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Forecasts, Confidence and Facts

When fearing recession, investors can rely on three different sets of information – forecasts, confidence and facts. These days, forecasts and confidence are both very negative. Recession fears have been on the rise. But, the facts don't back up all these fears. The economy is not contracting.

Many forecasters are predicting recession. Nouriel Roubini is predicting a double-dip (he also predicted one in 2009 and 2010). Also, the Economic Cycle Research Institute (ECRI) claims the US is already "tipping into" a double-dip.

Roubini is worried about debt and Europe. The ECRI has a proprietary model, so we don't really know why they are so negative. Many investors are willing to believe in these "forecasts," because "confidence" has declined.

Not only is consumer confidence dour, global Purchasing Managers Indices – China, Europe, and many regional US surveys – have signaled weakness in recent months. However, these indices are calculated from surveys of purchasing managers. As a result, they are often moved by emotion and fear, and we believe that this is why they have been so weak.

While Europe faces more daunting problems, if we are right, the US will not dip into recession and purchasing manager's surveys will bounce back. This appears to be happening now. The Chicago PMI for September rose to 60.4 and the ISM-manufacturing index for the US rose to 51.6.

We do not live and die by these numbers, we think they sometimes measure confidence and can be misleading, especially when emotions are so volatile.

The "facts" (the real data points) contradict the dour forecasts and the gloomy confidence numbers.

Initial unemployment claims fell 37,000 last week to 391,000, the lowest level in six months. The Labor Department said the drop was due to problems seasonally-adjusting the data, but that explanation is lacking. Unadjusted data show claims were 325,000 last week, the lowest level since May 2008 and well below the 373,000 in the same week last year.

Same-store chain store sales are still consistently above year-ago levels (4.2% according to Redbook Research and 2.7% according to the International Council of Shopping Centers). Rail traffic is up 3.8% from a year ago while hotel occupancy is up 4.1%. And all this data is from the third week of September. Car and truck sales in September are also expected to rise significantly from August.

Yes, employment growth was flat (a whopping zero) in August, but the Verizon strike ended, and right now we expect a 105,000 gain in September private sector payrolls.

None of these numbers are consistent with a recession. Yes, forecasts and confidence are down, but recessions don't happen when the Fed is easy, unless there is a panic. Today, the US is not experiencing a panic – that's what the facts show.

Nonetheless, fear overlooks these facts and fear has driven stock prices to undervalued levels. When the facts win – and that's what we expect – equity markets will get over the fear and move significantly higher.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-3 / 9:00 am	ISM Index – Sep	50.3	50.2	51.6	50.6
9:00 am	Construction Spending - Aug	-0.2%	-0.2%	1.4%	-1.3%
<i>sometime</i>	Domestic Auto Sales - Sep	4.2 Mil	4.3 Mil		4.1 Mil
<i>during the day</i>	Domestic Truck Sales - Sep	5.4 Mil	5.6 Mil		5.4 Mil
10-4 / 9:00 am	Factory Orders - Aug	0.0%	-0.6%		2.4%
10-5 / 9:00 am	ISM Non-Man. - Sep	52.8	51.3		53.3
10-6 / 7:30 am	Initial Claims - Oct 1	411K	413K		391K
10-7 / 7:30 am	Non-Farm Payrolls - Sep	50K	75K		0K
7:30 am	Private Payrolls - Sep	90K	105K		17K
7:30 am	Manufacturing Payrolls - Sep	-3K	-5K		-3K
7:30 am	Unemployment Rate - Sep	9.1%	9.2%		9.1%
7:30 am	Average Hourly Earnings - Sep	+0.2%	+0.2%		-0.1%
7:30 am	Average Weekly Hours - Sep	34.2	34.2		34.2
2:00 pm	Consumer Credit – Aug	\$7.5 Bil	\$9.0 Bil		\$12.0 Bil