

# Approaching the Redline

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## Redline

A set amount of RPMs which your engine can put out before you pretty much blow it up. This is usually where the numbers on your tachometer turn red.

-Urban Dictionary

# The Economy in 2006



# The Economy in 2009



# The Economy in 2017

- Creates jobs
- Labor shortage
- Wage increases
- Higher inflation
- Higher interest rates



# Job Openings in America

## Looking for Workers

|                                  |                  |
|----------------------------------|------------------|
| <b>Total Job Openings</b>        | <b>5,501,000</b> |
| Construction                     | 148,000          |
| Manufacturing                    | 325,000          |
| Trade, Transportation, Utilities | 1,034,000        |
| Professional & Business Services | 911,000          |
| Education & Health Care          | 1,193,000        |
| Leisure & Hospitality            | 703,000          |
| Government                       | 483,000          |

Source: Bureau of Labor Statistics  
BLS release on Feb. 7, 2017

# The Economy in 2017



“I would say at this point, fiscal policy is not obviously needed to provide stimulus to help us get back to full employment.”

-Janet Yellen,  
Chair of the Federal Reserve Bank  
WSJ Dec 16, 2016



## Key Issues in 2017: Economic Strength

- Economy still has a lot of energy left
- Fed wants to raise interest rates making dollar stronger
- Oil and gas industries are rebounding



## Key Issues in 2017: Economic Strength

- New bull market for single-family housing



# Pew Survey on Housing December, 2016

“A solid majority (72%) of renters say they would like to buy a home in the future.”

Source: Pew Research Center December 15, 2016  
In a Recovering Market, Homeownership Rates.....



## Key Issues in 2017: Fiscal Policy

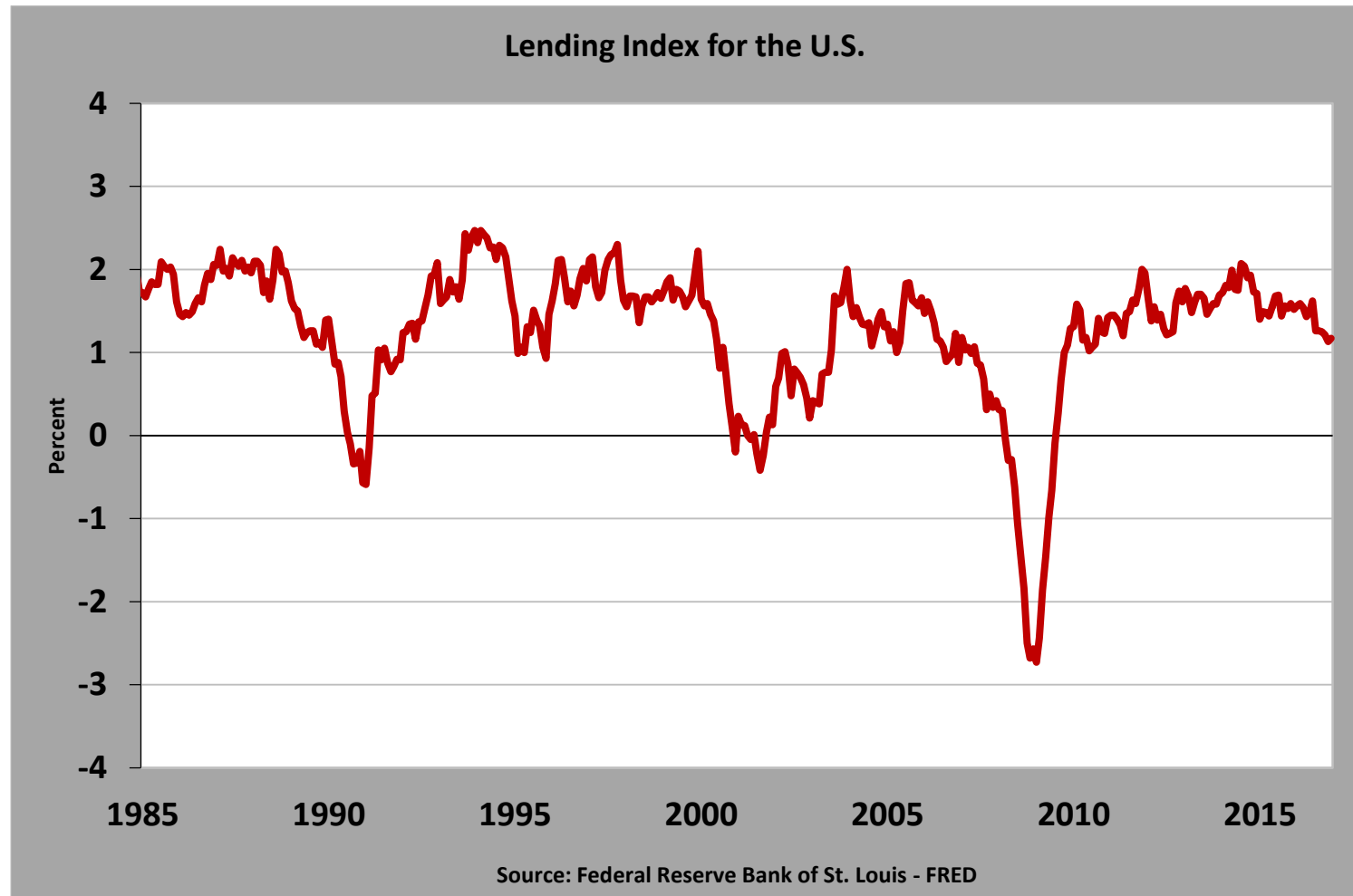
- Reduced regulation good for many industries
- Tax reform bullish for jobs, but unlikely to happen
- Infrastructure spending unlikely to happen either
- Can't pay for tax cuts or bridges without a border adjustment or getting rid of loopholes



