First Trust
Monday Morning OUTLOOK
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# What's Going Right?

Everyone knows housing is still weak. And, everyone knows jobs are growing, but not fast enough to seriously lower the unemployment rate, which stands at 9.1%.

Everyone also knows real GDP has expanded for nine consecutive quarters, at an average annual rate of 2.5%. No one is satisfied with this; but it is a recovery, not a recession.

So, how can real GDP grow when housing and employment are so weak? Something must be going right…somewhere.

Well, it turns out that the strongest part of the economy has been business investment. *Equipment and software* investment (Cap-Ex) has grown five times faster than GDP – 12.9% at an annual rate over the past nine quarters.

The strongest category has been *transportation and related equipment* (trains, planes, trucks, etc.), up 43.3% at an annual rate over nine quarters. C*omputers and peripheral equipment* (including servers, printers, routers, etc.) are also up 26.2% at an annual rate in the past 2 ¼ years. All of this data is adjusted for inflation, and what it shows is, contrary to popular belief, businesses are spending and investing. Moreover, businesses investment is a bigger share of the economy than housing.

*Consumer spending* is up, too, despite weak confidence data. After adjustment for inflation, consumer spending is up 2.2% at an annual rate over the past nine quarters. In a shocker, real *furniture and household durable equipment* spending (refrigerators, washing machines, etc.) increased by 5.0% in the past year and now stands just 0.3% below its all-time high from late 2007. Despite weak housing, and worries about credit, household durable spending has rebounded to pre-crisis levels.

Last we looked, the only help government is giving businesses is a more rapid depreciation schedule – which is a tax incentive for investment. Yet, trillions are being spent trying to stimulate housing and employment. In other words, what government is trying to boost by spending is going wrong, but where it uses tax cuts things are looking up and going right. If government could find the courage to have faith in markets and not itself, more things would be going right.

That said…it seems clear that the economy is finding enough strength in business investment and consumption to offset the pain caused by housing and employment. We expect the scales to remain tipped toward growth in the quarters ahead and look for 3% real GDP growth in 2012.

This growth could accelerate if government spending and regulation were reduced in a significant way. Housing already looks to have found a bottom. Imagine what happens when it finally turns up? Buck up, not everything is going wrong. In fact, there are many things going right in the US economy.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|---|---|---|---|---|---|
| 10-31 / 8:45 am | Chicago PMI - Oct | 59.0 | **58.5** | 58.4 | 60.4 |
| 11-01 / 9:00 am | ISM Index - Oct | 52.0 | **51.8** | | 51.6 |
| 9:00 am | Construction Spending - Sep | +0.3% | **+0.3%** | | +1.4% |
| *sometime* | Domestic Auto Sales - Oct | 4.2 Mil | **4.3 Mil** | | 4.2 Mil |
| *during the day* | Domestic Truck Sales - Oct | 6.0 Mil | **6.1 Mil** | | 5.9 Mil |
| 11-03 / 7:30 am | Q3 Non-Farm Productivity | +2.8% | **+3.8%** | | -0.7% |
| 7:30 am | Q3 Unit Labor Costs | -0.5% | **-3.2%** | | +3.3% |
| 7:30 am | Initial Claims - Oct 29 | 400K | **400K** | | 402K |
| 9:00 am | Factory Orders - Sep | -0.2% | **-0.5%** | | -0.2% |
| 9:00 am | ISM Non-Man. - Oct | 53.6 | **53.6** | | 53.0 |
| 11-04 / 7:30 am | Non-Farm Payrolls - Oct | 95K | **125K** | | 103K |
| 7:30 am | Private Payrolls - Oct | 125K | **150K** | | 137K |
| 7:30 am | Manufacturing Payrolls - Oct | 4K | **-2K** | | -13K |
| 7:30 am | Unemployment Rate - Oct | 9.1% | **9.1%** | | 9.1% |
| 7:30 am | Average Hourly Earnings - Oct | +0.2% | **+0.2%** | | +0.2% |
| 7:30 am | Average Weekly Hours - Oct | 34.3 | **34.3** | | 34.3 |