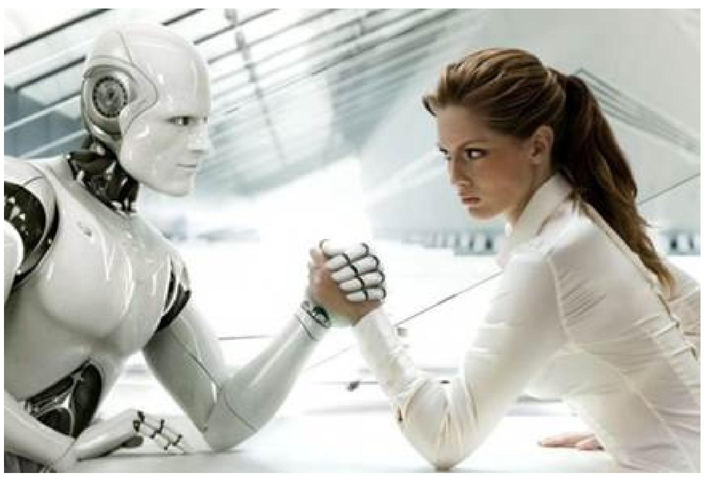
Ermes Monaco

From: Ermes Monaco
Sent: April-18-17 2:26 PM
To: Ermes Monaco
Subject: VALUED CLIENT MAIL LIST: Economic Outlook - Spring 2017

HollisWealth
MonacoAdvisorTeam

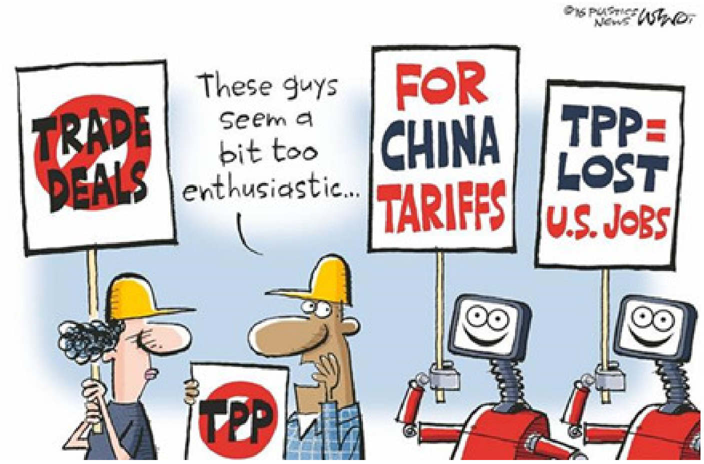
THE MISCONCEPTION ABOUT GLOBALIZATION: IT'S REALLY ABOUT HUMANS VS AUTOMATION



Source: Google Images

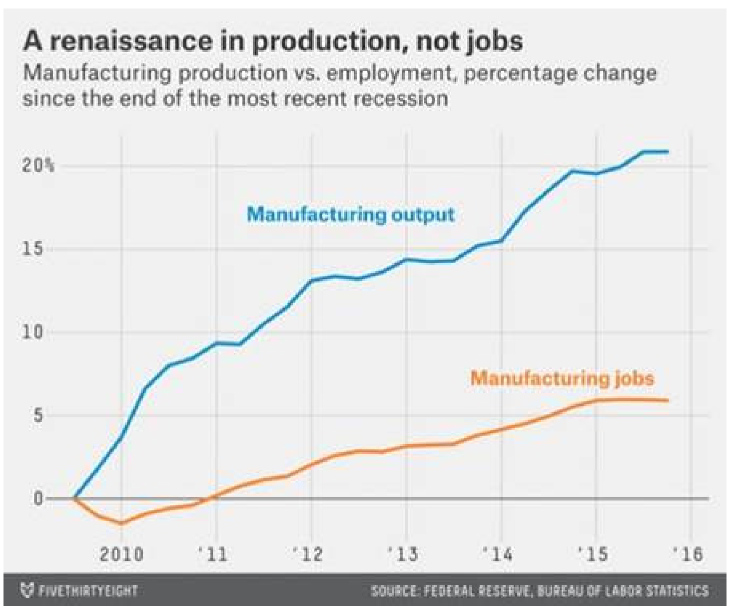
(Author's note: While current geo-political events continue to draw considerable public attention, the financial markets have been reverting back to economic fundamentals as the drivers for direction post-U.S. election. This recognizes White House intentions of tax cuts and infrastructure spending as being longer term developments. Therefore, the following analysis looks at a more immediate economic situation having pivotal implications for sustained growth.)

