

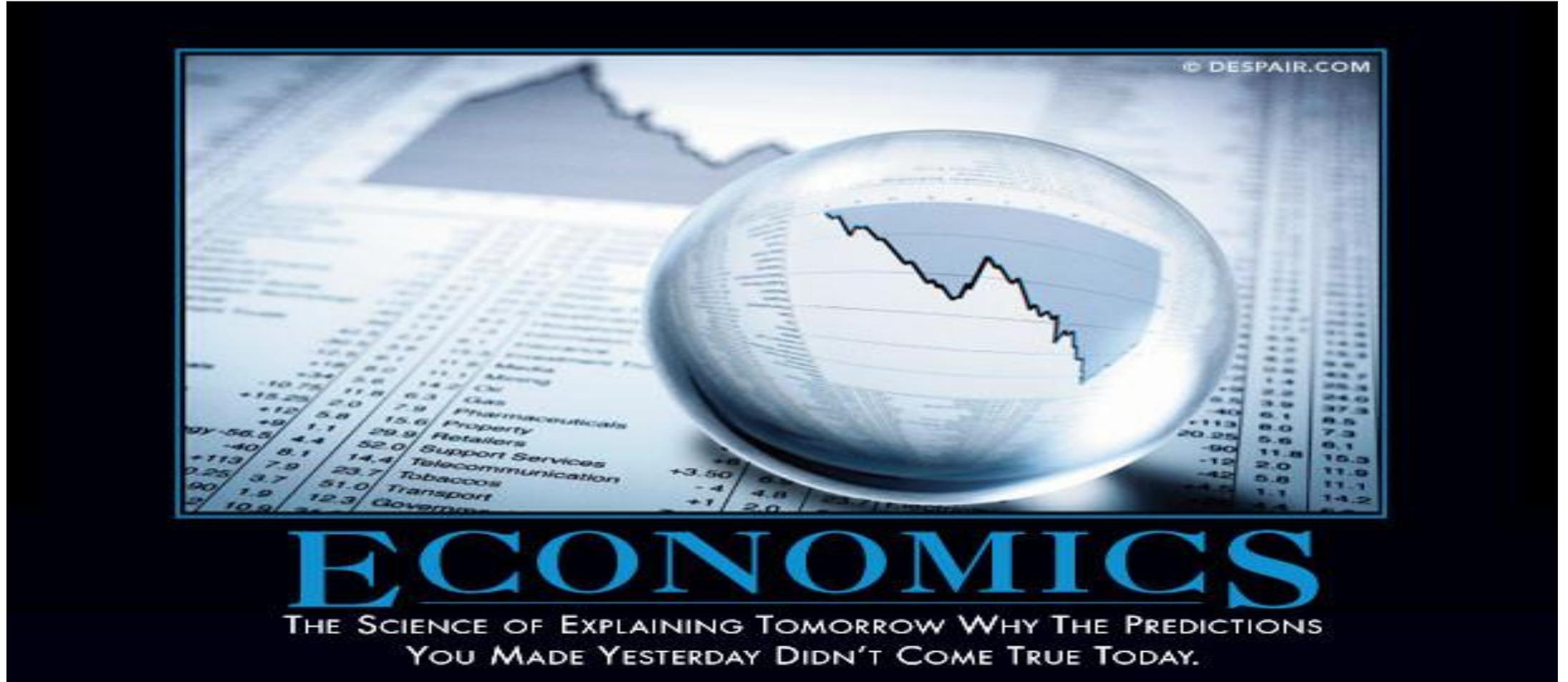


Expectations Met? Global Economy in 2017

NACM Webinar

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Why we LOVE Meteorologists



What WERE Those US Expectations?

- **Reform of Health Care – the end of the ACA.**
 - **House version of reform plan was DOA in the Senate and now they are struggling as well – no real action expected until late in the year**
- **Tax Reform**
 - **Major differences within the ranks of the GOP and few now expect the September deadline to be reached**
- **Trade Reform**
 - **China no longer termed a currency manipulator**
 - **Nafta rewrite expected to be more modest and lots of exemptions**
- **Infrastructure**
 - **No closer to finding \$1 trillion**
- **Deregulation**
 - **Hit and miss – some major changes as far as energy but not much on labor**

What WERE Those Global Expectations?

