

Speeding Up the Plow Horse

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We call it a Plow Horse Economy...it ain't gonna win the Belmont, but it ain't gonna keel over and die, either. And there is nothing in the latest data or market action that changes our mind; the economy is not in recession and we highly doubt it will fall into one anytime soon.

The Pouting Pundits of Pessimism are hyperventilating over the weaker-than-expected 69,000 increase in May payrolls, a downward revision in first quarter real GDP growth to 1.9%, a 10-year Treasury yield of 1.5%, and a stock market that has given up its gains for the year.

Back in the winter months, when the payroll numbers were relatively robust, the pessimists complained about a declining labor force. But now they ignore that the labor force rose by 642,000, while the participation rate rose to 63.8% from 63.6% in April. Not very consistent of them, eh?

That wasn't the only area of the jobs report that defied the pessimists. The household survey (which captures small businesses) reported 422,000 new jobs. This was not enough to overcome the huge gain in the labor force, so the unemployment rate ticked up to 8.2%. But the acceleration in the household number suggests the job market is not as bad as it was made out to be.

We also heard that 70% of the time an economy slows to below 2% real GDP growth a recession follows. We aren't quite sure what this is supposed to mean. If someone can show us an economy that didn't fall through 2% growth on the way to recession we will give them a million new Drachma. Regardless, recent revisions to construction data suggest real GDP growth gets revised back up above 2% for Q1.

So why do we have a Plow Horse economy and not a Race Horse economy? The answers are simple...they're the same reasons Europe had slow growth and a high unemployment rate for the past three decades: government spending, taxes, and regulation have been a huge burden. Think of a race horse carrying a 250 lb. jockey or a plow horse dragging the plow

through stumps and roots in a field. Government is a burden which slows growth and reduces job opportunities. The only way to get a permanent acceleration – in real GDP, incomes, and job growth – is to lighten the load. The good news for the US is that there is a four step plan to make this happen and we're going to face all of them this year.

First is the recall election on Tuesday for Scott Walker as Governor of Wisconsin. Democrats in Massachusetts and Rhode Island – even Rahm Emanuel in Chicago – have also carried out reforms for government workers, but Walker's efforts created a massive political backlash. A Walker victory would set the stage for more reforms in other states.

Second is the late June Supreme Court ruling on Obamacare. Health insurance is an important issue and many reasonable people disagree about inequities in that market, but a government takeover would signal further growth in government spending and regulation, which would dampen the entrepreneurial spirit and increase uncertainty.

Third is the November 7th presidential election, when voters across the country get the chance to signal a desire to roll back the size and scope of government. "Core" government spending – outside of defense, TARP, interest and entitlements – has hit a record high in recent years. A change in leadership would mean a chance to greatly reduce the share of GDP controlled by Washington. Finally, the scheduled tax hike on income, capital gains, and dividends in 2013 has become a wall of uncertainty for business to overcome. If the first three steps happen, this one will too.

These steps will decide whether the US heads toward a European-like future or remains a bastion of free market capitalism. As each step unfolds, the momentum of the decisions will also become more visible. We remain confident America is a "center-right" country that respects its Constitution. If so, look out. The Plow Horse may turn into a thoroughbred.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-4 / 9:00 am	Factory Orders – Apr	0.2%	0.0%	-0.6%	-1.8%
6-5 / 9:00 am	ISM Non-Man – May	53.5	53.7		53.5
6-6 / 7:30 am	Q1 Non-Farm Productivity	-0.7%	-0.8%		-0.5%
7:30 am	Q1 Unit Labor Costs	+2.2%	+1.2%		+2.0%
6-7 / 7:30 am	Initial Claims - June 2	379K	375K		383K
2:00 pm	Consumer Credit - Apr	11.0 Bil	\$13.2 Bil		\$21.4 Bil
6-8 / 7:30 am	Int'l Trade Balance – Apr	-49.5 Bil	-50.6 Bil		-51.8 Bil