaving the labor force. The labor force is up slightly versus two years ago.

We think the economy will grow in the 3 to 3.5% range in 2012, which makes a drop to an 8% unemployment rate a sensible forecast. Faster economic growth should generate a faster decline in the jobless rate. And remember, this faster growth is occurring without a new stimulus bill and without QE3. The fact that the government has done nothing new in the past few quarters is helping the economy accelerate again.

Some analysts keep waiting for a large surge in the labor force (more people looking for work), which would drive the unemployment rate up again, or at least make it tough to get the jobless rate down further. But that's unlikely.

The aging of the Baby Boom generation started putting downward pressure on the labor force participation rate about a decade ago and that process will continue. Any increase in the labor force in the year ahead should be modest compared to prior economic expansions.

Bottom-line: We think President Obama is right about the 8% unemployment rate. What's interesting is that so many people have been so negative about the economy for so long that 8% is going to feel like a huge victory, even when it isn't. This is the problem with creating negative expectations...even slight improvement could be considered a victory.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-13 / 7:30 am	Retail Sales - Nov	+0.5%	<b>+0.2%</b>		+0.5%
7:30 am	Retail Sales Ex-Autos - Nov	+0.4%	<b>+0.3%</b>		+0.6%
7:30 am	Business Inventories - Oct	+0.8%	<b>+0.9%</b>		+0.0%
12-14 / 7:30 am	Import Prices - Nov	+1.0%	<b>+2.0%</b>		-0.6%
7:30 am	Export Prices - Nov	+0.3%	<b>+0.3%</b>		-2.1%
12-15 / 7:30 am	PPI - Nov	+0.2%	<b>+0.4%</b>		-0.3%
7:30 am	"Core" PPI - Nov	+0.2%	<b>+0.3%</b>		+0.0%
7:30 am	Empire State Mfg Index - Dec	3.0	<b>4.0</b>		0.6
7:30 am	Initial Claims - Dec 10	390K	<b>383K</b>		381K
8:15 am	Industrial Production - Nov	+0.1%	<b>+0.3%</b>		+0.7%
8:15 am	Capacity Utilization - Nov	77.8%	<b>77.9%</b>		77.8%
9:00 am	Philly Fed Survey - Dec	5.0	<b>8.0</b>		3.6
12-16 / 7:30 am	CPI - Nov	+0.1%	<b>+0.2%</b>		-0.1%
7:30 am	"Core" CPI - Nov	+0.1%	<b>+0.2%</b>		+0.1%