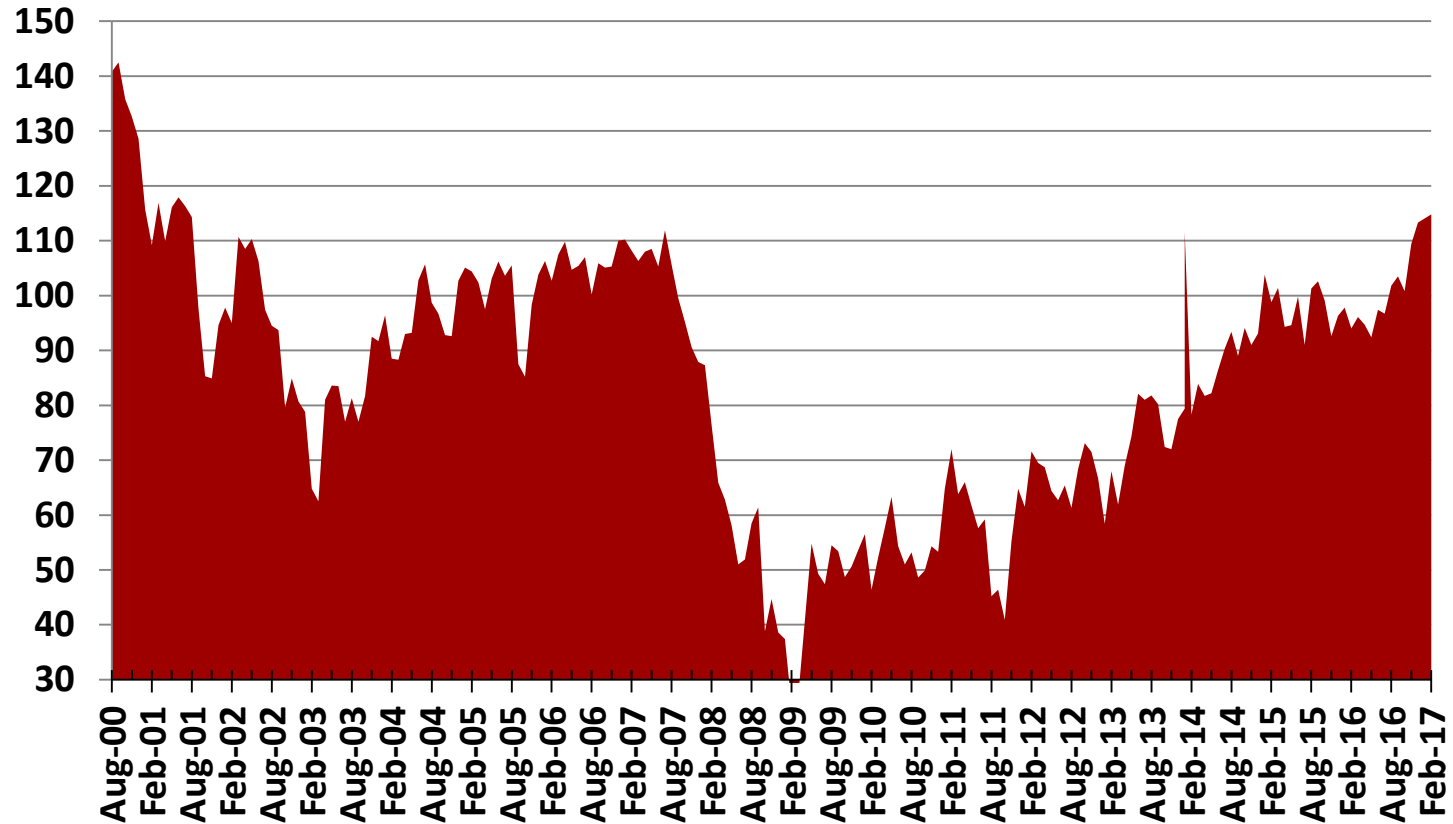
## Key Issues in 2017: Interest Rates

- Labor shortage could create wage inflation
- Stronger US dollar will make all imports cheaper and offset inflation
- Slower apartment rent growth will reduce inflation pressure
- 10-Year Treasury and cap rates unlikely to increase very much in 2017