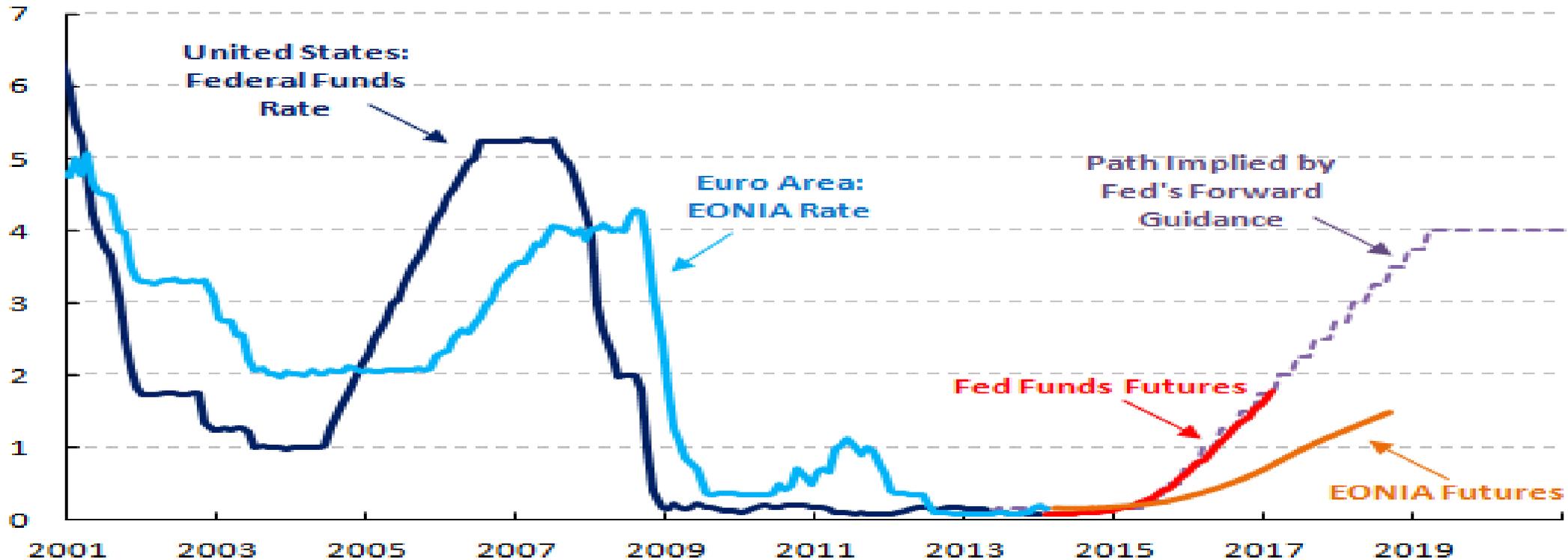
- **Europe was going to wallow in slow growth and populism**
 - **Instead the Eurozone numbers have been much better than expected**
 - **Geert Wilders and Marine Le Pen lost and now France has Macron**
- **China was going to keep shrinking and property bubbles would devastate the economy**
 - **Latest GDP numbers are back up to 6.9% and the restrictions on banks have been essentially lifted**
 - **Japan has seen some expansion of exports**
- **Mexico was going to be devastated by massive US import restrictions and the end of Nafta**
 - **The tariffs exemptions are mounting by the day**
 - **Nafta is not being tossed aside – the focus is now on reducing trade deficits with Canada and Mexico.**
 - **Immigration has faded somewhat as a topic as the number of temporary visas was expanded by 15,000 to a total of 81,000**

Contradictions In the Economic Assessment

- **Consumer confidence up – but nobody is quite sure why. Retail sales are only now starting to show signs of that confidence.**
- **Stock market is hitting new highs and again nobody is quite sure why. Some suggest that this is froth driven mostly by foreign money and others assert that it is still “animal spirits”.**
- **Manufacturing data looks good globally– everything from durable goods to capacity utilization and the latest PMI but pace is far slower than it was earlier in the year.**
- **Services look a little less dynamic and they are 80% of the economy. Most of the progress seems to be in health care.**
- **Jobs data looks good but there are 6 million jobs going unfilled and some 7 million people without work.**
- **Some paralysis as far as trade matters are concerned and nobody seems quite certain about health care, trade or taxes**

Forecasts for Rate Hikes (Fed and ECB)

