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Market Update

30 June 2017

America's consumer spending rose modestly in May and inflation cooled, pointing to a slow and steady economic expansion that could still lead to the Federal Reserve to raise interest rates by the end of the year.

Consumer spending, which accounts for more than two-thirds of economic activity, rose 0.1% last month and consumer prices, outside of food and energy were up 1.4% from May 2016 as reported by Commerce Department. The slower growth in consumer spending followed strong readings in April and March. The economy still appears on track to bounce back to stronger growth in the second quarter after a merger and acquisitions expansion in the first three months of the year.

The Personal Consumption Expenditures (PCE) price index fell 0.1% in May from April. When food and energy were excluded, it was up 0.1%. The one year reading for the so called core inflation has been slowing since February, although Fed Chair Yellen earlier this month said the dip was likely temporary. The IMF cut its forecast for American economic growth for this year to 2.1% from a previous estimate of 2.3%. Its leaders cited highly uncertain policies on tax reform and an agenda that hurts middle class Americans as well as long term challenges such as an aging labor force.

The International Monetary Fund (IMF) welcomed many of Trump's broad principles such as simplify taxes, rebuild roads and bridges, and lower government spending. However, it became evident that many details about these plans are still undecided. In January, the IMF raised its growth projection for America assuming that Trump and a Republican controlled Congress would get tax reform and other economic reforms under way which now is in doubt. President Trump's promise was to get economic growth up to 3% a year during his first term. But the IMF, citing its evaluation of Trump's budget, says the 3%



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goal is "an extremely optimistic growth assumption". Moreover, IMF leaders say it would be challenging to boost growth to 3% with the job market already at full capacity, along with a large share of baby boomers retiring which will slow economic growth. Many economists, including those at the Federal Reserve, expect growth of around 2% for the next few years. Trump's budget, as currently proposed, makes significant cuts that appear to counter to the budget's goals of promoting safety and prosperity for all Americans. Lower and middle class Americans would bear the brunt of Trump's budget cuts.

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The pain of Brexit is just starting to materialize on a grander scale according to a Deloitte study, published this week, that reveals that nearly half of all high skilled EU workers could leave the UK within five years. This may have been news to many Britons, but not to the 3 million EU nationals in this country. Some of them have already left and others are actively making plans. Many know at least one EU national or family who have left already. Everybody is considering their options and for good reason. Prime Minister Theresa May's government is in ruin and EU leaders are meeting to examine the possibility of Britain reversing Brexit.

The European Union's statistics office Eurostat estimated that consumer prices in the 19 countries sharing the Euro rose 1.3% year on year in June, decelerating from 1.4% in May and 1.9% in April. Economists polled by Reuters had expected a steeper deceleration to 1.2%. They also expected inflation excluding unprocessed food and energy, the two most volatile components at 1.0%, the same as in May. In fact core inflation accelerated to 1.2% in June, Eurostat data showed. The European Central Bank (ECB) wants to keep headline inflation close to 2% over the medium term and has been buying billions of Euros worth of government bonds on the secondary market to inject cash into the economy and spur faster growth. So as America and Canada look to raise rates and tighten monetary policy the ECB and many other developed and developing nations are just printing more and more money with negative interest rates.

President Donald Trump's proposal to sell nearly half the America's emergency oil stockpile is renewing debate about whether the Strategic Petroleum Reserve is still needed amid an ongoing oil production boom that has seen American imports drop sharply in the past decade. Trump unveiled on Tuesday, calls for selling an additional 270 million barrels of oil over the next decade, raising an estimated \$16.6 billion. The proposal, on top of planned auctions expected over the next few years, could push the reserve below 300 million barrels by 2025. Now, it is at 688 million barrels. The petroleum reserve, created in the wake of

the 1970s Arab oil embargo, stores oil at four underground sites in Texas and Louisiana. The reserve guards against disruptions in the flow of oil from the Middle East and other countries, and lawmakers from both parties have long warned against using it to raise money. So the oversupply issue will not just evaporate as OPEC reduces out put. What is clear is that oil does not have geopolitical surcharge in prices. Oil is being priced with zero chance of oil supply disruption from embargoes and wars in the Middle East and around the world. It has taken decades for the true price of oil to be apparent. Despite all the oversupply, this weeks oil prices rose higher due to the announcement of temporary supply cuts by American oil producers. However, the data points to oil not being able to hit the desired \$60 a barrel as both rig count keeps rising along with more oil production coming on line this year and next.

China's factories grew at their fastest pace in three months in June. The surprising strength in manufacturing defied further cooling that was expected. Robust external demand is the sole drive of China's renewed manufacturing burst forward. This could very well be a bellwether for global growth finally taking hold. A faint silver lining for China as storm clouds persist.

Statistics Canada reported the economy grew by 0.2% in April compared with a 0.5% in March. The growth was a direct result of service producing industries while manufacturing declined. So Canada's renewed growth is sector specific such as mining, quarrying and oil extraction. Along with a declining manufacturing sector, goods producing companies were unchanged. Celebrating Canada's 150 is just a wonderful feeling. We are I believe the greatest nation on Earth to live, work, play and accumulate wealth. However, the above numbers from Statistics Canada are nothing to even smile about. Our manufacturing is on a slow death spiral as we revert to exploiting our resources and minerals to stay afloat. At some point the rapid expansion of debt will come to bear its full weight.

Housing market trends continue to diverge considerably among regions along four general themes: British Columbia, the Greater Golden Horseshoe, oil and natural resource dependent provinces, and everywhere else. In British Columbia, activity is showing early signs of recovering from last year's correction in some areas of the province. This suggests home buying sentiment may be starting to improve. In Ontario, evidence suggests that housing market sentiment has similarly cooled following housing policy changes made by the provincial government in April 2017. Trends for the province are softening, with home sales and price growth in the Greater Golden Horseshoe region slowing. Sales in British Columbia are still forecast to decline in 2017 compared to the all

time record in 2016 (-9%). Newfoundland & Labrador is also forecast to see a sizeable decline in sales in 2017 (-11.7%), continuing a softening trend that stretches back nearly a decade. Smaller declines in activity are forecast for Saskatchewan (-4.4%), Ontario (2.1%) and Prince Edward Island (5.3%).



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