# U.S. Leading Index of Economic Indicators

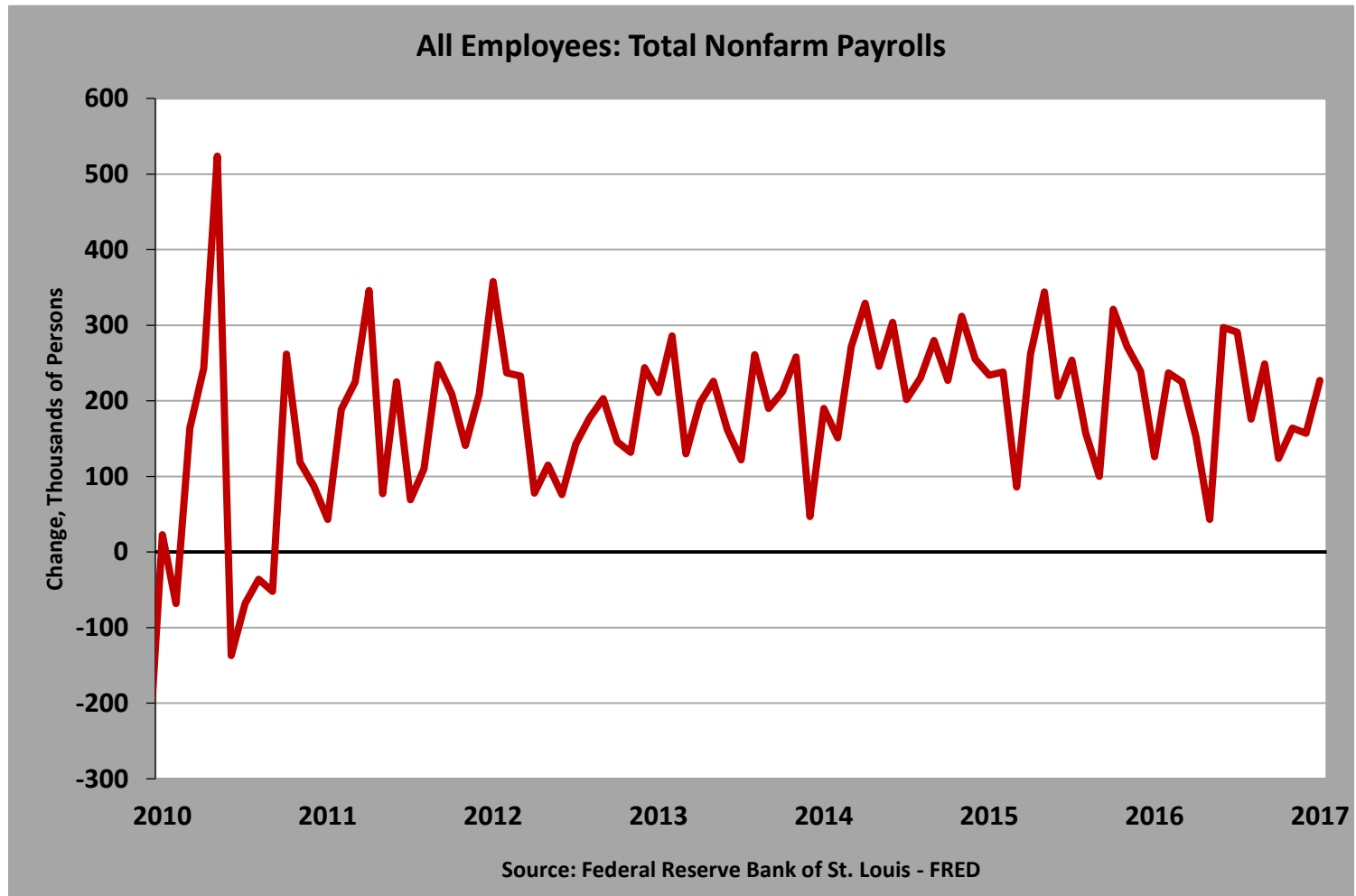


# Consumer Confidence Index

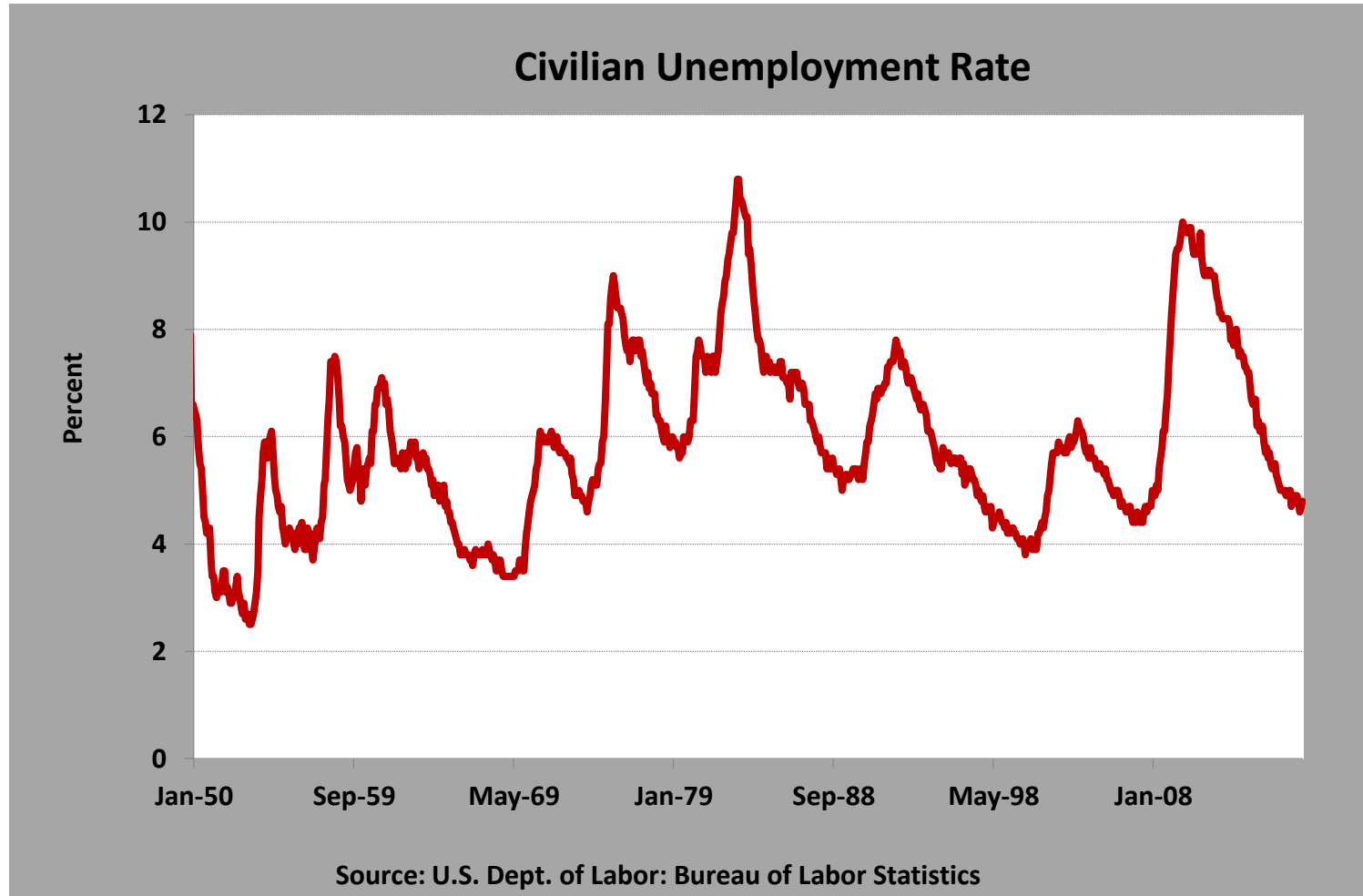


Source: The Conference Board

# New Jobs Created Each Month



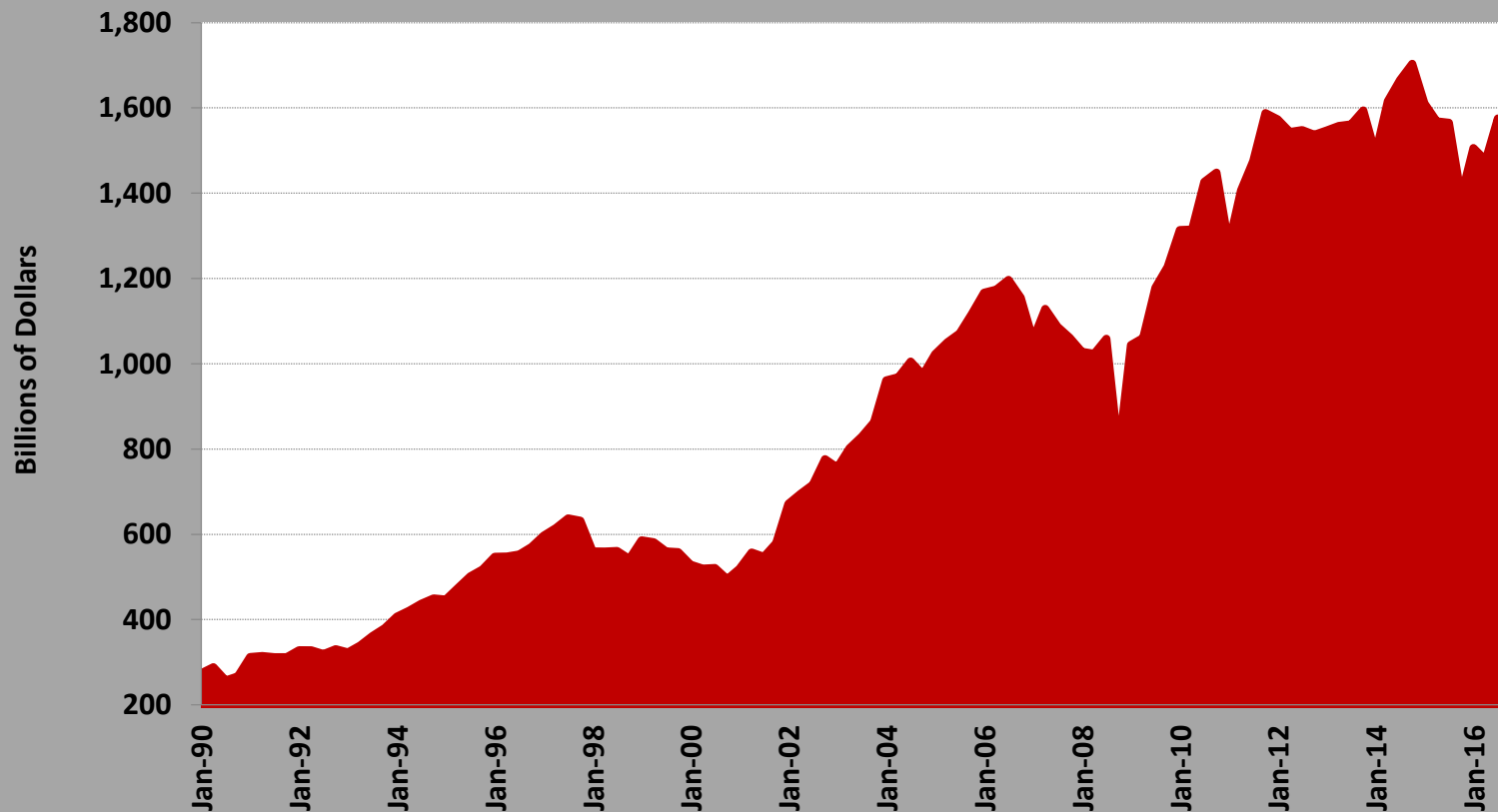
# Civilian Unemployment Rate



# Corporate Profits

## Rebounding

Corporate Profits After Tax with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment



Source: U.S. Dept. of Commerce: Bureau of Economic Analysis



# Small Business Outlook

“Planning To Hire People In The Next Three Months”



# U.S. Job Creation

- Sprint will move thousands of jobs back to the US. Soft-Bank will invest \$50 billion and create 50,000 jobs. Dec29
- Chrysler announced it will invest \$1 billion in two existing plants and create 2,000 new jobs. Jan9
- Amazon said it will create more than 100,000 full time jobs in the US in the next 18 months. Jan13

# U.S. Job Creation

- Taiwanese company Foxconn is considering building TVs in America under the Sharp brand.
- WalMart plans to add 100,000 jobs this year.
- Hyundai will invest an additional \$3.1 billion in existing US plants.
- GM plans to invest \$1 billion in US plants.

