First Trust
Monday Morning OUTLOOK
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More Plow Horse Ahead

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Real GDP grew at a 2.5% annual rate in the first quarter, according to Friday's initial estimate. But the way it was reported in some places, you'd think we were on the verge of another recession.

The overall economy lagged expectations of 3% growth and it would have been better if less of the growth came from inventories. However, excluding government purchases, real GDP grew at a 4% annual rate in Q1, the fastest pace since late 2011. Excluding both government *and* inventories, real GDP was up at a 2.7% rate.

In other words, this was a plow horse report, nothing more, nothing less. It doesn't change our view of where the economy is headed, which is a gradual acceleration out of tepid growth over the past few years.

The data out this week – and there are a ton of economic reports – should underscore this trend. While the consensus among economists is that the US will slow noticeably in Q2, we remain skeptical. The slowdown theory is that consumers are having a delayed reaction to the payroll tax hike and federal spending sequester.

The sequester should help growth by showing investors Washington can tackle overspending. But, superficially, the payroll tax story makes sense because it will reduce take-home pay by more than $100 billion this year, or about 1% of consumer spending. But this isn't happening in a vacuum.

Real unobligated income adjusts consumers' incomes for inflation and takes out both taxes and monthly payments for mortgages, rent, car loans/leases, as well as debt service for credit cards and other loans. Last year that was up 3.9%, while real consumer spending was up 1.8%. In other words, growth in consumer spending has been lagging the improvement in consumers' ability to spend.

The one thing we know for sure is that if one of the major reports this week comes in softer than expected – ISM Manufacturing, auto sales, employment, or ISM Services – all the usual pessimistic suspects will dwell on it like it's the only thing that matters. Instead, smart investors will look at all the news, both good and bad. Our call is that, on net, the plow horse just keeps moving forward.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-29 / 7:30 am	Personal Income – Mar	+0.4%	**+0.4%**		+1.1%
7:30 am	Personal Spending – Mar	+0.0%	**+0.0%**		+0.7%
4-30 / 8:45 am	Chicago PMI	52.6	**54.2**		52.4
9:00 am	Consumer Confidence – Apr	61.0	**60.3**		59.7
5-1 / 9:00 am	ISM Manufacturing Index – Apr	51.0	**50.8**		51.3
9:00 am	Construction Spending – Mar	+0.6%	**+0.7%**		+1.2%
afternoon	Total Car/Truck Sales – Apr	15.3 Mil	**15.3 Mil**		15.2 Mil
afternoon	Domestic Car/Truck Sales – Apr	12.0 Mil	**12.0 Mil**		12.0 Mil
5-2 / 7:30 am	Initial Claims – Apr 27	346K	**346K**		339K
7:30 am	Int'l Trade Balance – Mar	-$42.2	**-$41.7 Bil**		-$43.0 Bil
7:30 am	Q1 Non-Farm Productivity	+1.4%	**+0.9%**		-1.9%
7:30 am	Q1 Unit Labor Costs	+0.6%	**-0.4%**		+4.6%
5-3 / 7:30 am	Non-Farm Payrolls – Apr	150K	**180K**		88K
7:30 am	Private Payrolls – Apr	163K	**190K**		95K
7:30 am	Manufacturing Payrolls – Apr	5K	**9K**		-3K
7:30 am	Unemployment Rate – Apr	7.6%	**7.6%**		7.6%
7:30 am	Average Hourly Earnings – Apr	+0.2%	**+0.2%**		+0.0%
7:30 am	Average Weekly Hours – Apr	34.6	**34.5**		34.6
7:30 am	ISM Non Mfg Index – Apr	54.0	**55.0**		54.4
7:30 am	Factory Orders – Mar	-2.5%	**-3.0%**		+3.0%