

Stay Positive – It’s the Right Thing To Do

The gloom is hard to miss: Libya, oil prices, budget battles, a pull-back in stock prices, or downward revisions to GDP...and about how these will cause weaker growth (or even a recession) ahead.

But the world is always full of potential events that could cause a panic, recession, even a depression. The world is never perfectly “safe.” If nuclear war broke out or if Saudi Arabia got into a nasty civil war, the risks to the US economic environment and the stock market would rise immeasurably.

But, this was as true in the 1980s and 1990s, during one of the greatest booms in US history, as it is today. And, yes, you might say that the risks of these things are higher today given unrest in the Middle East and North Africa, but before you forget, the Cold War was awfully tense, too.

But let’s get real. Any of these events would be completely separate from the economy today, which is being boosted by easy money and an underlying upward trend in technological innovation. In fact, our economy today, because of technology, has a built in shock-absorber. With so much done online, the economy is less susceptible to rising energy prices than it was 30 or 40 years ago.

Every day, we are leaving the prior recession further and further in the rear view mirror. Yes, fourth quarter real GDP growth was revised down to 2.8% at an annual rate (from

3.2%), but the composition of the growth was very favorable for the future.

The pace of inventory accumulation plummeted in Q4. Retailers were caught off guard by the strength of consumer spending, leaving their inventory-to-sales ratio at a record low. Everyone in the production and sales chain needs to rebuild inventories. And the recent surge in just about every manufacturing survey suggests the process is underway.

Real final sales – GDP excluding inventories – exploded in the fourth quarter, growing at a 6.7% annual rate, the fastest pace since 1998. About half of the growth of final sales in Q4 was net exports, which have been very volatile in recent quarters. Looking at the full year of 2010, real GDP expanded at a 2.8% annual rate, the fastest annual growth rate since 2005.

Yes, unemployment remains high, but it is the growth in government that has lifted unemployment. The part of the private sector that remains intact is pulling the economy up at a very respectable rate. We expect it will continue to do so and that corporate profits and the stock market will continue to climb.

Nothing is ever perfect and there are always things that could go wrong, but history suggests the pessimism ramping up these days is just more of the same we have lived with for so long. Stay positive – it’s the right thing to do.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-28 / 7:30 am	Personal Income - Jan	+0.4%	+0.3%	+1.0%	+0.4%
7:30 am	Personal Spending - Jan	+0.4%	+0.4%	+0.2%	+0.7%
8:45 am	Chicago PMI - Feb	67.5	70.3	71.2	68.8
3-1 / 9:00 am	ISM Index - Feb	60.8	60.7		60.8
9:00 am	Construction Spending - Jan	-0.4%	-0.9%		-2.5%
afternoon	Dom. Auto & Truck Sales - Feb	9.6 Mil	9.6 Mil		9.5 Mil
3-3 / 7:30 am	Q4 Non-Farm Productivity	+2.4%	+2.8%		+2.6%
7:30 am	Initial Claims - Feb 26	395K	388K		391K
9:00 am	ISM Non-Man. - Feb	59.2	59.8		59.4
3-4 / 7:30 am	Non-Farm Payrolls - Feb	190K	255K		36K
7:30 am	Private Payrolls - Feb	200K	275K		50K
7:30 am	Manufacturing Payrolls - Feb	25K	38K		49K
7:30 am	Unemployment Rate - Feb	9.1%	9.0%		9.0%
7:30 am	Average Hourly Earnings - Feb	+0.2%	+0.2%		+0.4%
7:30 am	Average Weekly Hours - Feb	34.3	34.3		34.2