Expected Interest Rate Path for Federal Reserve and ECB

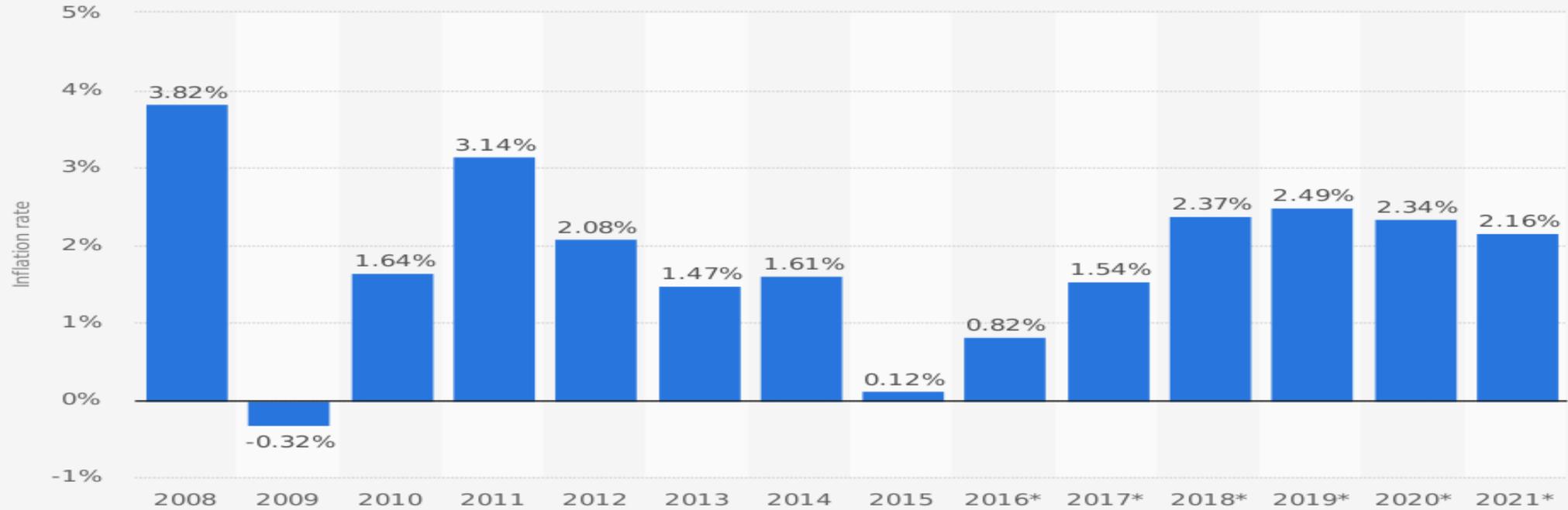


Data as of 7th March, 2014. Sources: Haver, Bloomberg, Fulcrum Asset Management

Projected Inflation Rate



Projected annual inflation rate in the United States from 2008 to 2021*



Source:
IMF
© Statista 2017

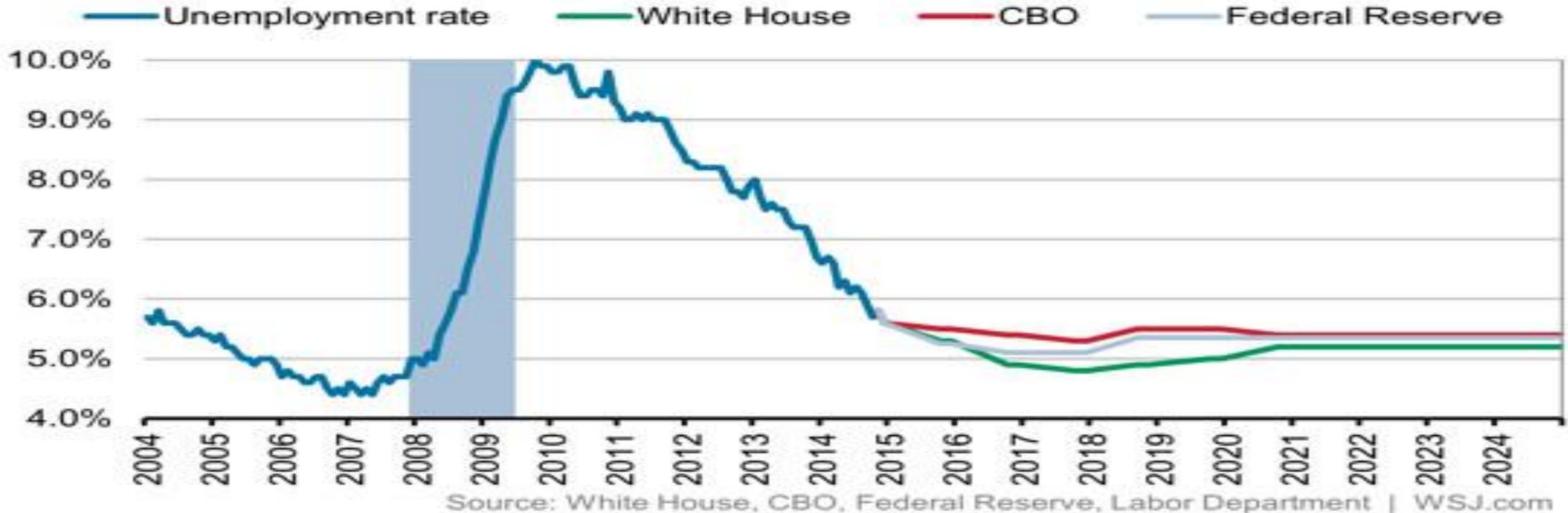
Additional Information:
United States; 2008 to 2015



