

The Kevlar Economy

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Since March of 2009, the predictions of economic, and stock market collapse have been non-stop. Doom-and-gloomers have been unrelenting. And it's doubly frustrating since you can't disprove a negative until it doesn't happen.

We have written hundreds of pieces since the recovery - and bull market - began, arguing that the pessimism was unjustified. We've argued that Brexit, Grexit, resetting ARMs, student loans, government debt, Obamacare, no QE4, tapering,...etc., would not stop growth. The doomsayers have been wrong. Constantly. For our troubles we get labeled "perma-bulls", despite our arguments proving true. Meanwhile, the "perma-bears" have never had to answer for their fallacious forecasts.

Now they're talking Turkey, tariffs, a strengthening dollar, China selling US debt, Fed rate hikes. They never give up. But, we still aren't worried.

The United States, for the time being, is a Kevlar economy. It's practically bulletproof. By allowing other countries to maintain higher tariffs, America, the world's biggest consumer, has helped those countries grow. By holding corporate tax rates higher than most other countries, the US has subsidized non-US growth.

But under new management, the self-sabotage is being eliminated. Cutting corporate tax rates and reducing regulation have made the US more competitive. No, we are not ignoring the negative impact of tariffs on some US producers and consumers, but tariffs hurt foreign countries more than they hurt America.

Countries without the Constitutional rule of law, property rights and true free markets need foreign help to grow. The US is removing some of that help in making itself more competitive. As a result, the US will continue to grow, while other countries suffer a loss of investment and sales. Once again doomsayers will be proven wrong.

Yes, it's true that a slowdown in the growth of other countries can impact corporate earnings, or even have some impact on US growth, but the damage will not be nearly as great as the pouting pundits proclaim. We still forecast 3%+ real GDP growth over the next few years, along with continued jobs growth and the lowest unemployment rate in decades.

Doomsayers, take note. There are five real threats to prosperity: 1) Excessively tight Fed policy. 2) Excessive government spending. 3) Excessive regulation. 4) Tax hikes and 5) Trade protectionism.

Right now, the Fed is not tight, far from it. Government spending is too high, that's why growth isn't even higher. The Regulatory environment is improving. Tax rates have been cut and are not likely to be hiked anytime soon. Finally, tariffs are going up, but by a much smaller amount than taxes were cut. We also do not expect a protracted trade war because that would harm other countries much more than the US. Ultimately, we expect deals to bring tariffs down.

In other words, of the five threats, two are negatives (with trade likely to turn) and three are positives - and don't forget new and unbelievably positive technologies! Someday, a recession will happen again, but for now the Kevlar economy will only get stronger.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-14 / 7:30 am	Import Prices – Jul	+0.0%	+0.1%		-0.4%
7:30 am	Export Prices – Jul	+0.2%	+0.2%		+0.3%
8-15 / 7:30 am	Retail Sales – Jul	+0.1%	+0.1%		+0.5%
7:30 am	Retail Sales Ex-Auto – Jul	+0.3%	+0.4%		+0.4%
7:30 am	Q2 Non-Farm Productivity (Prelim)	+2.4%	+2.5%		+0.4%
7:30 am	Q2 Unit Labor Costs (Prelim)	+0.2%	-0.6%		+2.9%
7:30 am	Empire State Mfg Survey – Aug	20.0	19.0		22.6
8:15 am	Industrial Production – Jul	+0.3%	+0.4%		+0.6%
8:15 am	Capacity Utilization – Jul	78.2%	78.2%		78.0%
9:00 am	Business Inventories – Jun	+0.1%	+0.1%		+0.4%
8-16 / 7:30 am	Initial Claims Aug 11	215K	214K		213K
7:30 am	Housing Starts – Jul	1.260 Mil	1.274 Mil		1.173 Mil
7:30 am	Philly Fed Survey – Aug	22.0	20.7		25.7
8-17 / 9:00 am	U. Mich Sentiment (Prelim) - Aug	98.0	98.4		97.9