First Trust
Monday Morning OUTLOOK
November 26th, 2012

630-517-7756 • www.ftportfolios.com

Consumers Plow Ahead

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Senior Economist*
Strider Elass – *Economic Analyst*

The Pouting Pundits of Pessimism have been in a froth over the "fiscal cliff," but US consumers seem to be ignoring them. Shoppers hit stores in droves over the past four days, both in person and, increasingly, on-line. It's not an economic boom, but it sure isn't a recession, either.

Sales for the full first weekend of holiday shopping – Thursday through Sunday – are up 13% versus a year ago according to the National Retail Federation. On average each customer spent 6.3% more than last year.

ComScore says online Black Friday sales were up 26% from a year ago and surpassed $1 billion for the first time ever. Online sales on Thanksgiving Day itself were up 32%. This strength was confirmed by Coremetrics, an online data-gatherer affiliated with IBM, which says Black Friday internet sales were up 20%.

The weakest report was from ShopperTrak, a Chicago-based firm that has monitoring devices at 40,000 retail outlets and malls around the country, measuring foot traffic, which reported a 1.8% *decline* for Black Friday. However, when they add back Thanksgiving Day, the total for both days was up 1%.

The calendar is interesting this year. Thanksgiving always falls on the fourth Thursday of November, and because November 1st was a Thursday in 2012, the shopping season will be the longest possible. In addition, the Internet is making shoppers savvier, while retailers have more data. As a result, we think the middle and latter stages of the shopping season will be stronger than the early stages.

While some wonder how sales can be up, it is clear that more jobs, higher earnings and smaller debt burdens are all positive forces.

In the past twelve months, the unemployment rate is down a full percentage point, payrolls are up 162,000 per month, and total private wages and salaries are up 4.6% from a year ago. Meanwhile, consumers have whittled down their debts, so that monthly financial obligations – mortgages, rent, car loans/leases, and other debt service – are now the lowest share of after-tax income since 1984.

In the near term, jobs and incomes may take a hit from Hurricane Sandy. But, any hit would be temporary. For example, the recent spike in unemployment claims suggests zero net change in payrolls for November. However, weekly unemployment claims have already started to recede, so a rebound in jobs will come in December or very early next year.

Autos sales were doing well until Sandy hit in late October. Next Monday we get November auto sales, which were probably held down by Sandy as well. However, all the storm did was postpone sales. That, plus the need to replace vehicles damaged in the storm, will cause a surge in car and truck sales in December and early 2013.

Meanwhile, housing keeps picking up steam, with housing starts up 42% from a year ago, new home sales up 27% and existing home sales up 11%. We expect these gains will continue in the year ahead as the pace of home building still has a long way to go to get back to normal (so inventories stop falling) and more workers qualify for mortgages. In turn, this means more growth for consumer spending.

The bottom line is that for the fourth year in a row, consumer spending is on an upward path. Unlike some economists, we don't think this *causes* economic growth. Instead, we take it as a sign that the economy continues to leave the wreckage of 2008-09 further behind. It's a Plow Horse economy, still, with consumers taking the reins.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-27 / 7:30 am	Durable Goods – Oct	-0.8%	**+0.8%**		9.8%
7:30 am	Durable Goods (Ex-Trans) – Oct	-0.6%	**-0.6%**		2.0%
9:00 am	Consumer Confidence – Nov	73.0	**72.5**		72.2
11-28 / 9:00 am	New Home Sales – Oct	0.390 Mil	**0.385 Mil**		0.389 Mil
11-29 / 7:30 am	Q3 GDP Second Report	2.8%	**2.9%**		2.0%
7:30 am	Q3 GDP Chain Price Index	2.8%	**2.8%**		2.8%
7:30 am	Initial Claims – Nov 24	390K	**390K**		410K
11-30 / 7:30 am	Personal Income – Oct	0.2%	**0.3%**		0.4%
7:30 am	Personal Spending – Oct	0.1%	**0.1%**		0.8%
8:45 am	Chicago PMI – Nov	50.5	**51.3**		49.9