

## The Week Ahead

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In spite of woeful prognostications to the contrary, the US economy seems to be wearing Kevlar. Rate hikes, tariffs, Turkey, you name the fear, the economy remains unscathed. Case in point, through all the supposed turmoil, the U.S. grew at a 4.2% annual rate in the second quarter and looks set for a similar pace in Q3.

We get a boatload of economic data this week, including the ISM indexes for both manufacturing and services, as well as data on construction, auto sales, and, of course, Friday's employment report. While we expect the data to continue painting a picture of robust economic growth, data are, as we all know, volatile.

While today's ISM Manufacturing report was white-hot – the highest so far this expansion – we also expect gains in the Services index later this week, and car and light truck sales to be so-so, clocking in at a 16.8 million annual pace in August versus a 17.3 million pace in the past year.

The one piece of data we think could disappoint is the headline employment number out Friday. In recent years, August employment data have been prone to disappointment, with the initial report leading to unnecessary fears of an economic slowdown.

Back in September 2011, for example, we got a payroll report that showed zero nonfarm payroll growth for August. That's right: a big fat goose-egg. The S&P 500 fell 2.5%. Some even talked openly of entering the long-awaited "double-dip" recession. But just two months later, the report was upgraded to 104,000.

Now, after multiple annual revisions, the government says 112,000 jobs.

And 2011 wasn't an anomaly. August payroll growth has fallen short of consensus expectations for seven years in a row. And just about every time, the pouting pundits have taken it as a bearish economic signal.

The jobless rate shows some seasonal distortions, as well. The unemployment rate finished 2009 at 9.9%. Since then it's dropped to 3.9%, down 6.0 points, or an average of 0.06 points per month. So take any calendar month over the past 8½ years and the unemployment fell on average 0.5 points. But for August, the unemployment rate has dropped a grand total of only 0.1 point – we're not sure why, but that's the data.

As a result, our forecast is that payroll growth for August will be a little softer than the consensus expects (and will be revised higher in the months ahead) and the jobless rate is going to stay unchanged at 3.9%, versus consensus expectations of a drop to 3.8%.

The key thing to remember is that if we're right – and, obviously, we hope the report is better than we expect! – you shouldn't get caught up in any pessimistic story you hear from the doomsayers. For the time being, the US has strengthened from a Plow Horse Economy to the Kevlar Economy, and none of these reports are likely to change that one iota.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-4 / 9:00 am	ISM Index – Aug	57.6	57.9	61.3	58.1
9:00 am	Construction Spending – Jul	+0.4%	+0.5%	+0.1%	-0.8%
Afternoon	Total Car/Truck Sales – Aug	16.8 Mil	16.8 Mil		16.7 Mil
Afternoon	Domestic Car/Truck Sales – Aug	13.1 Mil	13.0 Mil		12.9 Mil
9-5 / 7:30 am	Int'l Trade Balance – Jul	-\$50.2 Bil	-\$50.2 Bil		-\$46.3 Bil
9-6 / 7:30 am	Initial Claims – Aug 29	213K	212K		213K
7:30 am	Q2 Non-Farm Productivity	+2.9%	+3.1%		+2.9%
7:30 am	Q2 Unit Labor Costs	-0.9%	-1.0%		-0.9%
9:00 am	ISM Non Mfg Index – Aug	56.8	56.9		55.7
9:00 am	Factory Orders – Jul	-0.6%	-0.4%		+0.7%
9-7 / 7:30 am	Non-Farm Payrolls – Aug	195K	166K		157K
7:30 am	Private Payrolls – Aug	194K	163K		170K
7:30 am	Manufacturing Payrolls – Aug	24K	21K		37K
7:30 am	Unemployment Rate – Aug	3.8%	3.9%		3.9%
7:30 am	Average Hourly Earnings – Aug	+0.2%	+0.2%		+0.3%
7:30 am	Average Weekly Hours – Aug	34.5	34.5		34.5