An argument being promoted by the current U.S. administration is that employment, recovery and prosperity are being largely hampered by manufactured goods produced elsewhere in the world being exported to the U.S. The reality is that there is strong domestic demand for these products. Moreover, greater reciprocal trade to stimulate the purchase of U.S. goods produced would promote U.S. interests better rather than trade barriers raising the cost of living for Americans. The risk to this is further global economic instability which foments further geo-political risk.



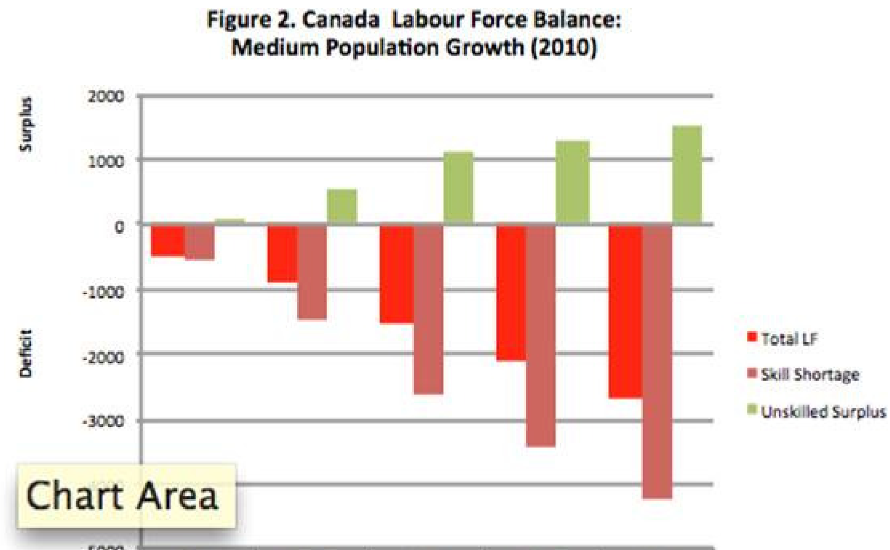
Source: Google Images

In practice, production has, in fact, been growing and contributing to GDP. The issue is really that this <u>growth is being created increasingly by automation rather than human employment</u>. Consequently, the contribution to GDP by consumer demand is muted as job growth and wage gains remain static in the face of increasing automation.



Source: Federal Reserve Bureau of Labour Statistics

We seem to be competing with automation for <u>repetitive and standardized fixed output</u> jobs rather than seeking training and employment requiring more sophisticated skills and thinking which is not suitable for machinery (artificial intelligence is still in its infancy). As a result, we have a skills shortage with available jobs of value to employers remaining unfilled. Employers can only improve the value of their businesses through product and margin improvement and not simply by reducing wage costs. However, where a human cannot add value for a routine process, automation will likely replace the human function.



	2011	2016	2021	2026	2031
Total LF	-472.9	-914.4	-1526.3	-2117.7	-2700.7
Skill Shortage	-560.9	-1464.1	-2643.9	-3402.5	-4204.2
Unskilled Surplus	88.0	549.7	1117.6	1284.8	1503.5

Source: C21

Canada

Source: Google Images

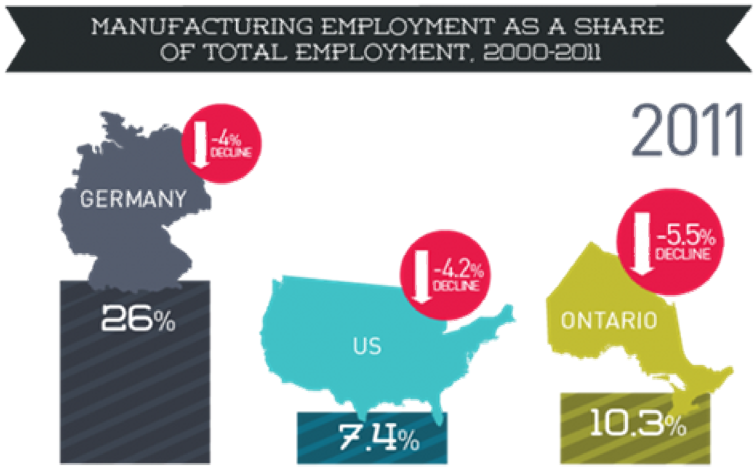
Even non-manufacturing human based activity is also being threatened; witness current trials by Uber for driverless cars.

