

## GAUGES

- GDP – 3.1 ↑
- Interest Rates – 1.25 % ↑
- Unemployment – 4.2 ↓
- ISM – 53.1 ↑
- Inflation – 2.2 ↓
- Consumer Sentiment – 101.0 ↑

## HIGHLIGHTS

- Global economy continues to show strength
- Corporate profits are increasing
- Auto sales growth slowing down

## SUMMARY OF THE ECONOMY

So far with all the political turmoil, the economy is humming along, slow and steady. Corporate earnings are steady, job growth overall is continuing, consumer confidence and spending is still driving the economy, global growth is slow and steady.

For 2017, housing and automobile sales continue to be on a downward trajectory.

Overall, the economy looks positive going forward for 2017 and into 2018. Consumer and business confidence is up since early 2017. The Fed is slow rolling the interest rate hikes, jobs remains on a slow growth trajectory. The consumer is still driving the economy. Congress is getting tax reform ready by year end. This bodes well for retailers as the 2017 holiday season approaches.

The hurricane season that damaged Texas, Florida, the East coast and Caribbean islands will provide a boost to the overall economy with demand for autos, building materials, furniture, jobs, etc for the next year.

The Global economy continues to show steady growth from Europe, China, and Japan. Except for Mexico, South America is exhibiting negative growth.

The Eurozone economy grew, outside of Greece in 2016-2017 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 are 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 2018. Positive signs are coming from each region except for Latin America.

China's growth is 6.8% in Sept 2017, showing a positive uptrend from mid 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 Sept 2017 is reported at 51. This is the weakest expansion in manufacturing since early summer.<sup>2</sup>

China's exports look flat for 2017. Exports increased to the USA, up 13.8%, indication that the US consumer is spending.<sup>3</sup>





**Contact Us**

**Allied Affiliated Funding**

5151 Belt Line Rd., Suite 500

Dallas, Texas 75254

972-448-3583

David.lau@fundingbyallied.com

www.fundingbyallied.com

Japan's economy gained traction in 2017 as a result of rising wages, improved business sentiment and a weaker yen. GDP is showing positive growth from prior years. 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 showed improved growth in 2017 with higher consumption, improved labor markets, and consumer confidence. Though the chart shows enemic growth, it is an improvement from pre-2014 levels of negative growth. What could hold back growth is business investments due to risk and uncertainties of Brexit, fiscal policies in Europe, debt, and political uncertainties.



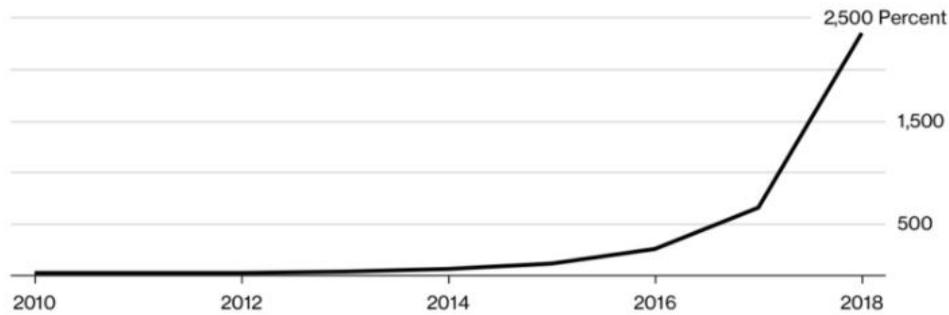
Latin America's economy has some challenges going into 2017, commodity prices are down from 2015, but stablized. Argentina and Brazil are expected to grow their economies in an environment of lower inflation, improved confidence, economic reforms, and easier monetary policies. Inflation was at 28% in 2016, excluding Venezuela, inflation was 8.9%, still high by today's standards.<sup>17</sup> Venezuela alone through the first seven months of 2017 is having 248% inflation rate.<sup>18</sup> Venezuela forecasted inflation is

unheard of, and hard to comprehend life in that country.<sup>19</sup> In talking to some Venezuelan transplants, they said it a combination of a mismanaged economy and the decrease in the price of oil that has wrecked the economy.