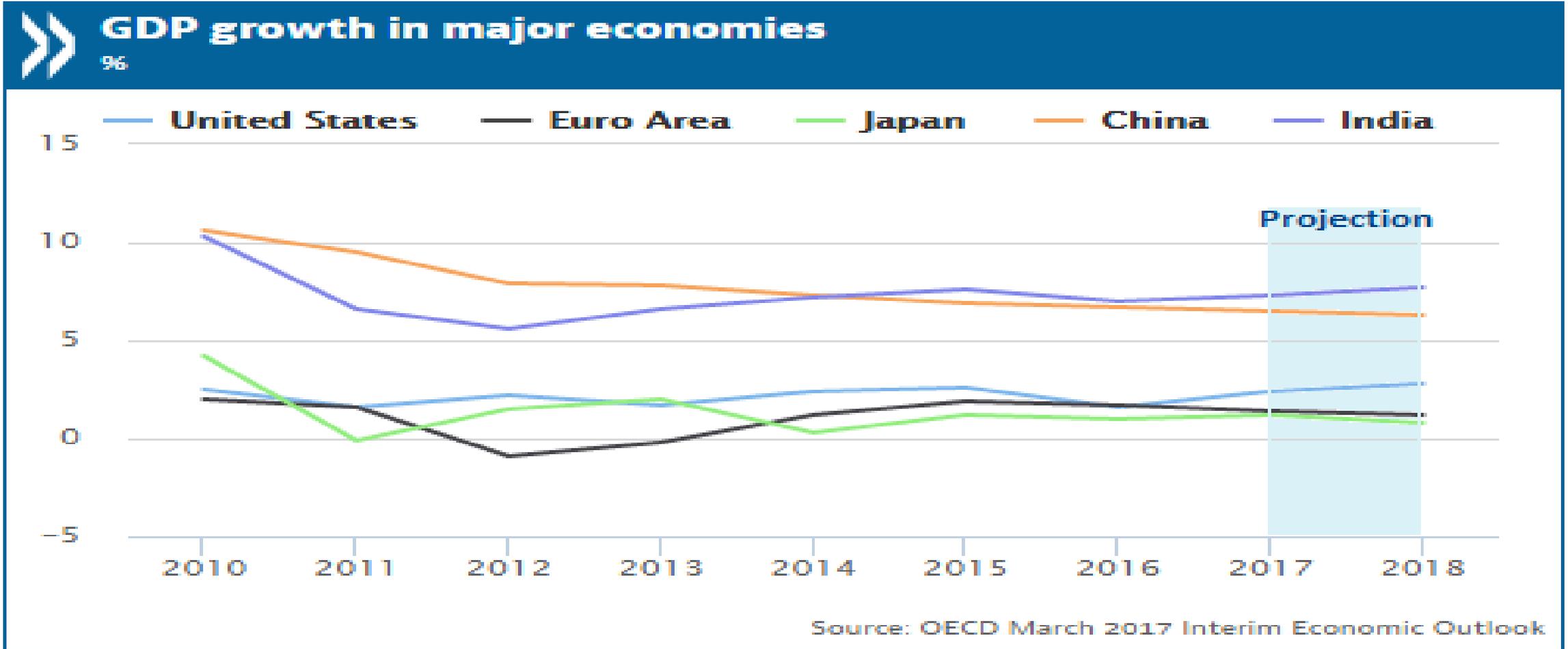
Projected Unemployment Rate

Heading Lower

National unemployment rate and forecasts from the White House, Congressional Budget Office and Federal Reserve. The Fed reports a range of forecasts -- only the midpoint of that range is shown.



Global Growth Rates



- **Energy Sector**
 - **Keystone pipeline will be built**
 - **More off-shore drilling**
 - **Return to coal**
- **Some Domestic Manufacturing**
 - **Automotive**
 - **Aerospace**
 - **Import sensitive**
- **Infrastructure sector**
 - **Roads and bridges**
 - **New airports and seaports**
- **Health Care**
 - **With or without reform it is almost 25% of the GDP**
 - **Demographics alone will drive costs**

US Sectors Looking a Bit Weaker

- **Companies involved in either import or export – at least for a while. Depends on the tariff battle.**
 - **Trade relations in flux due to Nafta talks, impact of Brexit etc.**
 - **Imports under threat but nothing established yet**
- **Housing – headwinds are building fast – higher prices, more costly mortgages and labor shortages**
 - **Millennials are finally in the game**
 - **Significant regional variation**
- **Agriculture – but not directly due to new policies**
- **Immigrant dependent sectors**
- **Manufacturing – mostly due to concerns about consumer engagement – great variety between sectors**

- **German manufacturing – especially industrial machinery**
- **French manufacturing – aerospace, and medical**
- **Brexit impact on Europe and the UK – some good and more bad**
- **China – still shifting away from export emphasis and towards a more domestic orientation. Consumers still somewhat subdued.**
- **India – emerging fast with the Modi reforms but there has been pushback on the national tax from the regions**
- **Mexico – energy and oil and infrastructure but worries about US relationship and how that will affect remittance income, manufacturing and tourism**
- **Brazil – still big enough to appeal but recession still bites and the political chaos is not reassuring.**
- **Tensions with South Korea, Philippines but better days ahead with Japan and Vietnam**

