First Trust
Monday Morning OUTLOOK

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Good News is Good News

A year ago, conventional wisdom became convinced that a stock market correction was really the beginning of a "bear market," and a sure sign that recession was on its way. Oops. Conventional wisdom was wrong again.

The Pouting Pundits still talk about ISM surveys being weak, and fret that a trade war is brewing. But, the S&P 500 is up 25% this year, and Friday's report on the labor market ought to be the last nail in the coffin for the idea that the US economy is in trouble.

Nonfarm payrolls grew 266,000 in November, easily beating consensus expectations, and exceeding even the most optimistic forecast from any economics group. Meanwhile job growth was revised up for prior months, bringing the net gain to more than 300,000.

Yes, the end of the UAW strike obviously boosted these numbers; payrolls in the manufacturing of motor vehicles and parts fell 43,000 in October and then rebounded 41,000 in November. That net turnaround of 84,000 accounted for most of the acceleration of overall payroll growth, which went from 156,000 in October to 266,000 in November. But the average gain in the past two months was 211,000 – very impressive. Especially with the unemployment rate below the 4.2% rate the Fed thinks our economy can sustain.

The jobless rate dropped back down to 3.5% in November, tying the lowest level in 50 years. The U-6 unemployment rate, which some call the "true" unemployment rate (it includes discouraged workers and those who work part-time but say they want full-time jobs), fell back down to 6.9%, tying the lowest mark since the peak of the internet boom in 2000.

Recent economic reports have also made a huge difference for fourth quarter GDP projections. In mid-November, the highly respected Atlanta Fed's "GDP Now" model was projecting real GDP growth at an annual rate of only 0.3% in Q4, which would have been the slowest growth for any quarter since 2015.

The GDP Now model is a solid model, but we surmised at the time that it was putting way too much weight on the ISM Manufacturing reports, which were being held down by negative sentiment about the economy rather than a slowdown in the actual pace of growth. Instead, we stuck to our view that the economy was growing at about a 3.0% pace in Q4.

We still have plenty of economic reports to go before we see the first official glimpse on Q4 real GDP at the end of January. But the most recent run of the Atlanta Fed's model now says 2.0%, not 0.3%. Getting closer!

It's no wonder that the stock market liked what it saw on Friday, a robust job market and healthy economy, and lifted the S&P 500 to its second highest close on record, just off the November 27 all-time high. Only sixteen trading days remain this year (including today) and, as of Friday's close, the S&P 500 is only 3.3% off our target of 3,250 for year-end.

And it's not hard to find the catalysts that could help it get there, like a meeting of the minds between the Trump Administration and China, or one between Speaker Pelosi and the Trump Administration on the updated version of NAFTA. Then again, even without these agreements, the US economy is still in the longest sustained period of economic growth on record, while record high corporate profits continue to support a bull market that is almost 11-years old.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-10 / 7:30 am	Q3 Non-Farm Productivity	-0.1%	**+0.3%**		-0.3%
7:30 am	Q3 Unit Labor Costs	3.4%	**2.9%**		3.6%
12-11 / 7:30 am	CPI – Nov	+0.2%	**+0.2%**		+0.4%
7:30 am	"Core" CPI – Nov	+0.2%	**+0.2%**		+0.2%
12-12 / 7:30 am	Initial Claims – Dec 8	214K	**214K**		203K
7:30 am	PPI – Nov	+0.2%	**+0.2%**		+0.4%
7:30 am	"Core" PPI – Nov	+0.2%	**+0.1%**		+0.3%
12-13 / 7:30 am	Retail Sales – Nov	+0.4%	**+0.4%**		+0.3%
7:30 am	Retail Sales Ex-Auto – Nov	+0.3%	**+0.4%**		+0.2%
7:30 am	Import Prices – Nov	+0.2%	**0.0%**		-0.5%
7:30 am	Export Prices – Nov	+0.1%	**0.0%**		-0.1%
9:00 am	Business Inventories – Oct	+0.2%	**+0.2%**		0.0%