First Trust
Monday Morning OUTLOOK
November 18th, 2013

630-517-7756 • www.ftportfolios.com

Steady As She Goes

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

Maybe the best thing about the Plow Horse Economy is that it doesn't give up. It keeps on plowing like a good plow horse should. Don't get us wrong, we watch all the data and take the gait of our horse seriously. Every once in a while there is a weak step, but almost immediately there is a strong one to offset it. All systems look like a go.

For years now, predictions that the Plow Horse was headed for the glue factory have made the headlines, but with the Dow close to 16,000 and the S&P 500 near 1,800, those predictions look tired and confused. We suspect that the ebb and flow of positive and negative economic data, established over the past few years, will continue.

For example, two weeks ago the government reported that real GDP grew at a 2.8% annual rate in the third quarter, the fastest pace in a year and a half. That data will most likely be revised up slightly to a 3% pace, but the upward revisions are coming from inventory accumulation. This is likely temporary, which means real GDP growth may slow in the fourth quarter to 1% growth or possibly less.

In other words, the "average" growth rate of the economy in the second half of 2013 will still be about 2%. Consumer spending and business investment remain on a plow horse course as inventories bounce around.

The labor market seems to be confirming this story of underlying economic health. In spite of government shutdowns and the Sequester, nonfarm payrolls increased 204,000 in October.

Meanwhile, unemployment claims suggest continued job gains ahead. Claims plummeted unexpectedly in September and then spiked higher in October. Both sharp movements were caused by computer upgrades in California and Nevada. As a result, instead of using the conventional four-week moving average for claims, we've been looking at a 10-week window, which shows a 333,000 average, about 10% below the same ten weeks in 2012.

The week ahead looks to provide more fodder for all sides of the growth debate. Overall retail sales should be roughly unchanged in October, but up once again excluding the volatile auto sector. Existing home sales probably fell, but the Philadelphia Fed, a measure of manufacturing sentiment in that region, probably rose. Meanwhile, inflation will continue its (temporary) hibernation.

The Plow Horse economy is the result of two competing forces. On one side is technology and entrepreneurship (Fracking, 3D-printing, the Cloud, Smartphone, Apps…). On the other side is the burden of big government, which has been building since 2000 under both Republican and Democrat administrations and Congresses. The combination of positives and negatives nets to about 2% real GDP growth, but a very positive profit outlook.

We have expected an acceleration of economic growth for the past couple of years, and while it hasn't happened yet, we still expect it. Loose monetary policy will eventually gain more traction as velocity picks up. There are record levels of cash on corporate books, profits are at record levels, consumer debt burdens are historically low, and the housing recovery still has a way to go.

The Bears keep predicting a correction in equity markets, and inevitably it will happen. But no one knows when…no one. When, and if, it does, we will be buyers. A year from now, we expect the economy will be growing a bit faster and equities will be much higher.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-20 / 7:30 am	CPI – Oct	0.0%	**0.0%**		+0.2%
7:30 am	"Core" CPI – Oct	+0.1%	**+0.1%**		+0.1%
7:30 am	Retail Sales – Oct	+0.0%	**0.0%**		-0.1%
7:30 am	Retail Sales Ex-Auto – Oct	+0.1%	**+0.3%**		+0.4%
9:00 am	Business Inventories – Sep	+0.3%	**+0.4%**		+0.3%
9:00 am	Existing Home Sales – Oct	5.150 Mil	**5.100 Mil**		5.290 Mil
11-21 / 7:30 am	Initial Claims – Nov 16	335K	**336K**		339K
7:30 am	PPI – Oct	-0.2%	**-0.2%**		-0.1%
7:30 am	"Core" PPI – Oct	+0.1%	**+0.1%**		+0.1%
9:00 am	Philly Fed Survey – Nov	16.0	**20.7**		19.8