First Trust Portfolios Canada
Monday Morning OUTLOOK

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Recent News on GDP and the Fed

In spite of all the angst, the economy keeps growing, with real GDP growth clocking in at a 3.4% annual rate for the third quarter, led by strong consumption and business investment, with much of both powered by the expansion of AI and data centers. In addition, it looks like the economic momentum will carry into the end of the year, with the Atlanta Fed's GDP Now model starting off projecting Q4 growth at a 3.2% rate.

This growth helps explain why the job market continues to show resilience. Initial claims for unemployment insurance have averaged 197,000 per week in the past four weeks, the lowest since October 1969, back when the total labor force (people who are either working or looking for work) was less than half what it is today, and so there were way fewer people available to be unemployed.

We estimate that nonfarm payrolls rose 67,000 in October, which is also about the average for the past six months. Yes, there have been other periods when job growth has been stronger, but none when net immigration has been near zero or below while the native population has been aging.

The Federal Reserve also met last week and decided to leave short-term interest rates unchanged, postponing another quarter-point rate hike to December. The futures market is pegging the odds of a rate hike at about 75%; we think the odds are higher.

The potentially more interesting news is that Chairman Warsh got the Fed to shrink the number of "live" policy meetings in 2027-28 when rate cuts or hikes will be actively discussed, instead leaving some meetings for general discussions about the direction of policy. We like the effort to update the way the Fed operates, but relative to the broad array of major changes the Fed could be making, this seems a bit….wimpy.

Yes, we are aware Warsh has already set up working groups to consider major reforms. But, in the meantime, does anyone seriously think that if important shifts in monetary policy are needed that the Fed will skip a meeting anyhow because it was pre-scheduled for general discussion rather than policy votes?

To be generous, maybe Warsh's goal is to reduce the markets' obsession with speculating on policy shifts. But a better way might be to get out of the habit of "drip drip drip" policy shifts. Back in September the Fed raised rates a quarter point and used the "dot plots" to signal another quarter point rate hike was likely by year end. So why not just move by half a percentage point in September? And why not get in the general habit of moving rates to where the Fed itself is evenly split about whether the next move is a rate hike or a rate cut?

In the meantime, we believe the Fed should pay more attention to reducing the costs associated with the regional reserve banks, from banking supervision to economic research.

Ultimately, we suspect there are more changes in store for the Fed, but they will need to wait for former Chairman Powell to leave the Board, which would allow him to be replaced by someone more willing to reconsider the status quo.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-2 / 9:00 am	ISM Index – Oct	54.5	**54.4**	55.5	54.5
9:00 am	Construction Spending – Sep	+0.3%	**+0.2%**	-1.9%	+0.9%
11-3 / 9:00 am	Factory Orders – Sep	+1.2%	**+1.9%**		+0.1%
afternoon	Total Car/Truck Sales – Oct	15.8 Mil	**15.6 Mil**		16.0 Mil
11-4 / 7:30 am	Int'l Trade Balance – Sep	-$107.9 Bil	**-$107.8 Bil**		-$105.6 Bil
9:00 am	ISM Non Mfg Index – Oct	54.8	**54.8**		54.9
11-5 / 7:30 am	Initial Claims – Oct 31	196K	**195K**		194K
7:30 am	Q3 Non-Farm Productivity	+2.6%	**+2.4%**		+1.4%
7:30 am	Q3 Unit Labor Costs	+0.5%	**+0.3%**		+1.2%
11-6 / 7:30 am	Non-Farm Payrolls – Oct	65K	**67K**		29K
7:30 am	Private Payrolls – Oct	60K	**62K**		46K
7:30 am	Manufacturing Payrolls – Oct	5K	**9K**		9K
7:30 am	Average Hourly Earnings – Oct	+0.3%	**+0.3%**		+0.1%
7:30 am	Average Weekly Hours – Oct	34.4	**34.4**		34.4
7:30 am	Unemployment Rate – Oct	4.2%	**4.2%**		4.2%
2:00 pm	Consumer Credit – Sep	$13.0 Bil	**$16.5 Bil**		$8.3 Bil

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