### Venezuela's Out of Control Inflation

Consumer prices are forecast to jump 2,349.3% in 2018

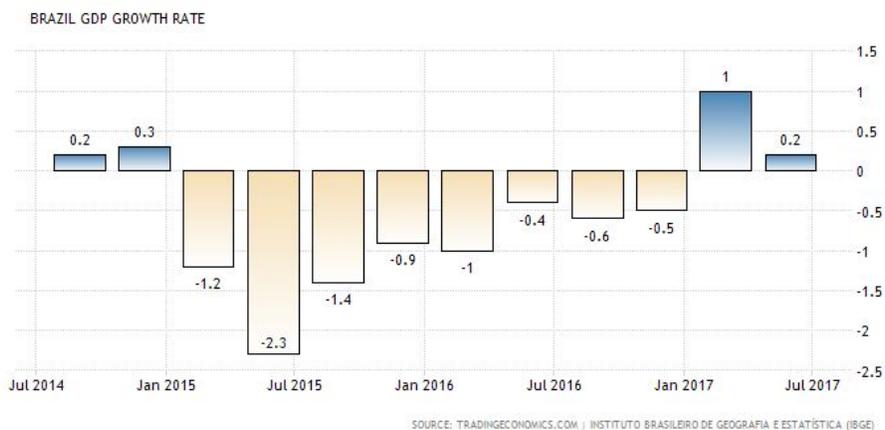
■ IMF Venezuela inflation projection



Source: International Monetary Fund World Economic Outlook. 2010-2015 figures from April report, 2016-2018 figures from October report

**Bloomberg**

Outside of Mexico, the next largest Latin America economy is Brazil. Brazil is slowly coming out of negative economic growth.



SOURCE: TRADINGECONOMICS.COM | INSTITUTO BRASILEIRO DE GEOGRAFIA E ESTATÍSTICA (IBGE)

## 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 slightly positive even with

interest rates hikes on the horizon, retail sales and auto sales are up. Looks like the Hurricane season will have a positive impact to the economy with demand for jobs, materials, etc.

Economic Data	Latest Date	Current	Prior Period	Year Ago	Trend: Yr -Yr% Chg	Note
GDP	2Q17	3.1	1.2	1.1	181 ↑	
Capacity Utilization (%)	Sept	76.0	75.9	75.7	.3 ↑	1972-2015 average is 80.0
New Home Sales (1000's units)	Aug	560	580	570	-1.7 ↓	Pre-Great Recession peak - 1389
New Housing Starts (k)	Sept	1,127	1,183	1,270	-11.2 ↓	Pre-Great Recession peak - 2273
Inventory to Sales Ratio Motor Vehicles	Aug	3.15	3.09	2.93	7.5 ↑	Trending higher since 2016
PMI	Sept	53.1	52.8	51.5	3.1 ↑	> 50 manufacturing expanding.
Consumer Price Index (CPI)	Sept	246.3	245.0	241.6	1.9 ↑	
Rate of Inflation (%)	Sept	2.2	1.9	1.6	37 ↑	Government target less than 2.0%
Consumer Sentiment	Oct	100.7	96.8	91.2	4.2 ↑	Non-recession periods, avg 87.8. Recession avg 69.3
Unemployment Rate	Sept	4.2	4.4	4.8	-12.5 ↓	
Jobless Claims (1000's)	Sept	272	236	259	5.0 ↑	Great recession peak 650k+

Job growth in the US has been in some broad areas, software/high tech, construction, health care, food services, manufacturing, education, leisure and hospitality, and professional and business services. Education employment is a proxy for good things to come, as hiring teachers to educate the population so more production can be beneficial for the economy.