We Are BIG and that can be an Issue

US States Renamed for Countries with Similar GDPs, 2015





AREAS OF THE US AS EUROPEAN COUNTRIES OF EQUAL GDP AND CORRESPONDING CITIES

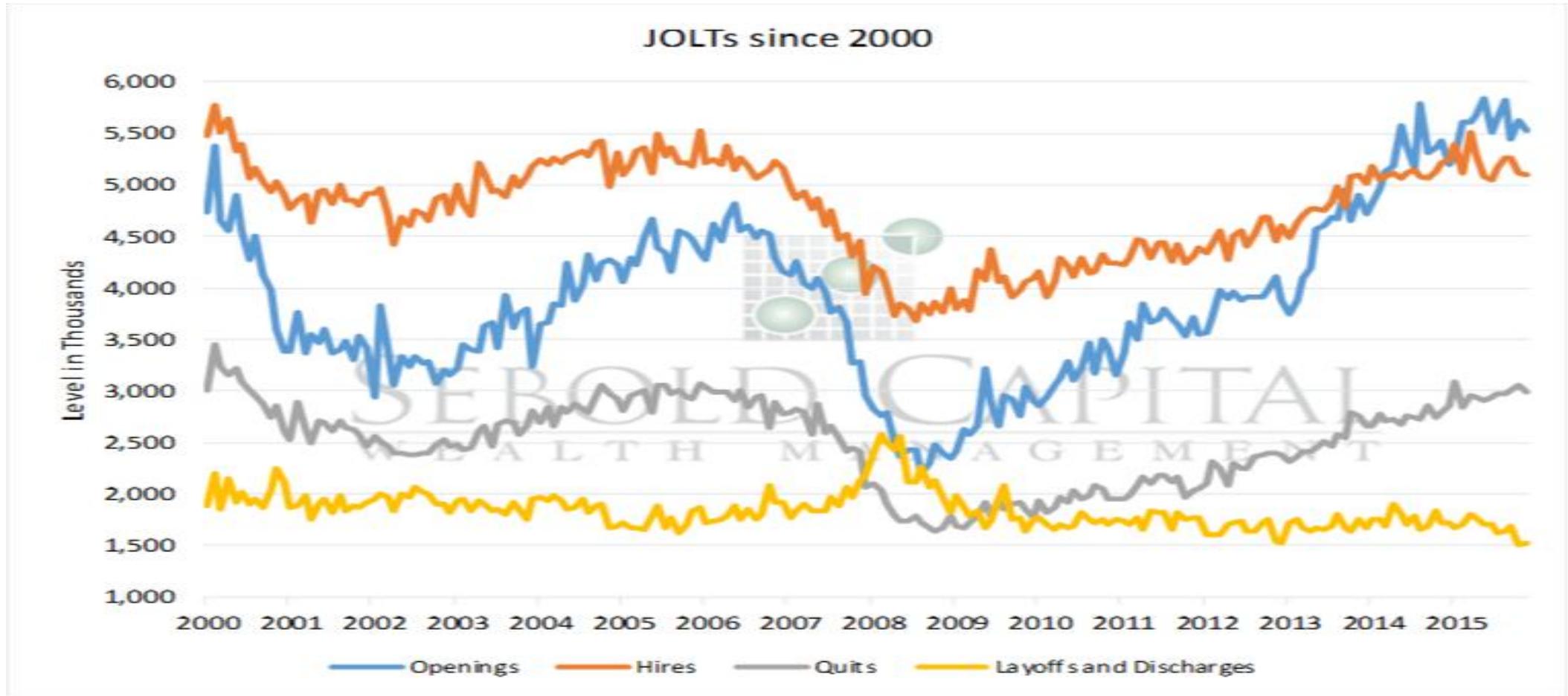
EACH EUROPEAN COUNTRY COVERS AN AREA OF THE US WITH THE SAME GDP (GROSS DOMESTIC PRODUCT). THE LARGEST/MOST IMPORTANT CITIES IN EACH AREA OF AMERICA ARE SUBSTITUTED FOR THE LARGEST/MOST IMPORTANT CITIES IN THE EUROPEAN COUNTRY WHICH COVERS IT.



Some Good Markers for the Economy

- **Capacity Utilization** – ideal position is between 80% and 85%. Too low and there is too much slack in the system but too high and there is the potential for shortages and bottlenecks.
- **Capital Expenditures** – often tracks and pairs with capacity utilization.
- **Jobs Data** – look closely at both U-3 and U-6 numbers. The JOLTS report shows confidence levels and there is much concern now about the “unemployable”.
- **Durable Goods and Factory Goods** – the first looks at things designed to last more than three years but can be skewed by what happens in the aerospace world.
- **Purchasing Managers’ Index and Credit Managers’ Index** – surveys that can be trusted and tend to be predictive.
- **Transportation indices** – the proverbial canary in the coal mine

