

Watch Earnings, Not Fearful Forecasts

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We wish we had a dime for every recession forecast we've heard in the past seven years. Like someone with hypochondria, fearful forecasters feel economic doom and gloom is right around the corner after every dip in economic data or shift in economic policy.

The most recent signs of apocalypse were a weaker than expected US jobs report for May, and then, last week the UK voting to exit the EU. Never mind that neither of these events signals imminent recession. Job data have been weak many times before and, at the risk of beating a dead horse, actually showed a big fat zero for the month of August 2011. Following that report, recession forecasts proliferated...wrongly.

And, "Brexit"? People keep talking about how it will cause a global recession and, for the life of us, we can't find a single mechanism for this to happen. Yes, it might/may/could lead to higher tariffs for trade with the UK. But this represents such a small portion of total world trade, we are at a loss for how this could cause a global recession.

The nationalist tendencies in the vote suggest bailouts and free immigration are under stress. The odds that places like Greece or Italy or Puerto Rico will be left to face their problems on their own, have increased. But that's not bad. Bailouts just lead to "moral hazard" – an incentive to continue self-destructive habits like borrowing and spending and then getting bailed out. If better policy results, not bailing them out is good.

And free immigration, while a huge positive for those who get to escape violence, intolerance and a real lack of freedom, also allows terrorists to move more freely. It also means the very people who could be agents of change in their home country are leaving, not staying, and pushing for change.

There are really only "Four Threats to Wealth Creation." They are, 1 – Monetary Policy, 2 – Tax Policy, 3 – Trade

Policy, and, 4 – Burdensome Spending and Regulation. Getting them right leads to prosperity, getting them wrong leads to recession.

For us to believe in a forecast of recession, those "threats" have to be real. We never change our forecast based on things like the BP Oil Spill, tapering, a few weak data points, Brexit, declining or rising energy prices, a Greek default, Hindenburg Death Crosses, or the multitude of other things that led people to, wrongly, forecast imminent recession in recent years.

The only way we will ever shift our forecast is if one "threat" turns serious (say the Fed lifts rates to 5%, or Donald Trump actually puts 45% tariffs on imports) or multiple "threats" become negative. For example, the Great Depression was caused by mistakes in all four threats to wealth creation.

Right now, the Fed is not tight, trade is more free than it was 20 years ago, tax rates are about where they were in the 1990s, and, yes, spending and regulation are a burden, but one which the private sector has been able to absorb. The US is only growing 2% per year, not 4%. But, given the size of government, 2% growth is actually a positive sign that new technology is able to create enough wealth to offset the burden of government.

In the end, the most significant factor signaling the underlying health of an economy is profits or losses. An economy creating profits is growing. And with second quarter earnings beginning to be released, we expect a much more positive outlook to prevail in the months ahead. As a result, just like we have done consistently over the past seven years, we are dismissing the hypochondriacs' claims that "this time" is the real deal. It's not. Stay calm, and carry on. With profits rising, stocks will follow and optimism will generate profits.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-5 / 9:00 am	Factory Orders – May	-0.8%	-0.4%	-1.0%	+1.8%
7-6 / 7:30 am	Int'l Trade Balance – May	-\$40.0 Bil	-\$39.8 Bil		-\$37.4 Bil
9:00 am	ISM Non Mfg Index – Jun	53.3	53.3		52.9
7-7 / 7:30 am	Initial Claims - Jul 2	268K	269K		268K
7-8 / 7:30 am	Non-Farm Payrolls – Jun	179K	189K		38K
7:30 am	Private Payrolls – Jun	170K	182K		25K
7:30 am	Manufacturing Payrolls – Jun	-1K	-2K		-10K
7:30 am	Unemployment Rate – Jun	4.8%	4.7%		4.7%
7:30 am	Average Hourly Earnings – Jun	+0.2%	+0.2%		+0.2%
7:30 am	Average Weekly Hours – Jun	34.4	34.4		34.4
2:00 pm	Consumer Credit– Mav	\$16.5 Bil	\$15.7 Bil		\$13.4 Bil