

GAUGES

- GDP – 1.9 ↑
- Interest Rates – .25%
- Unemployment – 4.8 ↓
- ISM – 55 ↑
- Inflation – 2.5 ↑
- Consumer Sentiment – 98.5 ↑

HIGHLIGHTS

- Global economy showing strength
- Corporate profits have are increasing
- Consumers are still driving the economic growth

SUMMARY OF THE ECONOMY

Since the last update, we have seen a new President get elected, the global economy appears to be on a positive slope, and the stock market is up over 5% in anticipation of good things from Mr. Trump. Interest rates have remained steady in 2016, with anticipated increases later this year as the economy starts to heat up. Job growth is good along with wage growth, both bode well for consumer spending. This is also reflected in the robust consumer sentiment.

Overall, the economy looks positive going forward for 2017. Consumer and business confidence is up, The Fed appears to be slow rolling the interest rate hikes, jobs remain on a slow growth trajectory, housing sales is picking up. The consumer is still driving the economy.

The Global economy surprisingly is starting to show signs of strength. China and Japan's economies are showing signs of expansion. Latin America's economy is estimated to have contracted by .7% last year. The downturn in commodity prices such as oil hurt the economies of Argentina, Brazil and Venezuela. It remains to be seen if Trump's trade policies will impact this region, and will the Fed interest rate hikes cause a flight of capital out of Latin America.

The Eurozone economy grew, outside of Greece in 2016 despite some political turbulence, i.e. defeat of the Italian government and Brexit. In general, the employment rate is dropping, consumer consumption is up slightly, deflation risk is gone, and corporate investments is somewhat weak but contributing to a GDP growth of 1.7%.

GLOBAL ECONOMY

The global economy looks like it is on track to grow in 2017. Positive signs are coming from each region.



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China's growth is estimated to be around 6% GDP for 2017. China is promoting consumption and infrastructure spending to keep the economy growing and implementing policies to reduce risk to the economy.

The Manufacturing PMI from China for Jan 2017 is reported at 51, stabilizing for the past 6 months.²

China's exports are up 7.9% from a year earlier indicating a stronger global demand for goods.³



Japan's economy looks to gain traction in 2017 as a result of rising wages, improved business sentiment and a weaker yen. It remains to be seen how the backing down from the Trans Pacific Partnership will affect Japan and will the US replace it with a joint agreement.

The Euro zone area should show improved growth in 2017 with higher consumption, improved labor markets, and consumer confidence. What could hold back growth is business investments due to risk and uncertainties of Brexit, fiscal policies in Europe, debt, and political uncertainties.

Latin America's economy has some challenges going into 2017, commodity prices are down from 2015, but stabilized. Inflation was at 28% in 2016, excluding Venezuela, inflation was 8.9%, still high by today's standards. Argentina and Brazil are expected to grow their economies in an environment of lower inflation, improved confidence, economic reforms, and easier monetary policies.

USA ECONOMY

The US economy showing some resilience and the outlook for growth looks good. Employment outlook is robust, jobless claims are down, the housing market continues to be positive even with interest rates hikes on the horizon, retail sales and auto sales are up. For 2017, I would expect to see higher interest rates and higher inflation. Here is a summary of some key economic data:

Economic Data	Latest Date	Current	Prior Period	Year Ago	Trend: Yr -Yr% Chg	Note
GDP	4Q16	1.9	1.7	1.4	35.7 ↑	
Capacity Utilization (%)	Jan	75.3	75.6	75.3	0.0	1972-2015 average is 80.0
New Home Sales (1000's units)	Jan	555	535	526	5.5 ↑	Up
New Housing Starts (k)	Jan	1,246	1,279	1,121	10.5 ↑	Up
Inventory to Sales Ratio Motor Vehicles	Jan	2.83	2.76	2.60	-9.04 ↓	Trending higher in 2016
PMI	Jan	55	54.3	48.2	14.1 ↑	> 50 manufacturing expanding.
Consumer Price Index (CPI)	Jan	244.1	242.8	238.3	2.4 ↑	
Rate of Inflation (%)	Jan	2.5	2.1	1.4	-	Government target less than 2.0%
Consumer Sentiment	Jan	98.5	98.2	92.0	7.0 ↑	
Unemployment Rate	Jan	4.8	4.7	4.9	-2.04 ↓	

The jobs market continues with all good news, unemployment is holding steady, jobless claims continues on a downward trend.