JOLTS Trends



Source: U.S. Bureau of Labor Statistics

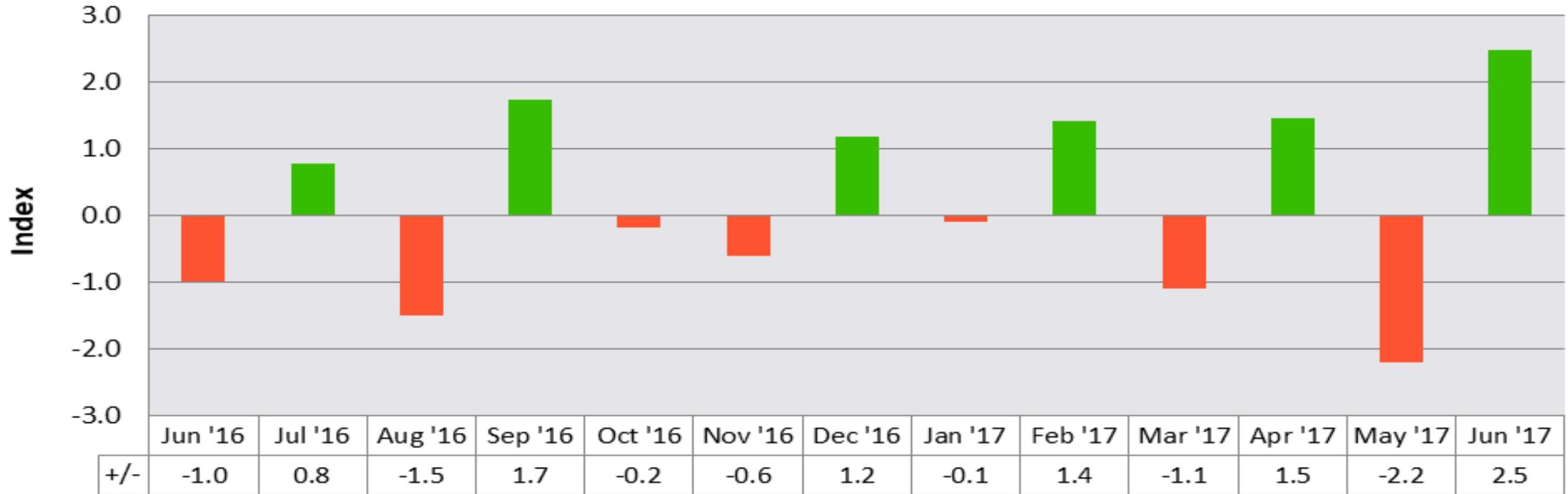
Above 50 and Gaining



CMI Trend

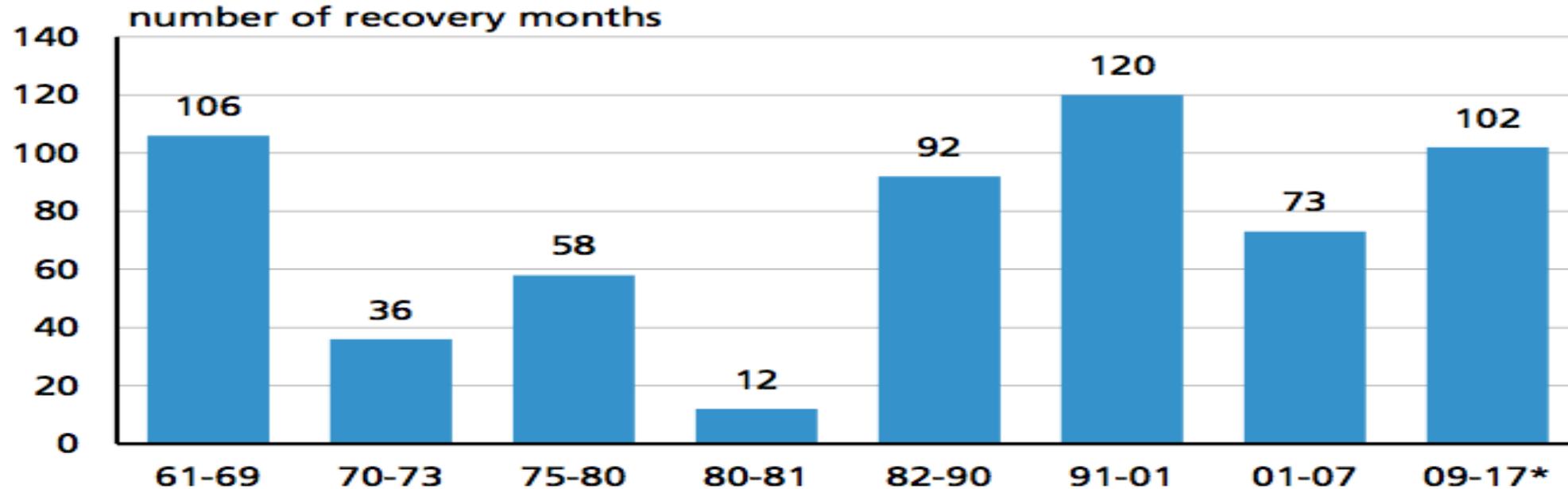


Combined Index Monthly Change
(seasonally adjusted)



How Long Does This Last?

Figure 1: The current recovery should be relatively long-lived.

