



Rosenthal's Economic Update and Thought for the Week



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Friends and Colleagues

It's a new year and a new administration...and that means change is in the air.

Please read on for insights about the current state of the economy thanks to the economists at Wells Fargo Securities (WFS).

Where Are We Now?

Mixed Economic Activity in the 4th Quarter

- US GDP growth slowed to a 1.9% rate in in Q4, weighed down by slowing international trade.
- Domestic sales accelerated to a 2.5% rate, after slowing over the past 6 quarters.
- Personal consumption slowed to a solid at 2.5% growth rate.
- Business fixed investment increased at the fastest rate in over a year.
- Real equipment spending increased to 3.1% after 4 quarterly declines.
- Residential investment grew at a 10.2% annualized rate after 2 quarterly declines.
- Government consumption and investment continued its slow growth at a 1.2% pace.

Full-year GDP growth was 1.6% in 2016, matching 2011 as the slowest growth year in this recovery.

Oil prices have rebounded from their 2016 lows, and WFB expects a gradual appreciation from current levels.

WFB projects real GDP to accelerate to a 2.3% pace in 2017 with balanced economic growth.

The Trump Era - Anticipating Change

The Trump administration has promised to improve growth.
What does this mean for the future of financial markets?

His plan is to increase growth to 3% or greater through a combination of:

- Tax cuts
- Infrastructure spending
- Less regulation

Most current economic models are based on a prior goal of 2% annual growth

WFB shares their concern that at this stage of the business cycle, stimulus on the demand side will lead to higher inflation.

They project inflation to rise to 2.0% in 2017 vs. 1.1% in 2016.

Per WFB, the rising inflation expectation will likely result in the Fed rethinking its strategy regarding interest rates. They project that the Fed will be more aggressive in raising interest rates going forward.

WFB anticipates two increases in the Fed funds rate in 2017, with the possibility of a third increase depending on the inflation pattern cited above.

As a result, they project a rise in the two-year Treasury rate, but a flatter yield curve out to 10 years, as global capital continues to flow to the U.S.

The times, they are a- changing.

As always, the best way to keep in front of the curve is to stay informed.

So please stay tuned....

THOUGHT FOR THE WEEK

Kindness

The news is filled with stories of people needing to prove how right they are.
Positions are hardening and tempers are flaring.
Regardless of the damage to relationships with others, right is right.....isn't it?
Or is it?

What happened to our interest in compromise and finding a middle ground?
Where is our concern for kindness?

Many times a day, we choose whether to be right or to be kind.
Our words show whether we are more interested in talking or listening.

When we focus on being right, we may "win" but we also damage relationships in the process.

A funny thing happens when we focus on being kind...
We build bridges...which lead to understanding...which leads to compromise....which leads to solutions
where *both* parties win.

In the days and weeks ahead, let's remember to listen and try to understand first.
Then we can share our views with compassion and kindness.

Make it a great week!

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