Manufacturing PMI shows an increase to 51.9 in Oct. ⁴ In summary, it shows new orders, production growing, employment and inventories growing.⁵

Retail sales had a positive showing in 4Q16. Under the hood there is turmoil of e-commerce sales taking away from brick and mortar sales. Amazon, the king of online sales continues to get stronger, department stores continues to show marginal to weaker sales and margins. This is resulting in store closings such as Macy's, Sears, J.C. Penney's, etc. Even Kohl's is thinking about reducing their store square footage.



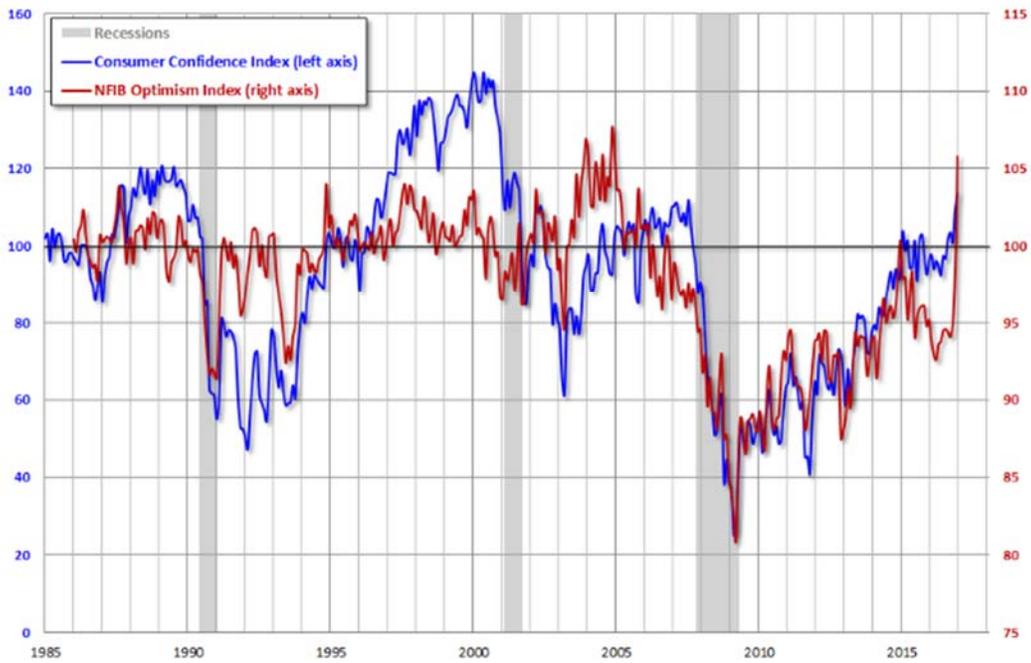
Initial jobless claims is under 300,000 per week, 102nd consecutive week, longest streak since 1970. ⁷ The chart shows a downward trend which shows a continued sign of economic strength. Less people filing claims, less government financial support, more people working, increases tax receipts.



In the past I, have looked at the University of Michigan Consumer Sentiment as a widely-watched indicator of the overall health of the economy from consumers. The following looks at consumer confidence and small business sentiment. Both are up in January 2017, showing increased confidence in the direction of the economy. ⁹

Conference Board Consumer Confidence Index NFIB Small Business Optimism Index

dshort.com
January 2017
Data through December



MARKETS

The stock market continues to move higher, up over 5% since the election. It appears some of this is due to promises of infrastructure spending, revising the healthcare system, and also better corporate profits.