Manufacturing PMI showed a slight increase in Sept 2017, but still above the 50 mark indicative of manufacturing expansion.<sup>4</sup> In summary, it shows new orders growing, production growing, employment and inventories contracting.<sup>5</sup>

Retail sales is showing a positive trend since the beginning of 2017. Higher sales were in building materials, restaurants, internet retailers, clothing, and general merchandise stores. Sales were down in furniture, electronics and appliances, health and personal care, book and music, and sporting.



Initial jobless claims is under 300,000 per week.<sup>7</sup> Back during the Great Recession, the Obama administration was using this as a reference point to get under in order to create growth. This tends to be a proxy for the labor market health and pace of layoffs.



The University of Michigan Consumer Sentiment is a widely watched indicator of the overall health of the economy from the consumers viewpoint. The following looks at consumer confidence which closed up in Oct 2017 to 100.7.<sup>9</sup> From a historical perspective, non-recessionary years the average is 87.8 and during recessionary years is 69.3. The average has been 85.6.

Consumer confidence is up, stock market is up, possible tax cuts on the horizon from Congress, all bodes well for retailers this coming holiday season.



## MARKETS

The stock market continues to move higher, 20%+ since the election. It appears some of this is due to promises of infrastructure spending, better corporate profits, tax cuts on the horizon, and a low interest rate environment.

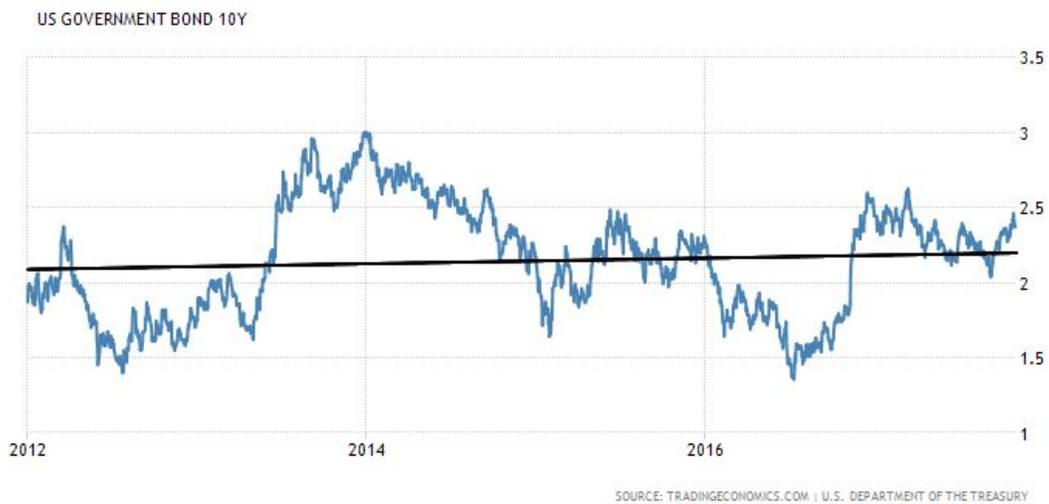
DOW JONES INDUSTRIAL AVERAGE



Corporate profits are holding steady the past few months. As I mentioned last quarter, this is helping to drive the markets higher, even though there is some tempering of sales and revenue expectations in 2017-2018 by businesses.



The US Government 10 year bond is at 2.34% as of end of Sept 2017, trending downward the past few months.<sup>12</sup> Looks like the inflation expectations have tempered somewhat. I am expecting the FED to provide a rate hike in December and 1 to 2 more interest rate hikes next year.



## REAL ESTATE

Housing starts came down Sept 2017 to 1127k. 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. But since Summer of 2016, there has been a downward trend.

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. Housing has 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 5.9% year to year in Aug 2017.<sup>13</sup>

I heard that before the last recession, people traded houses every 5-6 years on average. Now it is over 10 years. Also the baby boomers are less likely to pick up and move around like they used to. With less new housing starts and less existing homes available, we are experiencing housing price increases.



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.<sup>14</sup>



## 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 \$1,270, 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 18 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. Copper is used as a leading indicator to economic activity.

