

Political Economics

Back in 1992, the Democrats' mantra was "It's the Economy, Stupid." The economy was recovering from the 1990-91 recession, but job growth was slow and the unemployment rate held stubbornly in the mid-7% range. Despite real GDP growth of 4.3% in 1992, Republicans could not overcome negative feelings about the economy and lost the election to Bill Clinton.

We bring this up because we were struck by how unanimous the Republican attack on Friday's third quarter report on GDP growth. Republicans are using the same playbook that worked so well for the Democrats back in 1992.

The first estimate of real GDP for Q3 put annualized growth at 2%. Taken at face value, this rate of growth is not enough to create new jobs at a pace that will bring the unemployment rate down significantly. Growth also looks like it's slowing – real GDP grew at a 1.9% annual rate in Q2 & Q3 versus a 4.4% growth rate in the previous two quarters.

But this overall number masks turmoil underneath. Quarterly GDP data go back to 1947 and never – never! – in the past 63 years has the trade deficit widened as fast (even relative to the size of GDP) as it has in the past two quarters. And because GDP is designed to measure production inside the US, imports are subtracted because they're produced elsewhere.

But, a surge in imports suggests US consumers and businesses are spending. Subtracting these trade flows, provides us with a measure of Gross Domestic *Purchases* – how much stuff we buy, not how much we produce. These purchases grew at a 3.9% annual rate in Q3 after a 5.1% growth rate in Q2. In the past year, domestic purchases rose 4% at an annual rate versus a 3.6% annual rate during the same time period back in 1992. That's right, the spending side of the economy is even stronger today than it was when the Democrats were berating the economy in 1992.

To be fair, some of the imports ended up in inventories. So, to adjust for that, economists use a measure of *final sales* to domestic purchasers, which rose 3.4% at an annual rate in the past two quarters. This is slightly slower than the 3.9% rate of growth in this category of spending back in 1992.

In other words, while a 2% growth rate in real GDP is not worth writing home about, it certainly masks an underlying strength in demand that investors should not ignore.

Political spin is ubiquitous these days. But it's important for investors to know that it's just spin. The underlying economy is doing much better than it seems.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-1 / 7:30 am	Personal Income - Sep	+0.3%	0.0%	-0.1%	+0.5%
7:30 am	Personal Spending - Sep	+0.4%	+0.5%	+0.2%	+0.4%
9:00 am	ISM Index - Oct	54.0	53.7	56.9	54.4
9:00 am	Construction Spending - Sep	-0.4%	+0.4%	+0.5%	+0.4%
11-3 / 9:00 am	Factory Orders - Sep	+1.2%	+1.8%		-0.3%
9:00 am	ISM Non-Man. - Oct	53.5	54.0		53.2
<i>sometime</i>	Domestic Auto Sales - Oct	3.9 Mil	3.9 Mil		3.8 Mil
<i>during the day</i>	Domestic Truck Sales - Oct	5.0 Mil	5.1 Mil		4.9 Mil
11-4 / 7:30 am	Q3 Non-Farm Productivity	+1.0%	+2.5%		-1.8%
7:30 am	Q3 Unit Labor Costs	+0.5%	-2.0%		+1.1%
7:30 am	Initial Claims - Oct 30	445K	435K		434K
11-5 / 7:30 am	Non-Farm Payrolls - Oct	+62K	+97K		-95K
7:30 am	Private Payrolls - Oct	+80K	+121K		+64K
7:30 am	Manufacturing Payrolls - Oct	+5K	+5K		-6K
7:30 am	Unemployment Rate - Oct	9.6%	9.6%		9.6%
7:30 am	Average Hourly Earnings - Oct	+0.2%	+0.2%		0.0%
7:30 am	Average Weekly Hours - Oct	34.2	34.3		34.2
2:00 pm	Consumer Credit – Sep	-\$3.0 Bil	-\$3.9 Bil		-\$3.3 Bil