

Unfortunately, Still a Plow Horse

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Yes, Friday's report of the Q2 real GDP growth rate was a little faster than average, but, with one exception, it remains the same Plow Horse it's been for the past eight years. The US economy has grown at an annual rate of 2.1% since the economic recovery started in mid-2009. So the second quarter 2.6% rate was a little faster, but not much – average it out with Q1, which was 1.2% and you get 1.9%.

The normal July release of the government's annual revisions to GDP data for the past few years didn't amount to much, either. The overall size of the economy – real GDP – was 0.2% larger in the first quarter than previously estimated. Not much change at all, with real GDP growing a little faster than previously estimated in 2014-2015 and slightly slower in 2016.

The best news in the Q2 report was that all three major parts of business fixed investment - business investment in equipment, intellectual property, and commercial construction - grew in both quarters so far this year. We don't want to read too much into this, but an acceleration in business investment may reflect the tightening of the labor market.

Businesses have been able to meet demand by adding jobs to this point in the recovery. But with unemployment

below 4.5% and unfilled, but open, jobs nearing 6 million, expanding capacity may finally require more structures and machines, not just better technology.

But let's not get too excited about this, at least not yet. The same pattern asserted itself for five straight quarters back in 2011-12 as well as three consecutive quarters in 2013-14 without leading to persistent gains. It could have more to do with a renewed spurt in energy investment as fracking restarted in recent quarters. In other words, for the time being it's not enough evidence to say that Plow Horse growth is breaking from a trudge to a gallop.

There have been some improvements in the regulatory environment and growth in government spending and employment has leveled off. But lower tax rates and free-market health care reforms are still waiting in the wings. And while the Fed is raising rates and will soon shrink its balance sheet, it is far from being tight.

In other words, the odds of recession remain very low, but any acceleration in growth (and there is plenty of room for improvement) will require both Congress and the White House to get their acts together.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-31 / 8:45 am	Chicago PMI	60.0	63.4	58.9	65.7
8-1 / 7:30 am	Personal Income – Jun	+0.4%	+0.4%		+0.4%
7:30 am	Personal Spending – Jun	+0.1%	+0.1%		+0.1%
9:00 am	ISM Index – Jul	56.4	56.6		57.8
9:00 am	Construction Spending – Jun	+0.4%	+0.4%		0.0%
<i>Afternoon</i>	Total Car/Truck Sales – Jul	16.8 Mil	16.8 Mil		16.4 Mil
<i>Afternoon</i>	Domestic Car/Truck Sales – Jul	13.0 Mil	13.1 Mil		12.8 Mil
8-3 / 7:30 am	Initial Claims – Jul 29	242K	244K		244K
9:00 am	ISM Non Mfg Index – Jul	56.9	56.9		57.4
9:00 am	Factory Orders – Jun	+3.0%	+2.6%		-0.8%
8-4 / 7:30 am	Non-Farm Payrolls – Jul	180K	174K		222K
7:30 am	Private Payrolls – Jul	180K	167K		187K
7:30 am	Manufacturing Payrolls – Jul	5K	7K		1K
7:30 am	Unemployment Rate – Jul	4.3%	4.3%		4.4%
7:30 am	Average Hourly Earnings – Jul	+0.3%	+0.2%		+0.2%
7:30 am	Average Weekly Hours – Jul	34.5	34.5		34.5
7:30 am	Int'l Trade Balance – Jun	-\$44.5 Bil	-\$44.5 Bil		-\$46.5 Bil