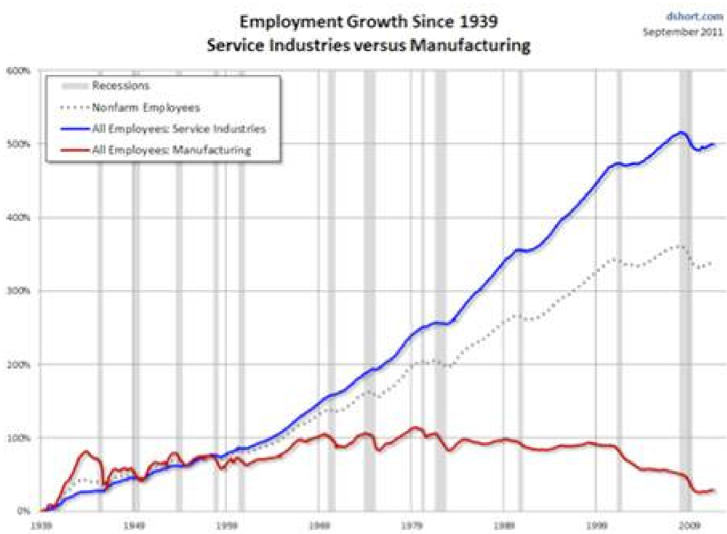
Source: Google Images

What can we draw from this trend looking forward?

1. **<u>Firstly, we must realize that manufacturing continues to represent a declining component of GDP for western economies which is being replaced with services of increasing value to GDP.</u> Eventually, the same wage price pressures which undermined traditional manufacturing in Western economies will also become relevant for off-shore regions and that labour pools will shift to emerging regions as long as there is a jurisdiction willing to work for less for low skilled labour.**

   The manufacturing that does survive and prosper will involve more complex and sophisticated products built by humans having higher order technical training operating machinery to produce the physical good: Witness modern building and construction techniques. Concurrently, service sectors such as I.T. and bio-pharma continue to lead innovation and expansion. Collectively, these initiatives will enhance prospects for greater employment and wage gains even without addressing global trade deficits.





Source: Google
Images
Insider

Source: Business

2. These higher order service and manufactured goods have value globally although there is always the tendency to replicate technologies rather than purchase them. However, considerable research, development and capital is required to create these improvements; R&D is an emerging business industry in itself. This precludes emerging economies from being able to remain current with the latest developments so that services also hold value for export.

   Of potential risk are trade barriers which are counterproductive to promoting exports and more balanced trade. In this capacity, the current Canadian government has been pursuing a number of initiatives intended to encourage exports in the areas of:

   - Recent trade and reciprocal agreements in place or being negotiated with the U.K., the EU, Pacific Rim countries and Mexico.
   - New R&D projects, some including joint sovereign ventures, being subsidized with business and universities in the areas of bio-pharma, I.T., artificial intelligence, renewable energy, automotive production.

A persistent issue with R&D is the timely return on investment as some research fails, becomes obsolete before realization or ultimately becomes cost inefficient. There also continues to be a general lack of accountability on the part of recipients of government financial support. An argument exists to provide tax cuts to industry to allow it to develop benefits in its own interest. However, this trickle down approach has not historically proven to be effective as tax savings are often used to improve margins instead. Furthermore, in place of greater human productivity created by innovation, businesses will be tempted to more simply reduce costs by off-shoring.

3. A realization is required to modify populist thinking that refugees and off-shore employment are the main obstacles to their prosperity. Obsolescence created by innovation has been the main instigator of economic evolution affecting employment: Just consider the candle maker at the time of the invention of the light bulb or the manual production of camera film when digital photography was developed. GE has survived and evolved while Kodak is a nostalgic memory.

Ultimately, an active and employed population will contribute to prosperity better serving socio-economic issues globally. We just need to focus on the ailment not the symptom.