# Average Hourly Earnings

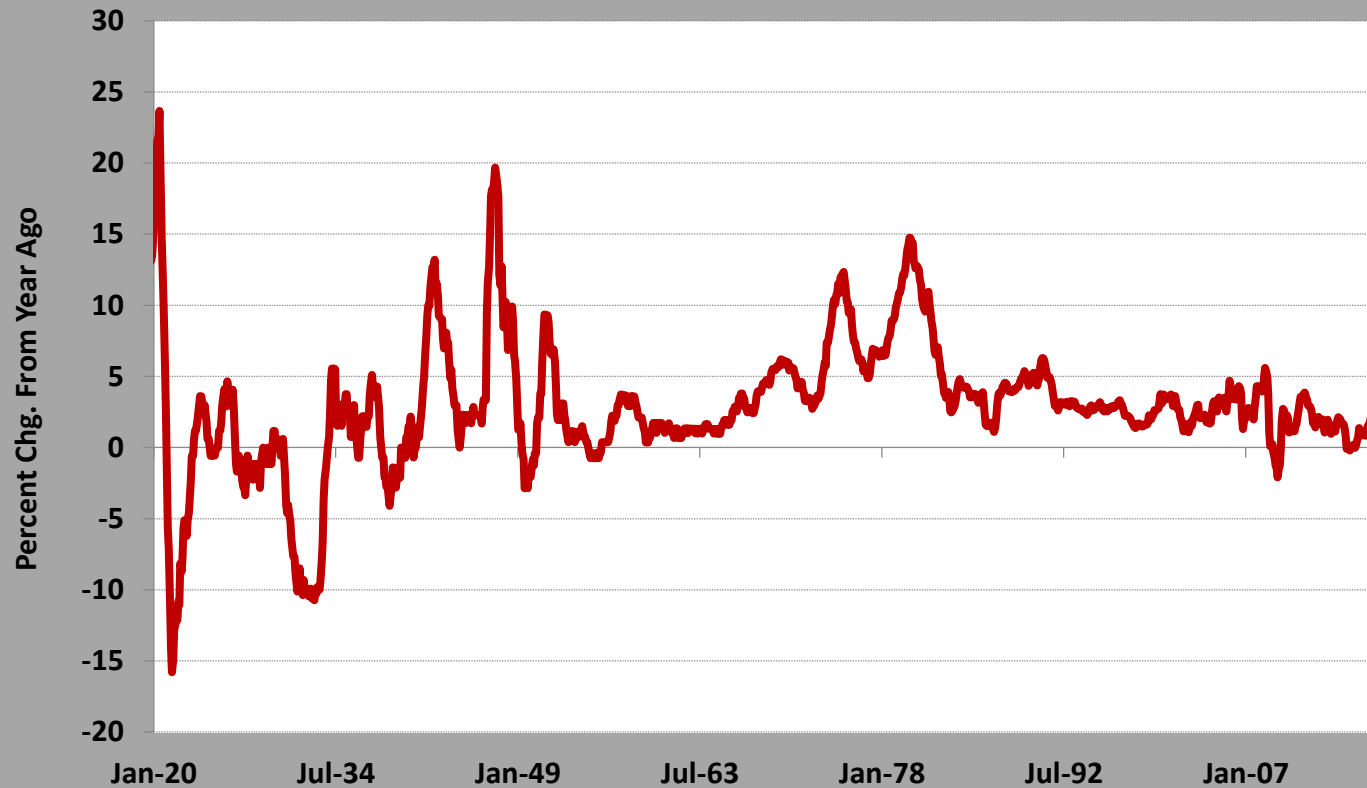
## Annual Rate of Change



# Inflation