First Trust
Monday Morning OUTLOOK
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Better Policies on the Horizon

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Some say we have a Plow Horse Economy because economic growth is always slow after a financial crisis. But the real reason is that politicians from both major parties keep throwing more government "solutions" at problems. This started well before President Obama took office.

The Bush Administration, and a spend-friendly Congress, pushed temporary "stimulus" spending in 2001 and then followed Larry Summers' Keynesian advice in early 2008 and passed tax credits and even more stimulus. President Bush said, "I've abandoned free market principles to save the free market system" in an explanation of TARP. Then, we got more "stimulus" in 2009. Don't forget quantitative easing, either.

We believe this is the reason real GDP growth during the current recovery, averaging 2.2% per year, is the slowest five-year period of growth without a recession in the last 100 years.

What's interesting is that we can divide this economy into two parts – a "Race Horse" exists in many sectors, like fracking, and high-tech; like 3-D printing, the cloud, smartphones and apps. Government did not drive these processes and new techniques; free markets did.

But, where government interfered in the most overt ways – in labor markets and in housing – the recovery has been much slower. And government is using the Amazon model of "spend to grow" in alternative energy production, hoping that losses today equal benefits tomorrow. This may be true, but at least Amazon is spending its own money and the stock market votes every day on whether it is a good idea or not.

To some, what we have just written sounds overly political. But we are actually thinking economically. We believe in small government because smaller government creates a more dynamic private sector with higher standards of living.

And, judging by the evidence, the American people are beginning to shift toward this view again. A recent Politico poll, weighted equally between Republicans and Democrats, showed 64% think things in the US feel "out of control." Other polls show both the President and Congress with extremely low popularity right now.

It's a 1970s vibe! Many Americans worry their kids will be worse off. They fret about ISIS and Ebola. Most Democrat candidates are allergic to President Obama showing up in their states or districts. The same was true back in 2006 when Republicans distanced themselves from President Bush.

Obviously, problems often stretch out longer than we think they should. But, it seems clear Americans are ready for a change, and when this happens, politicians start moving that way even if they don't have strong ideologies. As an example, some are campaigning as "Clinton Democrats" these days – meaning that tax cuts and more moderate, even free market, policies aren't off the table.

We aren't projecting another Ronald Reagan. But a shift away from supporting "government solutions" to all problems seems more likely these days.

Next weeks' mid-term elections are the first step, but major changes won't take place until after the 2016 presidential election. Already there is more centrism on economics.

Years of sluggish growth have weakened the "status quo" faction inside the GOP. No wonder two of the GOP's toughest Senate races this year are in Kentucky and Kansas where long-term incumbent Senators seem out of touch. And for Democrats, the burden of majority means they have to defend more incumbents – a tough row to hoe in a 1970s-like environment.

What this means is that a Republican president in 2016 would likely use special budget procedures to reform Medicare and Medicaid in addition to improving the tax system for both companies and individuals. But, right now a Democrat president looks more probable. And in 2017-18, with the recovery aging, she would likely support moves to reform the corporate tax code, plus reforming Obamacare with market-friendly changes like health savings accounts.

In other words, the next president is likely to be more market friendly than the current one. The American people won't have it any other way. Look for evidence of this shift as the results of the mid-term elections pour in next week.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-28 / 7:30 am	Durable Goods – Sep	+0.5%	**-0.4%**		-18.4%
7:30 am	Durable Goods (Ex-Trans) – Sep	+0.5%	**+0.5%**		+0.4%
9:00 am	Consumer Confidence – Oct	87.0	**87.5**		86.0
10-30 / 7:30 am	Initial Claims – Oct 25	285K	**282K**		281K
7:30 am	Q3 GDP Advance Report	3.0%	**2.9%**		4.6%
7:30 am	Q3 GDP Chain Price Index	1.4%	**1.5%**		2.1%
10-31 / 7:30 am	Personal Income – Sep	+0.3%	**+0.3%**		+0.3%
7:30 am	Personal Spending – Sep	+0.1%	**+0.1%**		+0.5%
8:45 am	Chicago PMI	60.0	**61.3**		60.5
8:55 am	U. Mich Consumer Sentiment- Oct	86.4	**86.0**		86.4