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Monday Morning Outlook

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Recession Fears Still Misplaced

Imagine that a regular monthly Labor Department employment report shows that the US economy lost 4,000 jobs in the most recent month. And then imagine that downward revisions to the two prior months subtract 80,000 jobs, leaving an average monthly gain of just 69,000 instead of 109,000.

Wouldn't this raise fears of a recession? It's the kind of news that would make this past Friday's employment report (December 2007 payrolls increased by 18,000, while revisions added 10,000 to October/November) seem strong by comparison.

This is not a thought experiment. It's not some hypothetical exercise. On Friday, Sept. 7, 2007, the government reported August payrolls had fallen 4,000 and June/July payrolls, previously estimated at 109,000 per month, were really only 69,000 per month. Despite all the fears that this generated, the economy grew at a 4.9% annual rate in Q3.

How could this happen? Why a huge disconnect between jobs and the economy? The primary reason is that the official numbers reported on Sept. 7th turned out to be grossly misleading. The latest data now show that rather than *falling* by 4,000, payrolls *expanded* by 93,000 in August. In addition, the average monthly gains for June and July, estimated at 69,000 on Sept. 7th, were subsequently revised up to 81,000.

True, this past Friday's report on the job market also included some sobering data on civilian employment. This alternative measure of job creation shows employment grew only 9,000 per month in the past year.

However, almost all the weakness has been among workers aged 16-24, a group going to school at higher rates than ever before and who are the most likely to lose jobs as a result of last summer's increase in the minimum wage. If we look at employment for those aged 25 and up, the average monthly gain is 84,000 in the past year.

Also released last week were minutes from the Federal Reserve meeting on December 11. These minutes showed that the Fed cut rates in part because of very slow consumption growth in September and October. The Fed, along with many other forecasters, saw that slow growth as a sign of how consumers were being hit by falling home prices and tighter credit standards. Implicit in the minutes was that the Fed had marked down its forecast of fourth quarter real GDP growth to about 0%.

Trouble is, those minutes were outdated within three days of the meeting. That's when new reports showed that November retail sales boomed, while September and October were revised up sharply. Consumer spending in the fourth quarter will rise at an inflation-adjusted rate of roughly 3% and it should now be clear to everyone that forecasts of zero growth in the fourth quarter were excessively pessimistic.

Nonetheless, the Fed is getting ready to cut rates again at the end of January, despite the fact that there is still no hard data showing the much-discussed consumer slowdown. So far, the housing crisis has not begun to cause a broad-based economic slowdown.

The most up-to-date information we have on consumer behavior in December is still okay. Car and truck sales were up 0.4% in December. For the fourth quarter as a whole, car and truck sales were up 6.4% at an annual rate versus the third quarter. Chain store sales are expected to be up only 2.5% versus last December, but that is only a measure of same-store sales, not "total" sales by chain stores, which will likely be up close to 10%.

We remain confident that neither a recession, nor any significant consumer slowdown, is in the cards. The Fed is not tight, tax rates are still low, productivity is still strong, wages, incomes, and profit margins are still robust, and, after revisions, the US economy has proven its resilience time and time again.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-10 / 7:30 am	Initial Claims - Jan 5	345K	**340K**		336K
1-11 / 7:30 am	Int'l Trade Balance - Nov	-$59.5 Bil	**-$59.4 Bil**		-$57.8 Bil
7:30 am	Import Price Index - Dec	+0.2%	**+0.1%**		+2.7%
7:30 am	Export Price Index - Dec	+0.5%	**+0.7%**		+0.9%
1:00 pm	Treasury Budget - Dec	$55.0 Bil	**$53.2 Bil**		$42.0 Bil