Market Update

26 August 2016

In this week's article I want to start by discussing upcoming trends which have so far failed to ignite economic growth globally and have seen North America progressively hollowed out over the last 30 years. The media has been flushed with articles, vblogs and documentaries about how the gutting of manufacturing jobs from North America and Europe to Asia has been destructive to society and only limited to the super wealthy. So the 80's - 90's trend of sourcing cheap labour failed on a multitude of fronts to bring about long term growth.

Historically, every 50 to 60 years there is a revolutionary change in the way we produce goods and live our lives. The last industrial revolution shaped how we lived, and the careers we chose. As did the first industrial revolution which saw people move away from farming and start living in cities. The next wave of change is upon us which will reshape once again how we live our lives. Why is the old wave ending? Well, how goods are produced and the lives we live have been pretty much uniform for the last 50 or so years (since the second wave referred to as industrial manufacturing). Today, if you walk into any manufacturing site it is nearly unchanged since the 1950, except for the automotive industry. In the late 80's and 90's, cutting costs was the big rage, so corporations left their native markets in search of cheap labour. We all know how the story ends. Massive job loss and wage deflation

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have been the main stay for nearly 3 decades. What has changed? Cheap labor is no longer cheap. Consumer appetite for all things cheap is eroding quickly. Lastly and more importantly is global political instability.

The three big reforms coming to the manufacturing world are advanced robotics, additive manufacturing and scale customization. Amazon for instance has started to place advanced robots which work along humans in assisting with job duties resulting in a 30% jump in efficiency. Many research papers have been written about what job types are needed to return to North America. Historically, jobs that employ volumes of people and supply nearby markets are the textile, garment and fashion industry. The textile industry was one of the largest employers in North America right from the turn of the century. Most of all these jobs are now located in Asia.

In many of my articles I have stated that the cheap labour model for doing business is over. The next big economic change coming is to encourage corporations to invest back in North America. Economic growth is vital to society, capitalism, democracy and most importantly to a healthy middle class. Advanced robots unlike industrial robots need human counterparts. Additive manufacturing such as 3D printing means manufacturing parts does not need to be made offshore. It can be done right in your own shop much more cheaply than buying Chinese. Scalable customization allows firms to adapt to market demands quickly without increasing prices or losing competitive market share.

It is important to note that North America represents the largest consumer base in the world. The big hope was that Asia will surpass North America in consumption is just not taking place. Inject into the mix, growing geopolitical instability and have secure Asian centric manufacturing plants becomes a monumental liability. Most of the world is in turmoil with no expectation of betterment. Specifically in the garment world, factories in Asia either burn down or collapse almost weekly. Consumers are demanding ethical production polices from the garment industry. Constant demand for transparency on how garments are made will force further change.The next big manufacturing revolution is upon us. It will affect every facet of our lives. A rapid and massive evolution is underway which will bring decade's long growth.

As my readers know, I believe that market speculators have already signaled that expectations are for a democratic win in America come November. The Trump campaign must reignite new life in their message or continue to struggle as the democrats have boxed them in.

According to Federal Reserve Chair, Janet Yellen, the case for an interest rate hike has strengthened in recent months because of improvements in the labour market and expectations for solid economic growth. However, Ms. Yellen did not indicate when the Fed might raise rates. She did reinforce the view that such a move could come later this year. The Fed has policy meetings scheduled in September, November and December. Speaking at a three day international gathering of central bankers and academics in Jackson Hole, Wyoming Ms. Yellen said the "American economy was nearing the Federal Reserve's statutory goals of maximum employment and price stability." Data released earlier on Friday, however, showed the economy was more sluggish than initially thought in the second quarter, with gross domestic product expanding at a 1.1 per cent annual rate. At the same time, consumer spending, which makes up more than two-thirds of economic activity, grew at the fastest rate since the fourth quarter of 2014. Ms. Yellen pointed to a recent rebound in employment and said the Fed expects the economy to continue expanding.

Central bankers around the world may be nearing their limits regarding quantitative easing and negative interest rates. Today, the Swedish Central bank, a major participant in negative interest rates, currency deprecation and quantitative easing, announced that it's nearing the end of their ability to keep buying government bonds and liquidity issues will start to arise. This is the second nation to announce that their central bank has reached a limit. The Bank of Japan was the first last month. Bond markets are broken with governments bonds seeing the heaviest hit. A slow and steady rise in interest rates in America will spare the Federal Reserve from the global blow back in government bond markets.

The leading economic indicator for the EU is not promising. The LEI (Leading Economic Index) for the Euro zone is down overall which is not surprising. However the fact that Germany and France are the largest declines is not good news at all. The same rate of decline is applicable to the United Kingdom. So the Brexit contagion is not just a plausible myth but playing out equally in both geographies. As these are the early stages, radical intervention looks to be necessary.

China's official economic numbers look promising however whether sustainability is attainable is another. Massive quantitative easing and unregulated lending to state held corporations are killing prospects of any future recovery. A glaring symptom is runaway bosses.

All across China are wanted posters and electronic billboards of runaway bosses. Behind every wanted poster, there's the story of a bankrupt factory. Business is going bust at rapid rates. Investment ventures are collapsing. The corporate heads of these firms have gone into hiding and taken state borrowed funds and hidden them in private offshore accounts. Chinese companies that rely on "the low end of value chain" are facing a big crisis as they are engaged in industries saddled with overcapacity and non competitive prices. I still remain firm that China and Asia as a whole have more economic pain coming.

Canada's economic recovery story according to finance minister Bill Moreau is all about infrastructure spending, job creation, increased automation and more immigration all which should boost productivity. The infrastructure spend project is nearly 12 billion over 5 years.

It is important to note that federally, we have gone from a $5 billion surplus last year to a $1 billion deficit in the first quarter of 2016. Canada did not enter the quantitative easing game aggressively like most G20 nations but it is sure leading the way in fiscal spending. Canada is seen as the safest place to live, play and invest. We have remained pandemic free and all our cities are safe. Clear about Canada's value proposition finance minister Moreau signalled that foreign investment is more than welcomed.