

Don't "Dread" The Plow Horse

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“Dread” is the perfect word for what many investors have felt in recent years. Some have experienced it daily since the bottom in March 2009. Some experience it whenever the stock market falls.

But dread really sweeps the markets when there is weak data, a change in fiscal or monetary policy or during market volatility. This means it has cast a pall over markets once or twice a year during the past six years.

Remember the feeling on September 2, 2011, when it was reported that payroll employment in August was a big fat zero? That was dread. Remember when real GDP in the first quarter of 2014 was negative? Dread! The thought of tapering? Dread! Or at least a tantrum.

Well, here we go again, except this time the bar for feeling dread has been lowered drastically. Payroll employment *increased* by 126,000 in March and some analysts reduced real GDP estimates to less than 1% for Q1. You guessed it: dread. Double dread!

There are three things going on here. First, by definition, weekly, monthly, or quarterly data is more volatile than the trend. In the 1980s or 1990s, when trend real GDP growth was 4%, a “slow” quarter was 2%. These days, the Plow Horse economy is expanding at about 2.5% annually. This means a “slow” quarter can show zero growth, or less. This is normal volatility that is mistaken for real economic trouble. In other words, we’ve reached “escape velocity,” it’s just a very low earth orbit.

Second, many analysts and investors mistakenly believe that the current recovery and bull market are “sugar highs.” They still believe easy money and government spending have lifted growth and stock prices. A sugar high, by definition, is temporary.

Third, investors still suffer from Post-Traumatic Stress Disorder brought on by the trauma of the Panic of 2008. No

one alive can remember the last Panic in 1907. As a result, the world seems less stable and every piece of bad news seems like it could be another “black swan” event...even though these things are very rare.

Right now, the Fed seems to be on course for a rate hike this year. At the same time, a series of temporary or one-time events are affecting economic data – weather, the drop in oil prices and labor problems at West Coast ports.

This February was the coldest February for the most people since 1979. The drop in oil prices has undermined investment growth in drilling activity. And, a work slowdown at West Coast ports affected trade data, production schedules, and retail activity.

But none of this changes the course of the economy. It’s still a Plow Horse. Everyone, including the Fed, knows these problems are temporary. Yet, because they bring growth close to zero, and because the economy is already growing slowly, fear builds.

If the US really wants to grow faster, it must start having faith in markets and entrepreneurship, not in government. Government spending and redistribution are undermining growth. Think of it like a jockey – the heavier the jockey, the slower the horse, and the slower the horse, the more dissatisfied investors become.

None of this changes the fact that new technology is raising productivity, and returns to investment, in the private sector. The Great Divide (what some call income inequality) is caused by this dichotomy. The free market economy is booming, while the government-funded side is suffering.

The good news is that investors don’t invest in the aggregate, they invest in the companies that are experiencing higher productivity and profits. As a result, the current wave of fear and dread is just like the last wave. It’s temporary. Don’t dread the Plow Horse. It’s good for investors.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-6 / 9:00 am	ISM Non Mfg Index – Mar	56.5	56.8	56.5	56.9
4-7 / 2:00 pm	Consumer Credit– Feb	\$12.3 Bil	\$14.7 Bil		\$11.6 Bil
4-9 / 7:30 am	Initial Claims – Apr 4	284K	280K		268K
4-10 / 7:30 am	Import Prices – Mar	-0.4%	+0.3%		+0.4%
7:30 am	Export Prices – Mar	-0.2%	-0.1%		-0.1%