Outlook

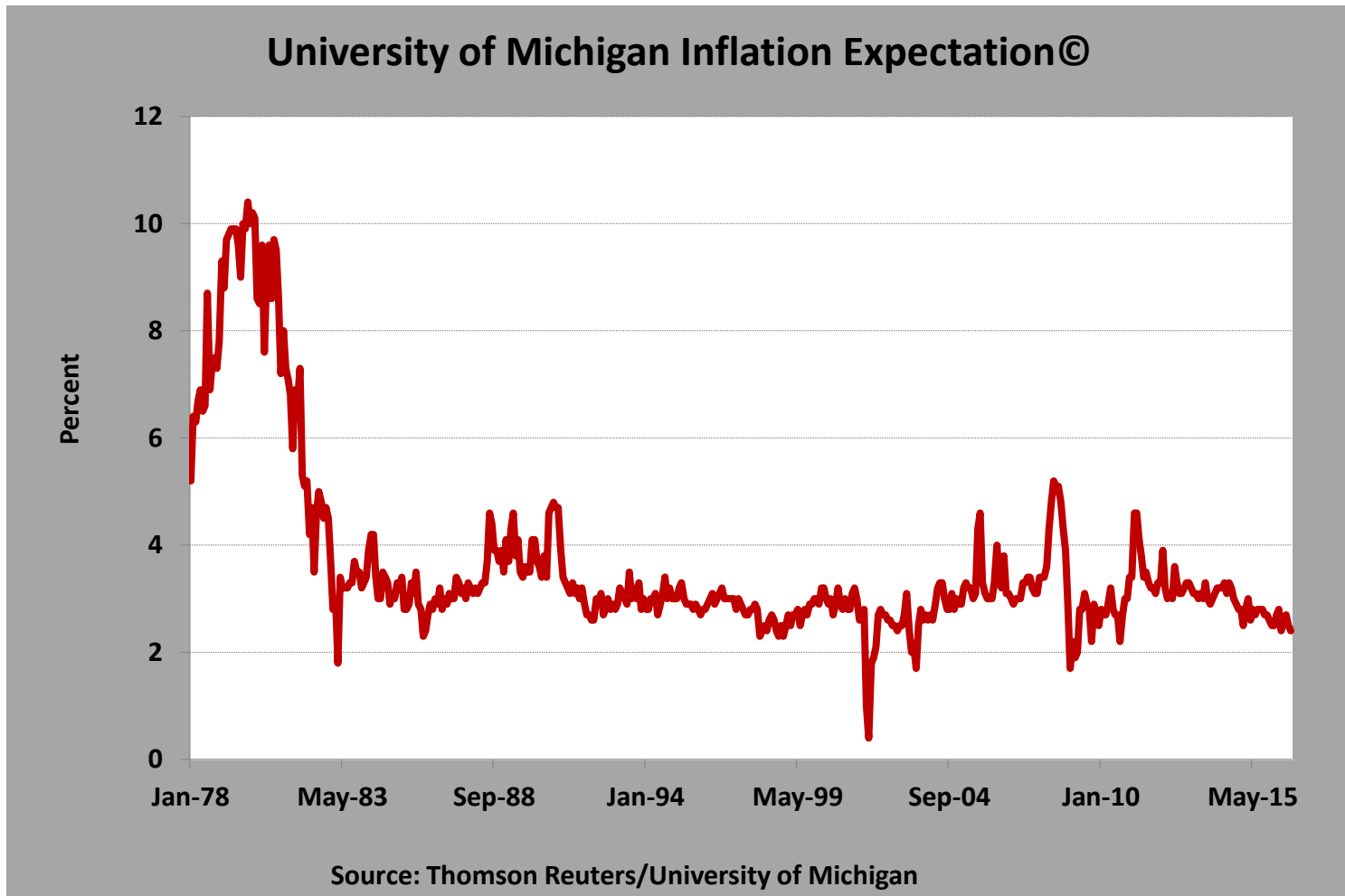
# Inflation Rate: CPI Remains Low Despite Food/Fuel

