

The Plow Horse Rolls On

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Ellass – Economic Analyst

Turn on the television, pick up the newspaper, search the Internet and you will find story after story about Greece, JP Morgan, austerity, the labor force, student loans, California, the G-8, or the Facebook IPO. Just about every bit of the coverage is negative.

Replace that list with Tunisia, Egypt, China, oil prices, foreclosures, deleveraging, and Ireland; or Dubai, tsunami, earthquake, copper, Baltic Freight Index and Portugal...and you get the picture. For three years, the news has been relentlessly bearish.

And yet, amid all this, our “plow horse economy” keeps moving forward – through the stumps and rocks and mud. It’s certainly not *I’ll Have Another*, who, with one more win, can take the Triple Crown – a measure of strength, courage and greatness. But it ain’t headed for the glue factory either.

Consumer spending is at a record high (whether measured on a real or nominal basis). Retail sales were up in April for the 21st time in the past 22 months. In terms of consistency, this rivals the 1998-99 streak of 16 straight monthly gains, a period everyone looks back on as a boom. Real (inflation-adjusted) retail sales are up 4% from a year ago. If this is the new normal, let’s have more of it.

Private payrolls are up 26 consecutive months, hours of work are rising, and consumers’ financial obligations are the smallest share of income since 1984. No wonder sales of autos and light trucks are up almost 10% from a year ago.

Meanwhile, business investment is soaring. While overall industrial production is up a robust 5.2% from a year ago, the production of business equipment is up a

stellar 12%. This is why we believe productivity growth, which has slowed down the past couple of years, is destined to get a second wind.

Capacity utilization hit 79.2% in April, equal to the average of the past twenty years. What this means is that firms have an increasing incentive to build out capacity by investing in plant and equipment. At the same time, profits and balance sheet cash are at record highs. In other words, prospects in the business sector look good.

And, despite all you hear about banks not lending, commercial and industrial loans are up 13.6% in the past year. The story about banks not lending to companies is getting very stale, the bottom for these loans dates back to late 2010.

And to top it all off, housing is clearly on the mend. Starts are up 30% from a year ago. Every major region of the country shows growth in the past twelve months, for both single-family *and* multi-family homes. Residential investment (home building) has been a positive factor for real GDP growth in each of the past four quarters and looks poised to do it again in Q2.

What we have on our hands is a sustainable, self-reinforcing economic recovery. It could be better. What’s holding it back is bad policy choices coming out of Washington, DC. Government spending is robbing the economy of potential, and uncertainty about future taxes and regulation is a wet blanket.

Amazingly, the plow horse keeps moving forward. That’s the real news here - unending pessimism being defeated by the American entrepreneurial spirit.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-22 / 9:00 am	Existing Home Sales - Apr	4.62 Mil	4.670 Mil		4.480 Mil
5-23 /9:00 am	New Home Sales – Apr	0.335 Mil	0.340 Mil		0.328 Mil
5-24 /7:30 am	Durable Goods - Apr	+0.3%	-0.3%		-4.0%
7:30 am	Durable Goods (Ex-Trans) - Apr	+0.8%	+0.6%		-0.8%
7:30 am	Initial Claims – May 19	370K	372K		370K
5-25 /8:55 am	U. Mich. Consumer Sentiment	77.8	77.8		77.8