

## The Gift That Keeps Giving

The US economy is not in an economic boom, but growth has been consistently faster than during the Plow Horse phase from mid-2009 through the end of 2016. Real GDP has grown at a 2.6% annual rate since the start of 2017 versus 2.2% beforehand.

But most analysts expect a noticeable slowdown in 2020; not a recession, but slimmer 1.8% real GDP growth (Q4/Q4). This is an even steeper decline than the 2.2% consensus forecast for 2019 that analysts made a year ago. By contrast, we're forecasting real GDP growth in the 2.5 - 3.0% range in 2020.

We're not trying to be contrarian, and don't think that label applies to us. We're not just saying "up" because others are saying "down." The reason our forecast is different is that most analysts are Keynesians, and we're supply-siders; they follow money, we follow incentives.

As a result, they think the extra economic growth related to the tax cut was a temporary phenomenon, due to putting more money in the pockets of consumers and businesses. Instead, we're focused on what the changes to the tax law do to the incentives to work, invest, and run businesses more efficiently.

That last part is particularly important given that the incentive effects of the Trump tax cut were focused so

heavily on businesses. Some analysts have claimed those tax cuts didn't work, noting that business investment in plant and equipment hasn't boomed.

But the way businesses operate has changed substantially over recent decades. The old way of raising worker productivity was by giving them more equipment. Now companies push the work, the decisions, to the consumer by using Apps. Instead of buying a shiny new computer, they figure out how to use computers and networks most effectively. No wonder corporate profits have remained at such high levels.

This may also explain why productivity growth has accelerated in spite of lukewarm growth in the dollar value of business investment. Productivity growth is normally strong early in an economic expansion, and then fades later on. For example, productivity grew 3.7% in the first year of the current expansion. In the next 6½ years it grew at a very weak 0.7% annual rate (through the end of 2016). Since then, productivity is up at a much more respectable 1.4% rate.

The economic expansion isn't going to last forever, but look for the US economy to continue to outperform the doubters until the doubters realize their model of how the economy works has a fundamental flaw.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-14 / 7:30 am	CPI – Dec	+0.3%	<b>+0.3%</b>		+0.3%
7:30 am	“Core” CPI – Dec	+0.2%	<b>+0.2%</b>		+0.2%
1-15 / 7:30 am	PPI – Dec	+0.2%	<b>+0.2%</b>		0.0%
7:30 am	“Core” PPI – Dec	+0.2%	<b>+0.2%</b>		-0.2%
7:30 am	Empire State Mfg Survey – Jan	3.6	<b>3.6</b>		3.5
1-16 / 7:30 am	Initial Claims – Jan 11	217K	<b>214K</b>		214K
7:30 am	Retail Sales – Dec	+0.3%	<b>+0.3%</b>		+0.2%
7:30 am	Retail Sales Ex-Auto – Dec	+0.5%	<b>+0.4%</b>		+0.1%
7:30 am	Import Prices – Dec	+0.4%	<b>+0.3%</b>		+0.2%
7:30 am	Export Prices – Dec	+0.2%	<b>+0.2%</b>		+0.2%
7:30 am	Philly Fed Survey – Jan	3.1	<b>2.8</b>		0.3
9:00 am	Business Inventories – Nov	-0.1%	<b>-0.2%</b>		+0.2%
1-17 / 7:30 am	Housing Starts – Dec	1.380 Mil	<b>1.400 Mil</b>		1.365 Mil
8:15 am	Industrial Production – Dec	-0.1%	<b>-0.3%</b>		+1.1%
8:15 am	Capacity Utilization – Dec	77.1%	<b>77.0%</b>		77.3%
9:00 am	U. Mich Consumer Sentiment- Jan	99.3	<b>99.8</b>		99.3