

Aug 28, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-30 / 7:30 am	Q2 Real GDP: Preliminary	+3.0%	+3.1%		+2.5%
	Q2 GDP Price Index: Preliminary	+3.3%	+3.3%		+3.3%
8-31 / 7:30 am	Jul Personal Income	+0.5%	+0.7%		+0.6%
	Jul Personal Consumption	+0.8%	+1.0%		+0.4%
	Initial Claims	315K	310K		313K
9:00 am	Aug Chicago PMI	57.0	57.0		57.9
	Jul Factory Orders	+0.3%	-1.2%		+1.2%
9-1 / 7:30 am	Aug Non-Farm Payrolls	+125K	+165K		+113K
	Aug Manufacturing Payrolls	0K	+5K		-15K
	Aug Unemployment Rate	4.7%	4.7%		4.8%
	Aug Average Hourly Earnings	+0.3%	+0.4%		+0.4%
	Aug Weekly Hours	33.9	33.9		33.9
9:00 am	Aug ISM Manufacturing Index	54.9	55.5		54.7
<i>Sometime During</i>	Domestic Auto Sales	5.5M	5.6M		5.6M
<i>the Day</i>	Domestic Light Truck Sales	7.3M	7.3M		7.5M

Policy and Economic Denial

Last week, the world's monetary policy literati attended their annual retreat in Jackson Hole, WY. The markets were waiting for news about the future course of interest rates, but were disappointed.

Nonetheless, there were continued signs that the world's intellectuals remain in serious denial about which policies create wealth and higher standards of living.

Greg Ip reported on "*Jackson Hole's Sleeper Hit*," a speech by Paul Collier of Oxford University titled the "The New Economic Geography." Mr. Collier's speech, according to Ip, "made a persuasive case that nowhere more than in Africa has geography undermined economic progress." Collier theorizes that small, landlocked and resource-poor countries can't keep up and lag behind.

This is not a new theory, but it is still wrong-headed. Freedom, not geography, drives growth and wealth creation. Switzerland, Austria and the Czech Republic are all landlocked and relatively small, but are clearly not poor. On the other hand, many African nations have vast resources.

Another idea reported by Mr. Ip, was shared by Arminio Frago, a former governor of Brazil's central bank. Mr. Frago "noted that Brazil and South Korea once had the same per capita GDP. Now, South Korea's is twice that of Brazil's. By way of explanation, he noted that the average Korean has 13 years of school, while in Brazil the figure is six years."

This idea that Asian economies owe their success to education is also wrong-headed. While education is important for individual success, if you happen to live in a country with high taxes,

Week of September 4, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-6/7:30 am	Q2 Non-Farm Productivity	1.6%	1.6%		1.1%
	Q2 Non-Farm Unit Labor Costs	3.8%	3.8%		4.2%
9:00 am	ISM Non-Manufacturing	55.0	56.0		54.8
9-8/1:00 pm	Consumer Credit	\$6.3B	\$7.5B		\$10.3B

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burdensome regulations, and unstable monetary policy, education and the entrepreneurial spirit are stifled.

But is it really true that, because of geography, African nations have no hope? And is it true that if government educates more people, wealth automatically follows? No. The Wealth of Nations are not determined by geography or education, but freedom. While there are many who want to reject the teachings of Adam Smith, Ludwig von Mises, Frederick Hayek, Milton Friedman, and others, denial does not negate the truth.

Many are also in denial about the underlying strength of the US economy. While some economic data has been weaker than expected, underneath the headlines, the economy remains robust. The housing market has fallen precipitously, but in reality has only returned to the trend that was in place for a decade before the Fed cut interest rates to absurdly low levels between 2002 and 2004. Housing is normalizing, not collapsing. Moreover, initial claims remain low and "core" durable goods orders are still rising at double-digit rates.

This week's economic data is going to be hard for the pessimists to explain. Second quarter real GDP growth will be revised upwardly, consumption data will reflect 3.5% to 4.0% real growth in the third quarter, purchasing managers survey's will reflect continued expansion, and the August employment report is highly likely to accelerate from recent months. In the face of this data, denying a continued recovery will be harder than ever.