

The Economic Twilight Zone

Economic data show growth, but the Pouting Pundits of Pessimism on television, the internet, and in print say “recession” is here, or will be soon. Headlines and quotes from the punditry are nothing but dour. It’s like the “economic *Twilight Zone*.” Reality doesn’t seem to matter anymore.

It’s true that the economy is underperforming. Real GDP in the US has expanded at an average annual rate of just 2.5% in the past two years. The unemployment rate is 9.1% and everyone knows someone out of work. But, weak growth alone is not a recession; it’s still growth.

Some pessimists focus on the stock market, but the stock market is always more volatile than the economy. It also rallied last week, on better-than-expected economic data.

This didn’t stop the *Twilight Zone* crowd. Some pundits are now arguing that it’s a bad sign when the market goes up sharply. Drudge actually ran this headline: “‘Stocks’ massive ‘melt-up’ fans investor fears.” In the *Twilight Zone*, when good things happen, the endless spinning makes them look bad.

It seems like everyone is analyzing the economy through a political lens. Conservatives want the economy to be bad so they can beat Obama. Liberals want things to be bad because it gives them an excuse for expanding government. And because journalists these days all seem to posture politically for marketing purposes, the echo chamber fills up with negative noise. There is little public constituency for the tempered optimism the economy deserves.

Some accuse us of spinning, and many assume that we are positive no matter what happens. But, our position is based on long years of economic forecasting. Simply put, the economy does not fall into recession when the Fed is accommodative, and the Fed is seriously accommodative these days.

Yes, the ISM data weakened in recent months, but as we have shown these surveys can be misleading when confidence swings wildly. And, yes, the punditry all tore their clothes

when the jobs data showed a big fat zero in August. But, as we said at the time, this was misleading because of a strike at Verizon. Moreover, we have shown time and again that [high frequency \(weekly\) data showed no recession](#).

As a result we were not surprised this past week when the monthly data showed growth. The ISM manufacturing and services indices both beat the consensus. The employment report showed a payroll gain of 103,000 in September and upward revisions of 99,000 for July and August, or a net gain of 202,000 jobs. It also showed more hours per worker.

But the pessimists continue to spin. They ignored the Verizon strike when it subtracted jobs in August and now they subtract the returning strikers from September data to show weakness. Some analysts are dissing the September data because the household survey showed a big jump – 444,000 – in part-time jobs. But this series is incredibly volatile from month to month and shows a decline in part-time jobs of 236,000 over the past 12 months. In the end, private payrolls have expanded for 19 straight months and the US has added 1.5 million new payroll jobs in the past year.

But, in the *Twilight Zone*, none of this matters. Even if the economy is growing, the pessimists say, we will scare ourselves into recession. And they ask; what about Europe?

We don’t ignore either of these possibilities. It might, maybe, perhaps, be possible to scare ourselves into recession. But true panics are very rare. And Europe could theoretically take us out, but mark-to-market accounting no longer can cause a contagion like it did back in 2008.

Some investors say they won’t invest until this episode of the *Twilight Zone* ends. But, no one knows when that will be. The market is cheap today and the economy is growing. Accumulating assets, with values so battered down is a recipe for successful long-term investing. Hang tough...it’s just a TV show.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-13 / 7:30 am	Int’l Trade Balance - Aug	-\$46.0 Bil	-\$47.3 Bil		-\$44.8 Bil
7:30 am	Initial Claims - Oct 8	405K	410K		401K
10-14 / 7:30 am	Retail Sales - Sep	+0.7%	+0.9%		+0.8%
7:30 am	Retail Sales Ex-Autos - Sep	+0.3%	+0.2%		0.0%
7:30 am	Export Prices - Sep	+0.2%	+0.2%		+0.5%
7:30 am	Import Prices - Sep	-0.4%	0.0%		-0.4%
8:55 am	U. Mich. Consumer Sentiment	60.4	60.0		59.4
7:30 am	Business Inventories - Aug	+0.4%	+0.4%		+0.4%