First Trust
Monday Morning OUTLOOK
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Don’t Fret the Foreign Stuff

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Guess what? Japan’s real GDP grew at a 6% annual rate in the third quarter, a sharp snapback from the downturn following that awful earthquake and tsunami. Much of the rebound was auto-related, as manufacturers overcame problems with electricity and the supply-chain.

While the swings in Japan are more dramatic, US economic data shows the same pattern. Real GDP accelerated in the US to a 2.5% annual growth rate in Q3. If we exclude the large drag from an inventory slowdown, real final sales grew 3.6%.

Like clockwork, however, the conventional wisdom drops the last negative thing that didn’t work out and moves onto the next. Now…it’s European problems (or maybe Chinese) that will take the US economy down.

Look, we aren’t crazy…slower global growth makes things tougher all around. And if a Lehman-style financial panic happens in Europe, the US economy would not be immune. But the US is more than able to withstand a growth slowdown in China and a mild recession in Europe.

Let’s look at trade. The US does lots of trade with China, but imports of goods are roughly four times exports, and exports are just 0.7% of GDP. Exports to the European Union countries are 1.7% of GDP. If both of these collapsed to zero in the next year (an insane assumption), real GDP (which is trending at a 2.5% rate) in the US would still rise by about 0.1%. In other words, the US economy is not threatened in any dramatic way by problems abroad.

In addition, Boeing just received its largest order ever ($18 billion) from Emirates Airline. Problems and uncertainty in Europe will probably help some US companies win orders over European competitors.

Meanwhile, absent a financial panic – which is looking increasingly unlikely – fears about an unusually long or deep recession in Europe are overblown.

What the most fragile economies in Europe need most of all is some “tough economic love” and it looks like they are about to get it. This medicine already seems to have worked in Ireland, where, after tough budget cuts, the economy grew at a 6.5% annual rate in Q2 (the latest data available) even as the Eurozone as a whole grew at a 0.8% rate.

The new governments forming in Greece and Italy know their mission isn’t just getting their countries’ fiscal houses in order. If they fail, there is a risk of these nations slipping into chaos. And the only way to accomplish their goals is to reduce government spending to manageable levels.

When the new governments announce their policy moves, look for fireworks and riots. Also look for some analysts who claim austerity means even more pain. For some in Europe, this is no doubt true.

But, for many others, government austerity will be a reason to fire their creative juices, to work harder, smarter, and better. In the end, more freedom and more responsibility will mean more prosperity.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-15 / 7:30 am	Retail Sales – Oct	+0.3%	**+0.5%**		+1.1%
7:30 am	Retail Sales Ex-Autos - Oct	+0.2%	**+0.3%**		+0.6%
7:30 am	PPI – Oct	-0.1%	**-0.3%**		+0.8%
7:30 am	"Core" PPI – Oct	+0.1%	**+0.1%**		+0.2%
7:30 am	Empire State Mfg Index - Nov	-2.2	**0.0**		-8.5
7:30 am	Business Inventories – Sep	+0.1%	**+0.1%**		+0.5%
11-16 / 7:30 am	CPI – Oct	0.0%	**0.0%**		+0.3%
7:30 am	"Core" CPI – Oct	+0.1%	**+0.2%**		+0.1%
8:15 am	Industrial Production - Oct	+0.4%	**+0.4%**		+0.2%
8:15 am	Capacity Utilization - Oct	77.6%	**77.6%**		77.4%
11-17 / 7:30 am	Housing Starts - Oct	0.606 Mil	**0.605 Mil**		0.658 Mil
7:30 am	Initial Claims - Nov 12	395K	**397K**		390K
9:00 am	Philly Fed Survey - Nov	9.0	**11.1**		8.7
11-18 / 9:00 am	Leading Indicators - Oct	+0.6%	**+0.5%**		+0.2%