Regards
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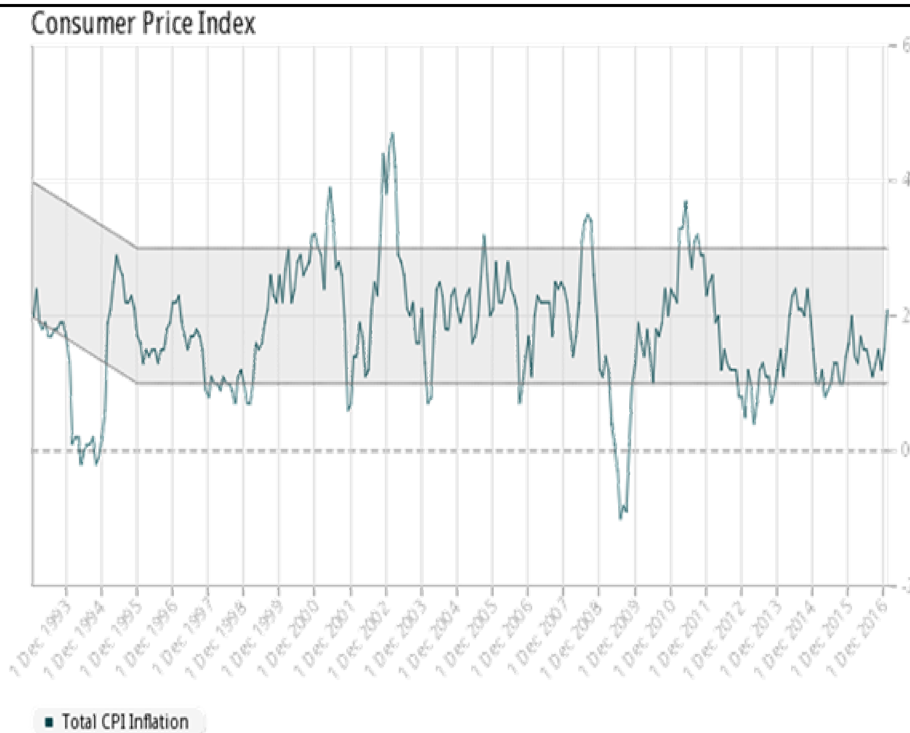
KEY ECONOMIC INDICATORS and BUSINESS SECTORS	
 Last 3 Years Source: Globeinvestorgold	The Canadian dollar continues to be range-bound and reflect oil commodity price levels.
.Canadian Inflation	Despite the weaker Canadian dollar,

Source: Inflation.eu

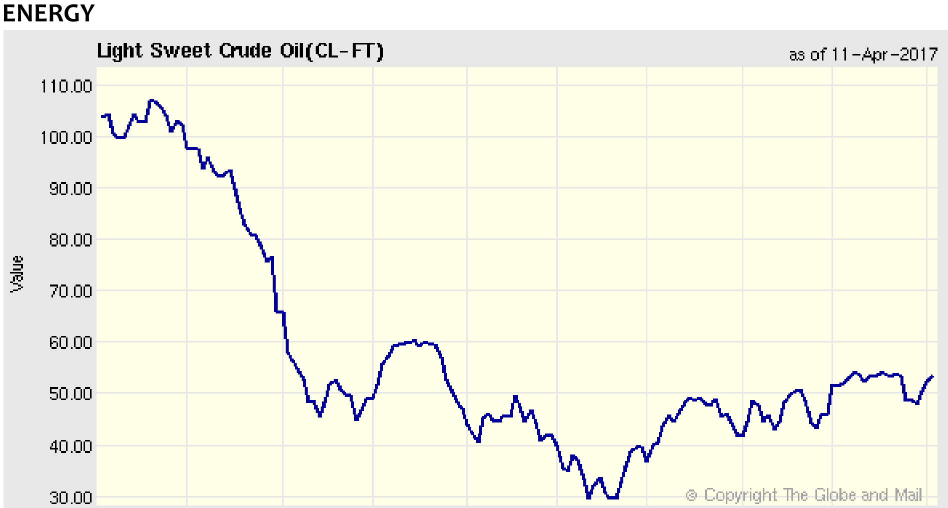
inflation remains contained as softer consumer consumption and increased debt reduction is avoiding a stimulation of inflationary pressure. Responding to recent economic activity, the Bank of Canada has recently indicated it is seeking sustained economic strength impacting inflation before considering an interest rate increase.



Source: Bank of Canada

Canadian GDP remains within the 2% range which reflects the general level of employment and wage gains. Non-energy related industrial production, which is largely dependent on U.S. strength, continues to show moderate improvement to offset the weakness in the energy sector which has represented a predominant component of Canadian GDP.