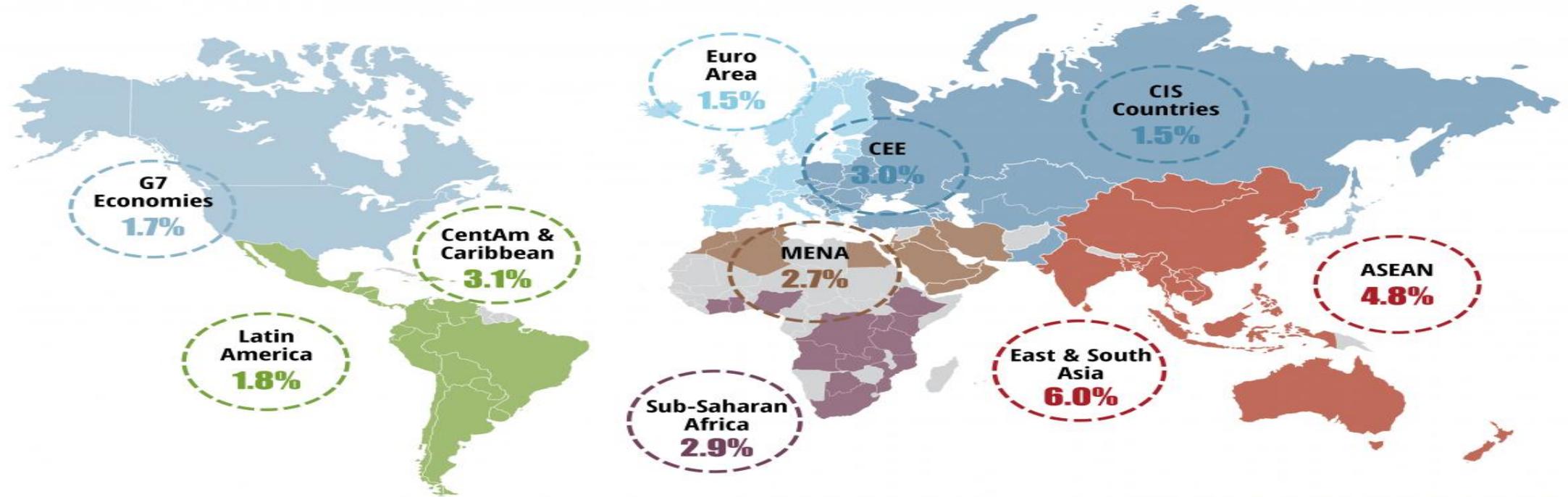


Source: National Bureau of Economic Research; UBS

*Estimate assumes recovery lasts through end of 2017

GLOBAL GROWTH TO EDGE UP IN 2017

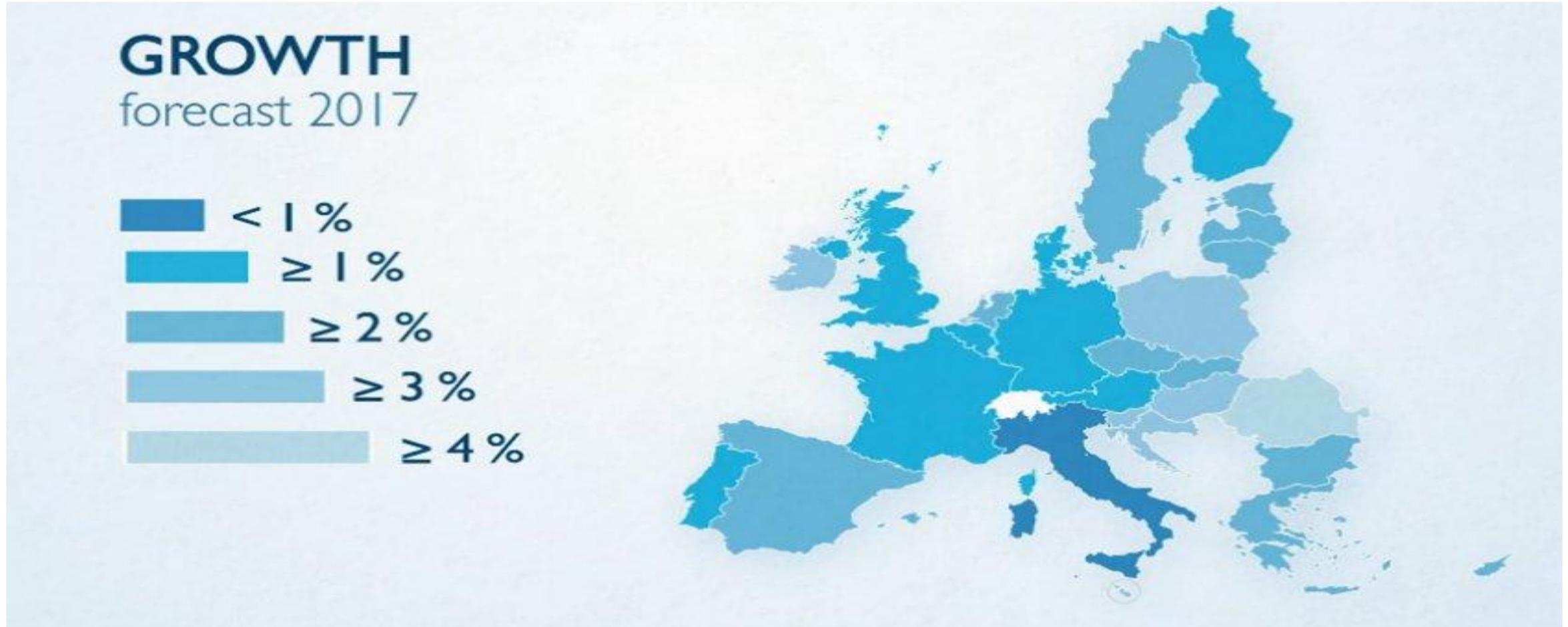
Geopolitical factors, elections in various European countries and the inauguration of Donald Trump as President of the U.S. will all contribute to a highly uncertain global context in 2017. Analysts expect the world to grow 2.9%.