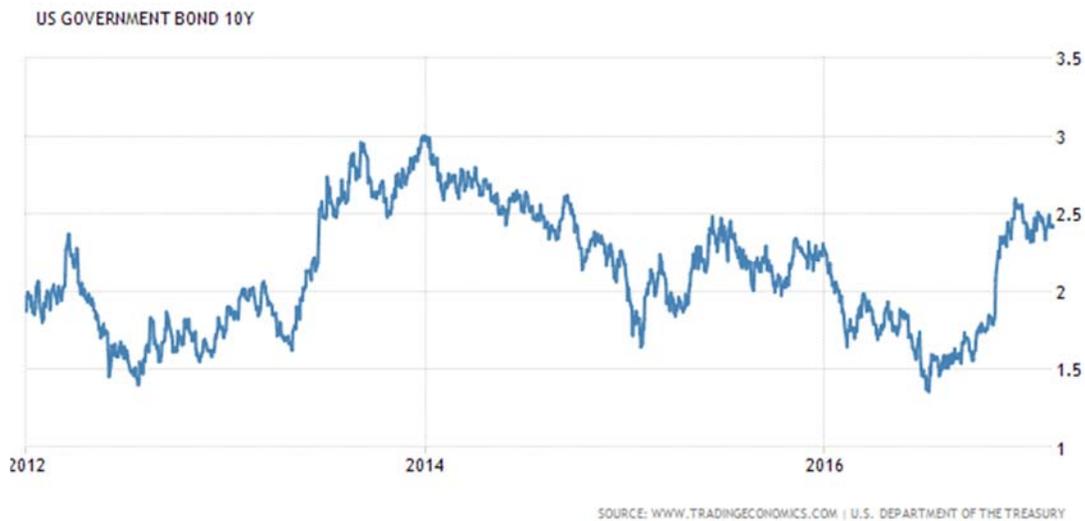
DOW JONES INDUSTRIAL AVERAGE



Corporate profits last quarter had it's best performance for 2016. This is helping to drive the markets higher, even though there is some tempering of sales and revenue expectations in 2017 by businesses.



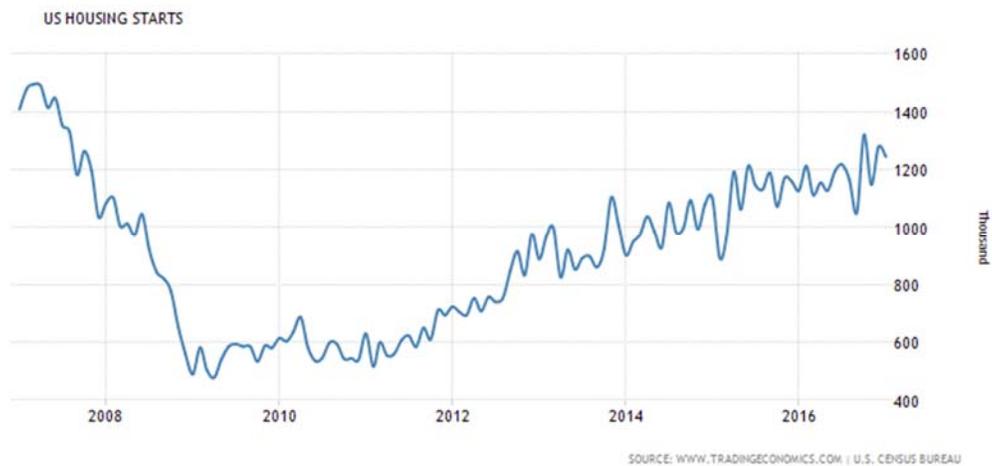
The US Government 10 year bond is at 2.44% as of Jan 2017. The yield has broken a downtrend from summer of 2016, and is trending upward along with the FED rate increase. I am still expecting the FED to provide 2 to 4 interest rate hikes this year.

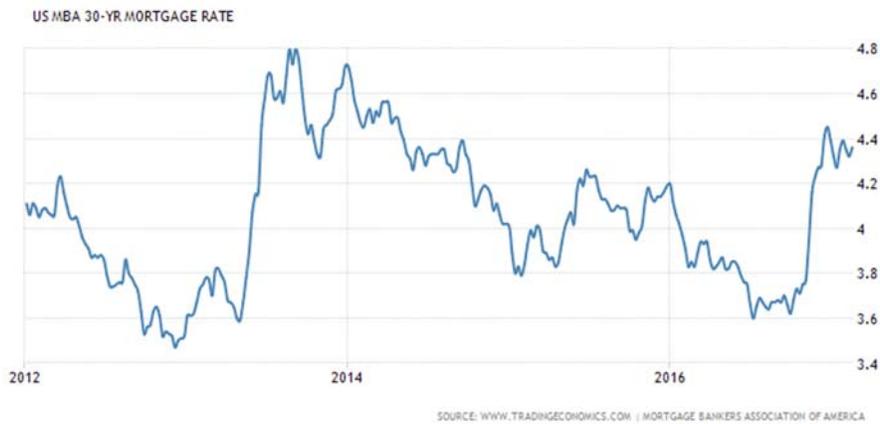


REAL ESTATE

Housing starts came down a little in Jan 2017 to 1246k. Housing starts have averaged approximately 1440k over the past 40+ years. Since the last recession, there has been an upward trend, which explains why the economy continues to grow. A report, back in 2014, by the Bureau of Economic Analysis & Macroeconomics Advisors, concluded that a typical home sale provides a total economic impact of over \$50,000. A great multiplier effect to the economy as people will fill their houses with durable goods, furniture, accessories, etc.