ENERGY



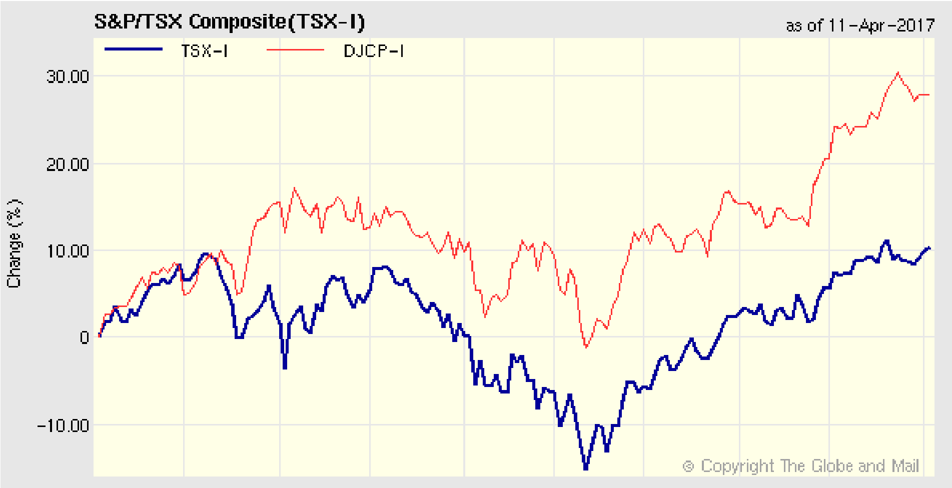
Last 3 Years

Source: Globeinvestorgold

Oil prices have found recent support around US$50. which continues to be dependent on the level of production should the U.S. follow through with its plans to increase production despite OPEC having signalled a production hold at this time.

FINANCIAL MARKETS

Post-election market gains have been driven by expectation of US tax cuts and



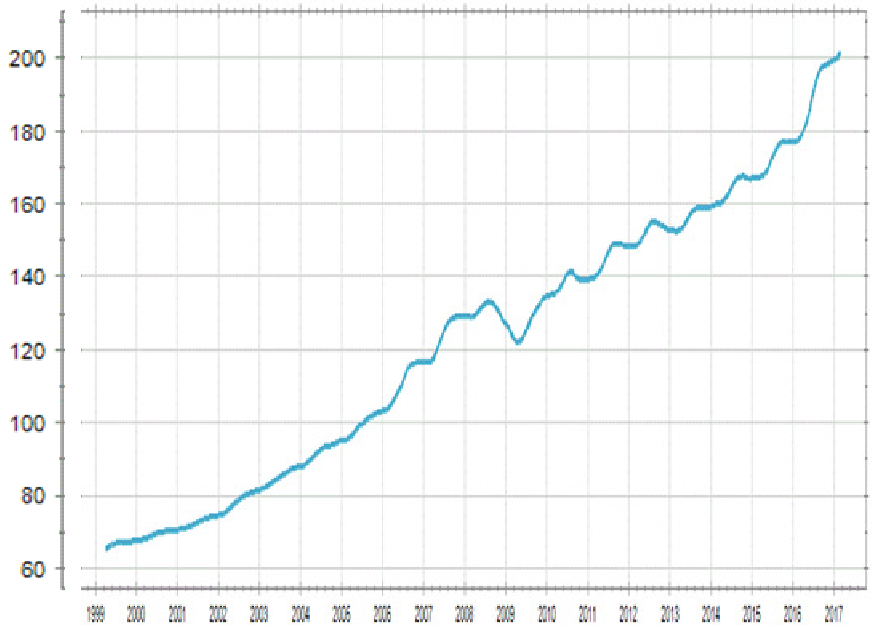
Last 3 Years

Source: Globeinvestorgold

defense/ infrastructure spending. This attracted an amount of idle capital returning to the risk markets on the strength of expectation. However, this has moderated recently based on a wait and see shift in attitude.

In the meantime, market uncertainty remains high and substantial capital remains un-invested in the risk sectors.

REAL ESTATE
Canadian Index



Source: Teranet

Despite government and regulatory measures to moderate interest, the real estate sector remains a core source of consumer and business activity.

Pending higher interest rates which remain dependent on inflation, this activity should continue. Emerging consensus suggests that price weakness should be moderate even in the face of a correction in the sector.

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