First Trust
Monday Morning OUTLOOK
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QE: It Didn't Work

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

Conventional Wisdom says that greedy, crazy, speculative, bankers almost destroyed the world back in 2008 and the government saved it with TARP and QE. Many analysts believe QE has kept the US from lurching back into recession. Some even think QE means hyperinflation is on the way.

But the data don't support any of this. QE started in September 2008, while TARP was passed a month later. But between October 2008 and March 2009, the S&P 500 fell an additional 40%, while the recession only got worse. Inflation never took off and nominal GDP growth has remained subdued.

By contrast, our ***minority view*** is that the crisis was never as bad as many think; that mark-to-market accounting turned a large, but not economy-killing, problem, into a Panic. Supporting our case is that the equity market, and the economy, bottomed when mark-to-market accounting was fixed in March/April 2009. In other words, this is not a "sugar high" driven by monetary stimulus.

Only history can prove which one of these views is correct. But, now that the Fed has tapered, we have some real evidence to digest. The Fed has reduced its monthly purchases from $85 billion per month to zero. Yet, instead of a calamity, U.S. real GDP grew at a 4.6% annual rate in Q2 and a 3.5% rate in Q3. The unemployment rate has dropped to 5.9% from 7.2% a year ago (with a big assist from ending extended benefits). The S&P 500 closed at a record high on Friday. And, the yield on the 10-year Treasury is *lower* today than it was in December 2013.

In other words, it looks like ending QE3 made the economy stronger, not weaker. Intellectually speaking, those who believe that QE was driving economic activity have a problem.

Remarkably, many analysts who claim to believe in free markets support the conventional wisdom. They give credit to government or the Fed for driving growth, when in fact it has been government that has held growth back.

We believe new technology (like fracking, the cloud, 3-D printing, apps,…etc.) has driven profits higher. The stock market is up because it represents the returns from investment by the private sector in these new technologies.

Meanwhile, government spending, regulation, and tax hikes have held the broader economy back – to a tepid 2.3% annual real GDP growth rate since the recovery started in mid-2009. The economic drag from forced redistribution and a large misallocation of credit are holding back overall growth.

As QE ends, this misallocation of credit is diminishing and the private sector is expanding. It's time for investors to focus even more on what's been driving equities higher the past five years: the power of entrepreneurship, not QE.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-3 / 9:00 am	ISM Index – Oct	56.1	**56.9**	59.0	56.6
9:00 am	Construction Spending – Sep	+0.7%	**+0.7%**	-0.4%	-0.8%
afternoon	Total Car/Truck Sales – Oct	16.4	**16.3**		16.3
afternoon	Domestic Car/Truck Sales – Oct	13.1	**12.9**		12.9
11-4 / 7:30 am	Int'l Trade Balance – Sep	-$40.2	**-$40.9**		-$40.1
9:00 am	Factory Orders – Sep	-0.6%	**-0.9%**		-10.1%
11-5 / 9:00 am	ISM Non Mfg Index – Oct	58.0	**58.3**		58.6
11-6 / 7:30 am	Initial Claims – Nov 1	285K	**282K**		287K
7:30 am	Q3 Non-Farm Productivity	+1.5%	**1.5%**		2.3%
7:30 am	Q3 Unit Labor Costs	+0.5%	**0.0%**		+0.1%
11-7 / 7:30 am	Non-Farm Payrolls – Oct	234K	**240K**		248K
7:30 am	Private Payrolls – Oct	223K	**235K**		236K
7:30 am	Manufacturing Payrolls – Oct	10K	**14K**		4K
7:30 am	Unemployment Rate – Oct	5.9%	**5.9%**		5.9%
7:30 am	Average Hourly Earnings – Oct	+0.2%	**+0.2%**		0.0%
7:30 am	Average Weekly Hours – Oct	34.6	**34.6**		34.6
2:00 pm	Consumer Credit– Oct	$16.5	**$17.2**		$13.5