First Trust
Monday Morning OUTLOOK
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Still No Recession in Sight

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Real GDP in the US has grown 2.3% in the past year, a mediocre rate of growth, little different than its 2.2% average since mid-2009, when the recovery officially began. It's what we call the Plow Horse economy and we expect it to continue plodding along, at least through this fall.

We expect this for both "macro" and what we could call "micro" reasons – both the "big picture" and the "details."

Take the big picture. Loose monetary policy, relatively low marginal tax rates (still!), and technological advances support growth. Entrepreneurs are relentlessly pursuing business opportunities that few could even imagine only a decade ago. This could, and should, create a boom.

But all of these factors combined are not going to get us to rapid and persistent economic growth – 4% plus – without more freedom. The US government grew by leaps and bounds in the past decade, and the extra spending and threat of higher future taxes – not the remnants of the financial crisis – are stifling growth, holding us back in mediocrity.

The micro details also suggest some optimism about the economy. Payrolls are expanding and wages are growing. Private sector payrolls are up 160,000 per month in the past year, while cash wages per hour are up 1.7% during that same time period.

Meanwhile, consumers' financial obligations – recurring payments like mortgages, rent, car loans/leases, student loans, credit cards – are now the smallest share of income since 1993. As a result, consumer spending has more room to grow. (And it's not just iPads. Look for solid reports later today on August sales of cars and trucks.)

Home building might provide the perfect picture of the economy right now. Housing starts are up more than 20% from a year ago, while every other piece of housing related news has turned the corner. This is the sector that pessimists argued must recover to have a real broad economic recovery. The only problem is that residential construction is such a small share of GDP – less than 2.5% of the economy. So, even as housing rebounds rapidly, it is only adding a couple of tenths to the growth rate of overall real GDP.

That won't last forever. Eventually, housing will have gathered enough momentum to make a bigger difference for the overall economy. But, for the time being, there's only so much it can do.

The bottom line right now is that the US economy looks a lot like France. No, not the French economy *today* which is teetering on the brink of recession. We mean the French economy of the past generation, which has averaged real GDP growth of around 2% and unemployment of 8%.

In order to accelerate and turn back into the United States of the 1980s and 1990s, rather than the Plow Horse Economy of today, it will take a change in the direction of policy. We think the pendulum is swinging, but nothing is for sure. The good news, we suppose, is that growth continues even though it's slow and plodding.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-4 / 9:00 am	ISM Index - Aug	50.0	**49.9**	49.6	49.8
9:00 am	Construction Spending - Jul	+0.4%	**+0.2%**	-0.9%	+0.4%
9-5 / 7:30 am	Q2 Non-Farm Productivity	+1.8%	**+2.1%**		+1.6%
7:30 am	Q2 Unit Labor Costs	+1.4%	**+1.3%**		+1.7%
Afternoon	Domestic Car/Truck Sales – Aug	11.1 Mil	**11.2 Mil**		10.7 Mil
9-6 / 7:30 am	Initial Claims – Sep 1	370K	**370K**		374K
9:00 am	ISM Non-Man – Aug	52.5	**53.2**		52.6
9-7 / 7:30 am	Non-Farm Payrolls – Aug	125K	**120K**		163K
7:30 am	Private Payrolls – Aug	140K	**120K**		172K
7:30 am	Manufacturing Payrolls – Aug	10K	**10K**		25K
7:30 am	Unemployment Rate – Aug	8.3%	**8.3%**		8.3%
7:30 am	Average Weekly Earnings – Aug	+0.2%	**+0.2%**		+0.1%
7:30 am	Average Weekly Hours - Aug	34.5	**34.5**		34.5