Consumer Price Index for All Urban Consumers: All Items



Source: U.S. Dept. of Labor: Bureau of Labor Statistics

# University of Michigan Inflation Expectations Survey



# What Can Keep Inflation in Check?





# Trade Weighted U.S. Dollar

Trade Weighted U.S. Dollar Index: Major Currencies



Source: Board of Governors of the Federal Reserve System



# Good News in Oil and Gas

# The Energy War Taking a Toll

ارامكو السعودية  
Saudi Aramco



National Iranian  
Oil Company  
NIOC

# Energy Wars

## \$65 is a “Fair Price”

OPEC president Mohammed bin Saleh al-Sada said a minimum price of \$65 a barrel is “badly needed at the moment.” He cautioned that the security of future supplies is at risk because of the price slump that has squeezed oil producers since 2014.

Source: Associated Press 5/24/16

# Middle East Budget Strains

The Saudi Binladin Group is the largest construction company in the Persian Gulf region. They have an estimated \$30 billion in debt

They haven't paid subcontractors and suppliers for months. The Saudi government is delaying payment for completed projects.

WSJ 3/26/16



# Saudi Binladin Group employees set fire to buses in protest after huge layoffs


RIYADH - The Associated Press

 Like 2

 Tweet

 G+1  0

 Pin it

 Share on Facebook







# Energy War Tolls Mount

Thousands of Indian workers in Saudi Arabia haven't been paid for months, prompting India's government to hand out food to hungry workers.

Assisting 10,000 Indian workers who New Delhi says are without a job, pay and food. Some workers for Saudi Oger report they haven't been paid in seven months.



🔑 Mattis Rejects Military Collaboration With Russia



🔑 Trump Drops Two-State Solution Push



🔑 China Moves to Keep Its Deadly Opioids Out of U.S.



MIDDLE EAST CROSSROADS  
🔑 Russia, Iran Need Each Other ...



WORLD | MIDDLE EAST

## Saudi Arabia Releases \$1 Billion to Help Laid-Off Migrant Workers

Saudi Binladin Group is said to get money owed by government so it could cover unpaid back wages

By **NICOLAS PARASIE** in Dubai and **SUMMER SAID** in Riyadh

Updated Oct. 2, 2016 8:39 p.m. ET

Saudi Arabia has released about \$1 billion in money owed to its biggest construction firm as part of government efforts to contain simmering labor unrest aggravated by low crude-oil prices.

AWE-INSPIRING  
INNOVATION





# American Energy Sector

## Signs of Life

- EOG bought properties in the Permian Basin that will yield 1740 “premium drilling locations.
- They are getting the extra buzz by drilling laterals that are twice as long. One well will produce a lot of oil!
- EOG defines a premium drilling location as one that will offer an after-tax IRR of at least 30% with oil at \$40 per barrel.
- That return could be as high as 60% if oil gets to \$50 per barrel.

# The Investment Climate for Real Estate

- U.S. college endowments lost 1.9 percent for the year ended June 30, 2016.
- In the prior 12 months, they saw an average gain of 2.4 percent.
- The 10-year average fell to 5 percent.
- This is well below the median 7.4 percent return they expect to earn over time.

Poor performance was attributed to international equities, energy and natural resources, commodities and hedge funds. Hedge funds were among the worst performers with a 4 percent loss.

# The Investment Climate for Real Estate

Best performers for endowments:

Private equity real estate with 7.1 percent return

Private equity investments with 4.5 percent return

Fixed income bonds with 3.6 percent return.