The S&P/Case Shilling index on home prices shows home values up 5.3% year to year in Nov. 2016.¹²





The 30-year mortgage rates have been trending upward since 3Q2016. Anticipated FED rate hikes will continue to make mortgages more expensive. The forecast is projected to trend toward 6.5% in 2020. ¹⁴

COMMODITIES

Oil has been holding steady in the range of \$50-60 /barrel. There still is a supply of gas, which puts more spending money in consumer's pockets. The jury is still out as to whether the OPEC nations are all complying with curbing production in order to hold prices steady.

Gold has risen slightly this year, currently around \$1,230, but off it's peak in 2016 of \$1,361, and 5 year high of \$1,780. Gold is often used as a safe haven against other investment risk, hedge against inflation, or economic risk and uncertainty.

Copper prices are on the rise, over 28% in the last 12 months. This is due to China's increasing demand, and post Trump election of a promise to spend on huge infrastructure project. As the global economy grows and new construction increases, the demand will raise copper prices.

SOME THOUGHTS FOR YOUR THOUGHTS – DEFICIT REDUCTION?

This topic of deficit reduction always seems to elude me or is an illusion to me. The US government, we the people, have a \$19 trillion deficit. Additional burden will be placed on this as more of our aging population retires, i.e. social security, medicare, medicaid, etc. The government is counting on a robust growing economy to pay off all the spending that has occurred in the past as well as in the future.

On one hand, I as an individual am suppose to balance my checkbook monthly and if there is a shortfall (deficit), I suffer the consequences. Basically, stop spending, go get more income, and analyze what went wrong with the budget. When I was running a business, the same actions were required, look at the P & L, cash flow and balance sheets every month. If I was spending more, then I needed to slow down, get more revenue, or go get more capital.

I have mentioned in past articles, how are we going to increase consumption and jobs which fuels a growing economy? Especially when there is no population growth. How do we increase consumption, increase jobs, when we are being replaced by robots? Mr Trump wants to increase our GDP to 3%, basically bring jobs back, increase hours worked brings in more tax receipts to pay down the debt.

Not sure if you have taken notice, but there has been a big push on for artificial intelligence (AI), which is the next big technology going into robotics. Yes AI and robots have been around for decades, but with the increase in computing power, miniturization, cheaper hardware, data analytics, algorithm efficiencies, all are making this more commercially viable. We are driving to have robots with brains that mimic the human brain.

Thoughts of this new technology coming and it's impact on how to expand the economy had me bring up an interesting thought. I was talking to a family member months ago and said "Looks like the government will have to tax robots". My reasoning, ok, there is no population growth, more boomers are retiring, both are creating fewer taxes the government can collect. Robots (computers) are replacing humans doing the work, so it's an avenue for tax receipts. I could remember when we had live telephone operators at switch boards. They would connect a call for you. Now that is all done with computers.

Now last week I hear Bill gates saying the same thing, tax robots.

Does this seem like a far fetched idea?

ABOUT THE AUTHOR

David Lau is Allied's Chief Technology Officer, "Rocket Scientist," Chef, Martial Arts extraordinaire, and In-House economist. David Lau joined Allied in April 2007 as Chief Technology Officer. He is responsible for all aspects of information technology, workflow processes and facilities management, including identifying technology solutions. He is always on the lookout for innovative and cutting edge strategies that will deliver Allied's services more efficiently. He is our resident "go to guy" for anything and everything technology related. David has a strong background in systems engineering, customer interfacing and product life cycle management with both small and large corporate process exposure. He has start-up, corporate and international experience, as well as expertise in the financial, defense, telecommunications and computer industries.

Prior to joining Allied, David was the Co-Founder and President of Dallas-based System Solutions Group, Inc., where he managed a staff placement, consulting and custom development company for the Internet and telecom industry. He built a start-up business that generated \$1 million revenue in the first 18 months, securing a major contract with Verizon. This company was successfully acquired by another telecom business he co-founded where he developed sales of over \$2 million and generated proposals of over \$60 million in new business opportunities. Prior to that, he worked as a Senior Systems Engineer for Texas Instruments for over 18 years, where he also worked on drones. David has a Bachelor of Science degree in Electrical Engineering from Virginia Polytechnic Institute and graduate work in Computer Science at Southern Methodist University. He also holds various patents. David

enjoys cycling, traveling, photography, reading, cooking, and trying out new restaurants and cuisines. David also teaches martial arts and is a car enthusiast.

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