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Soft Patch Already Fading

For the record, in our professional lives, we don't really care that much about Republicans or Democrats. Our constituency is the investor. But everything is politicized. Conservatives get mad at us because we are optimistic about the economy – they want to say Obama is hurting it. Liberals get mad because we think investors are better served by a much smaller government – they want a bigger one.

We are in “no-man’s-land,” taking fire from both sides. Some argue the end of stimulus is certain death for the economy. Others argue government growth is causing the next great depression. Anyone in the middle (like us), that says, “yes, the economy would be more robust (and unemployment lower) if we had less government, but, the US economy is still growing anyway” is a target for politicized anger.

And now that a “Soft Patch” in economic data and some softness in stock prices have developed, the political rhetoric has ramped up. We think it's all temporary, but that suits almost no one in the political sphere. Investors who let politics interfere with their economic or investing thought-process are making a grave mistake. We think the pessimism is overdone and this is a great buying opportunity.

Take a deep breath and start looking for signs of economic life. Start looking at [Calafia Beach Pundit](#), a blog written by a fabulous economist, Scott Grannis. Scott has been optimistic for the past two years and recently highlighted commercial and industrial lending, what he calls “a good measure of bank

lending to small and medium-sized businesses.” These loans expanded for the seventh straight month in May and are up 12.2% at an annual rate in the past three months.

How about tax receipts? Up 19.2% in May compared to a year ago, despite a cut in payroll tax rates. Net individual income tax payments were up 55% versus May 2010 – a burst due to a sharp rise in “non-withheld” payments (final settlement for taxes owed for 2010). But, according to the Congressional Budget Office, *withheld* receipts – for income and payroll taxes combined – were still up 10% versus a year ago.

Meanwhile, exports hit a record high in April, up 18.8% versus year-ago levels. And aggregate hours worked (total employment times the length of the workweek) are up 3.5% at an annual rate during the three months ending in May. Commercial construction expanded for the third straight month in April. And this week, we'll get a key report on May retail sales. Weak auto sales will drag the top-line number down, but chain store sales were up in May and we expect ex-auto retail sales to be up about 8% above May 2010 levels.

None of this fits the dour, and politically-hyped, forecasts of economic Armageddon so prevalent these days. The soft patch is nothing more than a temporary and superficial blow to the economy. If it was anything more than Japan's disasters and the tornado season, the good numbers we've been seeing lately – on lending, tax revenue, trade, hours-worked, ex-auto sales, and commercial building – wouldn't be happening.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-14 / 7:30 am	Retail Sales - May	-0.5%	-0.4%		+0.5%
7:30 am	Retail Sales Ex-Autos - May	+0.2%	+0.4%		+0.6%
7:30 am	PPI - May	+0.1%	+0.1%		+0.8%
7:30 am	"Core" PPI - May	+0.2%	+0.2%		+0.3%
7:30 am	Business Inventories - Apr	+0.9%	+0.9%		+1.1%
6-15 / 7:30 am	CPI - May	+0.1%	+0.1%		+0.4%
7:30 am	"Core" CPI - May	+0.2%	+0.2%		+0.2%
7:30 am	Empire State Mfg Index - Jun	12.0	13.0		11.9
8:15 am	Industrial Production - May	+0.2%	+0.3%		0.0%
8:15 am	Capacity Utilization - May	77.0%	77.1%		76.9%
6-16 / 7:30 am	Housing Starts - May	0.545 Mil	0.565 Mil		0.523 Mil
7:30 am	Initial Claims - June 11	420K	420K		427K
9:00 am	Philly Fed Survey - Jun	7.0	1.8		3.9
6-17 / 8:55 am	U. Mich. Consumer Sentiment	74.0	74.5		74.3
9:00 am	Leading Indicators - May	+0.3%	+0.2%		-0.3%