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First Trust

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Monday Morning Outlook

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It's Not the 1930s Again

Since the financial turmoil began, many analysts, investors and pundits have fretted about a repeat of the Great Depression. They worry that the pain is not over yet and fear other shoes – like foreclosures or commercial real estate – will drop, causing another leg down for the economy. They worry that when government stimulus winds down, the economy will fall again.

The opposite view is also in play. Many fear excess government activity. They worry that government has become too big and too much of a burden. Even if healthcare, or cap and trade, are no longer a threat, it's the "uncertainty" of all this government activity that is holding back business decisions, undermining job growth and threatening to cause further declines in economic activity. This is the key fear of many conservative pundits.

However, it's important to put things in perspective. Real GDP fell for four consecutive years (and by a total of more than 25%) between 1929 and 1933. Unemployment reached 25%. Nothing today even comes close. GDP is now rising and we expect unemployment has peaked.

The reason the Great Depression became so great was because government policies were outrageously bad. The Federal Reserve, which was less than two decades old at the time, made huge mistakes, and allowed the money supply to decline by a third between 1929 and 1933. At the same time, President Herbert Hoover increased the top marginal income tax rate from 25% to 63% in 1932 – a more than 50% reduction in the incentive to work and invest.

Then, President Franklin Delano Roosevelt raised the top rate again to 79%, cutting the incentive to produce even more. Add the Smoot-Hawley increase in tariffs on international trade, and it is easy to understand that the Great Depression was a made-in-Washington crisis. Moreover, while it is true that uncertainty played a big role in holding back economic activity, especially later in the 1930s, it is clear that there were actual policies (not just threats of policies) that had an impact.

This puts today in a different light. While tax rates are scheduled to rise in 2011, this is still not a certainty and the tax rate hikes themselves are nothing on the order of Hoover-Roosevelt. Moreover, national health care and cap and trade legislation are clearly in critical condition.

No matter how big of a drift toward populism it appears the country has taken, it is also clear that President Obama is losing ground with his agenda. The Democratic majority is shrinking and should shrink more in the months to come. As a result, the odds of repeating anything like the Great Depression are low and shrinking by the day. It's not the 1930s, it's not even close.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-1 / 7:30 am	Personal Income - Dec	+0.3%	**+0.5%**	+0.4%	+0.4%
7:30 am	Personal Spending - Dec	+0.3%	**+0.6%**	+0.2%	+0.5%
9:00 am	ISM Index - Jan	55.5	**56.1**	58.4	55.9
9:00 am	Construction Spending - Dec	-0.5%	**-0.3%**	-1.2%	-0.6%
2-2 / *sometime*	Domestic Auto Sales - Jan	4.0 Mil	**4.0 Mil**		4.1 Mil
during the day	Domestic Truck Sales - Jan	4.3 Mil	**4.5 Mil**		4.4 Mil
2-3 / 9:00 am	ISM Non-Man. - Jan	51.0	**50.5**		50.1
2-4 / 7:30 am	Q4 Non-Farm Productivity	+6.0%	**+7.6%**		+8.1%
7:30 am	Q4 Unit Labor Costs	-2.6%	**-5.7%**		-2.5%
7:30 am	Initial Claims - Jan 30	455K	**452K**		470K
9:00 am	Factory Orders - Dec	+0.5%	**0.0%**		+1.1%
2-5 / 7:30 am	Non-Farm Payrolls - Jan	+8K	**+45K**		-85K
7:30 am	Manufacturing Payrolls - Jan	-20K	**-20K**		-27K
7:30 am	Unemployment Rate - Jan	10.0%	**9.9%**		10.0%
7:30 am	Average Hourly Earnings - Jan	+0.2%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours - Jan	33.2	**33.2**		33.2
2:00 pm	Consumer Credit – Dec	-$9.5 Bil	**-$8.4 Bil**		-$17.5 Bil