

The Big Picture

In the first few days of 2008, despite the holiday, the data flow will be pretty heavy, including the employment report on Friday, which we expect to be slightly on the weak side with just 65,000 new jobs. Nonetheless, we expect 2.5% real GDP growth in Q4, and between 3% and 3.5% growth in 2008.

One of the reasons we remain optimistic about the US economy, despite serious problems at large financial institutions and rising delinquencies for sub-prime borrowers, is the underlying health of productivity. Whatever happens in the next year or two, the U.S. will remain a leader in the technological revolution – a revolution no less significant than the Industrial Revolution of the late 18th and early 19th centuries, when mechanization shifted the locus of wealth creation from agriculture to manufacturing.

This time, the shift is taking place between manufacturing and information technologies. But it's important to be careful about what that displacement means. Total industrial output will keep increasing, even excluding high tech. In fact, it hit an all-time high for the US in 2007. But it represents an ever smaller *share* of total output and an ever smaller share of jobs. The same thing happened during the Industrial Revolution, when farm output soared, prices for food fell and the share of workers in that sector kept falling.

Today, according to the Labor Department, prices for information technology hardware and services are down 90% from 20 years ago. In the past 10 years, the price of personal computing power is down more than 90%.

Meanwhile, Federal Reserve data show the production of computers and peripheral equipment is up 275% and the production of semiconductors and other related equipment production is up almost 1500%. According to the Dallas Federal Reserve Bank, the volume of international telephone calls has increased 20-fold since 1980. In 2006, there were 1.02 billion internet users versus just 2.6 million in 1990.

In a sense, the high-tech revolution and the much earlier Industrial Revolution are two variations of an even longer-term productivity trend that ultimately has its source in the true economic fundamentals of our advanced civilization: property rights, free and enforceable contracts, the rule of law, and a self-restrained population capable of extending these bedrock foundations of capitalism into the future.

When those attributes are in place good things happen despite the ebb and flow of various business cycles. And despite a wave of populism that seems to have its roots in the same transformative upheaval that led to the first wave of populism during the Industrial Revolution, we remain confident that when all is said and done the next generation of Americans, and the ones after that, will live better than their parents.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-31 / 9:00 am	Existing Home Sales - Nov	5.00 Mil	5.07 Mil	5.00 Mil	4.98 Mil-r
1-2 / 9:00 am	ISM Manufacturing Index - Dec	50.5	50.4		50.8
9:00 am	Construction Spending - Nov	-0.4%	-0.4%		-0.8%
1-3 / 7:30 am	Initial Claims - Dec 29	345K	345K		335K
9:00 am	Factory Orders - Dec	+0.4%	+0.3%		+0.5%
<i>Sometime</i>	Domestic Auto Sales - Dec	5.5 Mil	5.1 Mil		5.6 Mil
<i>During the day</i>	Domestic Truck Sales - Dec	6.7 Mil	7.1 Mil		6.8 Mil
1-4 / 7:30 am	Non-Farm Payrolls - Dec	66K	65K		94K
7:30 am	Unemployment Rate - Dec	4.8%	4.8%		4.7%
7:30 am	Manufacturing Payrolls - Dec	-15K	-15K		-11K
7:30 am	Average Hourly Earnings - Dec	+0.3%	+0.3%		+0.5%
7:30 am	Average Weekly Hours - Dec	33.8	33.8		33.8
9:00 am	ISM Non-Man. Index - Dec	53.8	53.1		54.1