

## The Only Story In Town

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It's strange times in the United States. The government is partially shut down and isn't releasing any statistics. Even John Muir wouldn't be allowed to hike in a national park. All the while, the President and the Treasury Secretary are predicting an economic calamity for the US (and maybe the globe) if the debt ceiling isn't raised. Yet, they refuse to negotiate to prevent that from happening.

The way we read the "tea leaves" (pun intended) is that this shutdown is not like 1995-96, when the press was able to show pictures of closed national parks and destroy Newt Gingrich. But, back then, the economy was stronger and the government smaller. In December 1995, the unemployment rate was 5.6%, the federal deficit had peaked at 4.5% of GDP, and federal outlays were 20.5% of GDP. Today, the unemployment rate is 7.6%, the federal deficit peaked at 10% of GDP, and spending has been over 21% of GDP for five years. Moreover, the government is trying to implement one of the most far-reaching and expensive new programs since, at least, the 1960s.

Add to this that the Sequester did not destroy the economy, while the city of Detroit went bankrupt because it overspent and over-borrowed, and it seems Republicans are getting traction they didn't get 18 years ago. Moreover, the way Americans get their news has changed radically. In 1995, CNN existed, but not Fox News, Twitter or the blogosphere.

The impact is that if the President refuses to negotiate, and Republicans see little downside politically, the shutdown could last and the debt ceiling deadline could come and pass.

An investor would be right to be somewhat nervous, yet, bond and stock markets, while jittery, show few signs of being terrified. Markets are smart and we would argue that three

things are going on. First, many foresee a resolution before the situation deteriorates too far. Second, there are many, like us, who believe that even if the debt ceiling is not increased, the US will not default on its debt. And third, the cut in spending caused by an inability to borrow would only cause very temporary problems for the economy. Congress has already voted to provide back pay to furloughed workers, so layoffs will have little impact on spending or economic growth.

The federal government takes in more than enough revenue to pay the interest on the debt. In October, federal receipts will be \$200 billion, while interest owed on the debt is \$25 billion. Principal can be repaid by issuing new debt and rolling it over. In other words, any "default" would be a political choice not to pay interest on the debt, really a dereliction of duty because paying the debt is the number one responsibility of the Treasury Department.

Finally, we need to remember that if the government doesn't borrow \$600 billion (roughly \$50 billion per month) that money will stay in the private sector. It's the opposite of growing the government. Every dime the government spends is either taxed or borrowed from the private sector. This is why government spending has not boosted growth. It is also why a drop in spending will not hurt growth as much as many people say it will.

Most importantly for investors, all of this political wrangling can be viewed as very good news. Politicians are dealing with what everyone knows is a long-term fiscal problem and they are dealing with it now, before it becomes a Detroit-like problem for the US. In the end, this is the best news of all and it bodes well for the long-term direction of the United States.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-7 / 2:00 pm	Consumer Credit– Aug	\$12.0 Bil	<b>\$11.4 Bil</b>		\$10.4 Bil
10-8 / 7:30 am	Int'l Trade Balance – Aug	-\$39.5 Bil	<b>-\$38.6 Bil</b>		-\$39.1 Bil
10-10 / 7:30 am	Initial Claims – Oct 5	310K	<b>306K</b>		308K
7:30 am	Import Prices – Sep	+0.2%	<b>+0.3%</b>		0.0%
7:30 am	Export Prices – Sep	+0.1%	<b>0.0%</b>		-0.5%
10-11 / 7:30 am	PPI – Sep	+0.2%	<b>+0.3%</b>		+0.3%
7:30 am	"Core" PPI – Sep	+0.1%	<b>+0.1%</b>		0.0%
7:30 am	Retail Sales – Sep	+0.0%	<b>0.0%</b>		+0.2%
7:30 am	Retail Sales Ex-Auto – Sep	+0.4%	<b>+0.4%</b>		+0.1%
8:55 am	U. Mich Consumer Sentiment- Oct	76.0	<b>76.0</b>		77.5
9:00 am	Business Inventories – Aug	+0.3%	<b>+0.3%</b>		+0.4%