

## Despite Naysayers, The Recovery Is Real

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The US economy is far from perfect. Economic growth has been positive, but mediocre over the past year and a half. The unemployment rate, at 8.3%, is still elevated, higher than it ever was from 1984 through 2008.

As we have said many times before, a better policy mix – including less government spending, less political allocation of capital, fewer regulations, and better Fed policy – would have created a more robust recovery, lower unemployment and higher stock prices. When it comes to bashing government policies, from either party, we do not take a back seat to anyone.

What we can't do, because it makes no sense, is allow our dislike of current government policy to influence our view of the actual economic data. There really is a recovery underway. If it quacks like a duck...it must be a duck.

Real GDP has accelerated in each of the past three quarters, private sector jobs have expanded for 23 consecutive months, industrial production is up, durable goods orders are up, car sales are up, and profits at S&P 500 companies are at record highs.

Despite all this positive news, some analysts dig deeper and deeper into the data to find some nugget to justify doom and gloom. Lately, these analysts have focused on the labor force participation rate. They claim that government is manipulating the labor force data to show a lower unemployment rate. They say unemployment is really 11%.

Think about this for a moment. At the bottom of the brutal 1981-82 recession, in late 1982, the unemployment rate peaked at 10.8%. To go along with this 10.8% unemployment rate, real GDP was down 2.2% from where it was in early 1981; manufacturing production was down 8.2%, the ISM Manufacturing index finished 1982 at 42.8 (a sign of steep contraction at US factories), and S&P 500 earnings were down 20% from the start of the recession.

The economy today looks way better than that. Real GDP has grown for 10 consecutive quarters, while the Fed's measure of manufacturing output is up 15%. The ISM index is at 54.1 and S&P 500 earnings are up 67% since mid-2009.

It's important to recognize that these data are mostly from sources not controlled by the executive branch of the federal government. The figures on manufacturing production come from the Federal Reserve, which right now is pre-disposed to loosen policy and therefore has a policy interest in holding back on good news. The ISM data as well as corporate profit numbers come from the private sector.

In other words, the claim that the labor market is as bad today as it was in late 1982 is just not consistent with a wide array of other data that's out there, including figures outside the control of those who could theoretically be manipulating them for political gain.

Once again, we fully recognize this is no 1983-84 boom, when real GDP grew 6.6% per year for two years and the jobless rate fell 3.5% in only 21 months.

But, with one big exception, the economy is increasingly clicking on all cylinders. Adjusted for inflation, personal spending is up, business investment is up, and – *finally* – home building is growing as well.

January data from automakers show sales are up 53% from the bottom in early 2009. If the economy is so bad and credit is impossible to get, how is it possible for Americans to be driving so many cars and trucks off dealer lots?

And notice that the recent improvement in job creation comes several months after we hit an upward inflection point in home building, which is a labor intensive industry.

The major outlier is government, where purchases in 2011 were down the most in more than forty years. (For GDP purposes, transfer payments are not counted as government spending.)

Ultimately, we believe most of the disbelief is driven by politics. Back in 1992, President George H. W. Bush was never given credit for a recovering economy by those who wanted to see someone else in the White House. Now, from the opposite side of the political spectrum, there are those who want to see President Obama replaced so badly that they refuse to believe signs of improvement no matter how clear.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-7 / 2:00 pm	Consumer Credit - Dec	+\$7.0 Bil	<b>+\$10.0 Bil</b>		+\$20.4 Bil
2-9 / 7:30 am	Initial Claims - Feb 4	370K	<b>369K</b>		367K
2-10 / 7:30 am	Int'l Trade Balance - Dec	-\$48.5 Bil	<b>-\$46.3 Bil</b>		-\$47.8 Bil
8:55 am	U. Mich. Consumer Sentiment	74.5	<b>75.0</b>		75.0