

Nov 6, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-7 / 2:00 pm	Sept Consumer Credit	\$6.0B	\$1.2B		\$5.0B
11-9 / 7:30 am	Oct. Import Prices	-0.8%	-0.6 %		-2.1%
	Oct Export Prices	-0.1%	+0.3%		-0.5%
	Nov Initial Claims	315K	318K		327K
	Sept International Trade	-\$65.7B	-\$68.6B		-\$69.9B

Uncertainty Everywhere

Just when the hard landing crowd was patting itself on the back, early releases for October point to continued strong growth. And just when conventional wisdom believed that Democrats had a lock on winning control of the US House of Representatives, the polls are narrowing rapidly.

The Institute for Supply Management reported that its non-manufacturing (or services sector) index increased to 57.1 in October – the strongest reading in 5 months – and a sharp jump from 52.9 in September. The October jobs report was also much stronger than expected. Despite a headline reading of 92,000 new jobs, revisions added a net total of 139,000 to payrolls to August and September, the household survey showed 437,000 new jobs, the unemployment rate fell to a new cycle low of 4.4%, and average hourly earnings increased 0.4%.

Both of these surprisingly strong reports came on the heels of a slew of weaker releases, Real GDP grew just 1.6% in the third quarter, industrial production declined 0.6% in September, the ISM manufacturing index fell to 51.2, non-farm productivity was reported as unchanged in the July-September quarter (even though manufacturing productivity was up 5.9%), and car sales were weak last month.

The end result of these mixed reports is confusion about the economy's future. However, the CRB Commodity Spot Price Index hit another all-time high last week and corporate profits in the third quarter also rose to a record high – hardly evidence of a severe slowdown.

In addition, commercial and industrial loans are up 10% at an annual rate in the past three months – which deflects arguments that the Fed has squeezed liquidity.

Despite some backsliding in the equity market, stocks are still up strongly since mid-July. And while the yield curve is slightly inverted, the evidence suggests that this is because of hedge fund activity or foreign demand, not an excessively tight monetary policy. The federal funds rate is still below its late 1990s average and real interest rates are nowhere near levels associated with past recessions. With tax rates still low and the Fed not too tight, we forecast a rebound in real GDP growth to the 3% to 4% range late this year and in 2007.

On the election front, polls tabulated at www.RealClearPolitics.com show a significant rebound for Republicans in the past few days. The last three published generic congressional vote polls, which ask people if they will vote for a Republican or Democrat, show a 6% advantage for Democrats. This is a huge improvement for Republicans who lagged by an average of 15% in 29 different polls during October.

Republicans typically lag in these polls by about the same amount as the current spread. As a result, it appears that the election has tightened considerably. A walk in the park for Democrats, as many pollsters predicted, is far from a done deal.

No matter where we turn, uncertainty reigns. Some of that uncertainty will be erased on Tuesday, some will stay with us for a while longer.

Week of November 13, 2006

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-14 / 7:30 am	Sept Business Inventories	+0.6%	+0.6%		0.6%
	October PPI	-0.4%	-0.3%		-1.3%
	October "Core" PPI	+0.2%	+0.3%		+0.6%
	Oct Retail Sales	+0.1%	-0.1 %		-0.4%
	Oct Ex-Auto Retail Sales	+0.1%	0.0%		-0.5%
11-15 / 7:30 am	Empire State Mfg Survey	18.1	18.1		22.9
11-16 / 7:30 am	October CPI	-0.3%	-0.2%		-0.5%
	Oct "Core" CPI	+0.2%	+0.3%		+0.2%
8:15 am	October Industrial Production	+0.2%	+0.1%		-0.6%
11:00am	Philadelphia Fed Survey	6.8	8.4		-0.7
11-17 / 7:30 am	Oct Housing Starts	1700K	1740K		1772K

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