FocusEconomics Consensus Forecast - www.focus-economics.com

FOCUSECONOMICS

European Growth



Will 2017 Be a Turning Point For Latin America?

The region is poised to experience the largest growth turnaround this year among the emerging markets



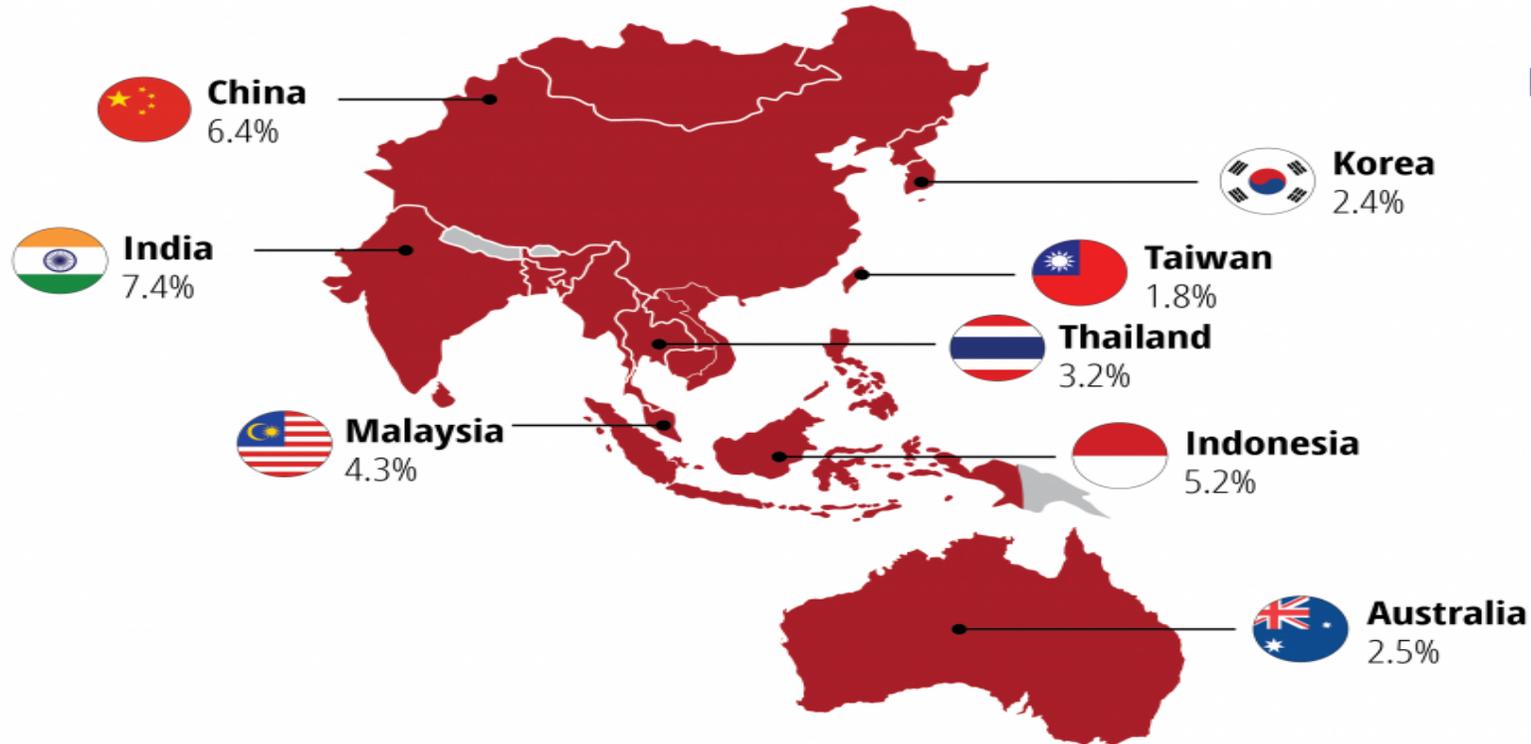
- 2017 expected to be a better year for **Latin America** but risks to the outlook loom on the horizon
- Analysts forecast **Latin America's** GDP to increase 1.6%, which matches last month's projection
- Growth is projected to perform at a steady pace in **Central America** and **the Caribbean** and will reach 3.1% in 2017

www.focus-economics.com
LatinFocus Consensus Forecast, February 2017

FOCUSECONOMICS

WHAT TO EXPECT IN ASIA FOR 2017

GDP growth forecasts for selected Asia Pacific countries



REGIONAL GDP FORECASTS

ASEAN

Analysts see the region growing **4.7%** this year on slower growth in Singapore.

East & South Asia

The region is expected to perform at a similar pace to that of in 2016 and grow **6.0%** this year.

www.focus-economics.com

FocusEconomics Consensus ASEAN and East & South Asia, February edition

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How Europeans See The US



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