First Trust
Monday Morning OUTLOOK
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A Healthy US Consumer

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News of the consumer's death has traveled fast.

It's not hard to find stories of beleaguered and battle-wearied consumers. Famed retail giants are slashing revenue and earnings outlooks, creating worries about retail space in general and malls in particular. Auto sales are slowing, auto loan delinquencies are rising, while delinquent student loans create their own paroxysms of fear in analyst minds.

But, just as with many negative forecasts over these past eight years, the news of the consumer's death is greatly exaggerated. On average, consumers are in good shape.

The best news for the consumer is that the labor market continues to heal. At 4.4%, the unemployment rate is the lowest since 2007. Some watch what they call the "true" unemployment rate, which includes discouraged workers as well as part-timers who claim they'd prefer full-time jobs – that's 8.6%, also the lowest since 2007. Meanwhile, wages and salaries are up 5.5% in the past year, outstripping inflation.

Meanwhile, consumer debt burdens are down. The Federal Reserve keeps track of the "financial obligations ratio," which measures the share of after-tax income consumers need to meet monthly debt service payments plus regular (non-debt) payments such as renting a home, leasing a car, property taxes, and homeowners' insurance. At 15.4% of after-tax income, these payments are near the lowest since the early 1980s.

Yes, serious (90-days or more) auto loan and student loan delinquencies are at record highs. But serious delinquencies, for all loans – including auto and student loans, plus mortgages, home-equity, credit card, and other consumer debts are down substantially in the past seven years, to $415 billion at the end of 2016 versus $1.04 trillion at the end of 2009.

Don't get us wrong. The rapid and persistent rise in student loan debt is a problem. Some indebted students are finding they must put off borrowing to buy a home, for example. But these loans pay colleges and universities to employ professors and administrators who spend it, meaning it's a transfer payment to the self-described "educator" class.

Unlike a subprime loan that facilitates the building of a home (an asset), the *real* problem with student loans is they often generate a product that decries wealth creation. But that's true whether they borrow the money they use to pay for college or pay for it out of their own pockets (or their parents').

Yes, after hitting a record high in 2016, at 17.5 million, sales of cars and light trucks appear to be slowing. However, the growth of the driving-age population and scrappage rates suggest underlying demand of about 15.5 million units per year. So, if anything, auto sales were probably artificially strong in 2014-16 as consumers made up for lost time back in 2010-12 when the age of cars on the road had risen after the Panic of 2008. Now, the industry is just gradually returning to normal. In other words, it's not a sign that consumers can't spend.

Nor are we concerned about problems with retail spending. Consumer habits are changing and shifting toward the internet, where sales are booming. When you can shop on-line with your phone or tablet and have products delivered to your doorstep, the economy doesn't need billions more square-feet of retail space. So brick and mortar retailing will continue to grow at a slower pace than GDP, while warehouses will expand.

If all you ever look for is a sign that consumers are in trouble, you can find it and spin it. But once you broaden your vision to include the entire consumer landscape, it disappears like a mirage of water in the desert.

Real economic growth has been slow – about 2% per year. That means just about any economic statistic appears weak when compared to the 4% growth of the 1980s and 1990s.

But that doesn't mean the economy is teetering on the edge. As supply-siders, we think "supply creates its own demand." What this means is that production creates wealth, not consumption. And no matter what the pessimists say, the US entrepreneur has been on a roll. It's the heavy hand of government holding things back. Nonetheless, workers are earning more while shifting their purchasing habits. This churn is a normal part of creative destruction, something to be embraced, not feared.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-15 / 7:30 am	Empire State Mfg Survey – May	7.3	**5.5**	-1.0	5.2
5-16 / 7:30 am	Housing Starts – Apr	1.260 Mil	**1.254 Mil**		1.215 Mil
8:15 am	Industrial Production – Apr	+0.4%	**+0.3%**		+0.5%
8:15 am	Capacity Utilization – Apr	76.3%	**76.3%**		76.1%
5-18 / 7:30 am	Initial Claims May 13	240K	**241K**		236K
7:30 am	Philly Fed Survey – May	18.5	**19.6**		22.0