## SOME THOUGHTS FOR YOUR THOUGHTS – TECHNOLOGY

Seems like I have been involved with technology all my life. Built my own computer back before the IBM Personal computer using wirewrap boards. Followed the Apollo program and was intrigued by how we managed to use the computing power of a calculator to land a man on the moon. Over the years, we have seen a computer go from a room size with coolers down to an Iphone. Then, yes we do have rooms full of computers today, but it is called the "Cloud". The internet has evolved into "instant gratification", information anytime, any place, and on any device.

An article I read a long time ago said the space program returned back to the public \$25 for every dollar spent. Hindsight says this was money well spent, but back in the days of Apollo, people were questioning why are we spending money on this. If one stops to think about it, what we got in return was acceleration in miniaturization of electronics – think laptop and Iphone today. The minaturization

has impacted all industries. We also received epoxy glue, liquid cooled clothing for firefighter's, freeze dried foods used for military field rations, wireless devices, video streaming, medical tools and advances, water filtration, flame retardent materials, heart pumps, and a long list of other things we now take for granted in our daily lives. Without Apollo and investments in the space program, I think we would have eventually seen miniaturization of electronics, but maybe not in my lifetime. The space program investments accelerated all this by 20-30 years and has improved our quality of life today.

So where are we going? What is astounding is the fast pace of space exploration. After the shuttle program terminated, there have been lots of activities launching space probes to distant planets, launching robots to Mars, private companies positioning to launch to Mars, and paid customers to the moon. Companies here on earth are now pursuing driverless cars, artificial intelligence to improve automation, bio-engineering, solar energy, robotic surgery, and slowing the aging process down.

Our past fictional cartoons is turning into reality. Do you remember Dick Tracy cartoons where he talks into a watch? Here we are today with the Apple watch. How about the cartoon Jetson's and an aero car that flies. Enter flying car companies Terrafugia, AeroMobil and others.

Wonder what's next?

## **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.

## References:

- 1) <http://www.tradingeconomics.com/euro-area/gdp-growth>
- 2) <http://www.tradingeconomics.com/china/manufacturing-pmi>
- 3) <http://www.tradingeconomics.com/china/exports>
- 4) <https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm>
- 5) <https://www.instituteforsupplymanagement.org/ismreport/nonmfgrob.cfm>
- 6) <http://www.marketwatch.com/story/us-retail-sales-post-biggest-back-to-back-sales-since-201-2016-11-15>
- 7) <http://www.tradingeconomics.com/united-states/jobless-claims>
- 8) <http://www.tradingeconomics.com/euro-area/unemployment-rate>
- 9) <https://www.advisorperspectives.com/dshort/updates/2017/10/31/consumer-confidence-highest-in-17-years>
- 10) <https://research.stlouisfed.org/fred2/series/ISRATIO>
- 11) <http://www.tradingeconomics.com/united-states/corporate-profits/forecast>
- 12) <http://www.tradingeconomics.com/united-states/government-bond-yield>
- 13) <http://www.tradingeconomics.com/united-states/case-shiller-home-price-index>
- 14) <http://useconomy.about.com/od/inflationfaq/f/Causes-Of-Inflation.htm>
- 15) <http://www.tradingeconomics.com/united-states/mortgage-rate/forecast>
- 16) <http://www.advisorperspectives.com/dshort/updates/CPI-Category-Overview>
- 17) <https://www.focus-economics.com/regions/latin-america>
- 18) <https://www.reuters.com/article/us-venezuela-economy/venezuela-inflation-quickens-to-248-6-percent-in-year-to-july-opposition-idUSKBN1AP20X>
- 19) <https://www.bloomberg.com/news/articles/2017-10-10/imf-sees-venezuelan-inflation-rate-rising-beyond-2-300-in-2018>

Disclaimer: The information presented here is not a recommendation to act on this information. Nor does it represent the views of the presenting party. The information presented has been derived from sources that are believed to be accurate.