

Points to Ponder

Ross Elford April 17, 2017

Capital Markets Group

The First Tee...

Manufacturing Magnitude...despite the U.S. ongoing transition to a service providing economy, goods production remains a key aspect of GDP (*widget windfall*):

- Manufacturing has taken-on a new focus as President Trump is proposing policies to bring-back and keep factory jobs in the U.S. (labor costs and worker skill-sets will be major hurdles).
- **Factory Factoids...here is a manufacturing primer on the state of U.S. goods output:**
 - Manufacturing contributes almost \$2.2 trillion to the economy (rebounding from \$1.7 trillion during the Recession):
 - Manufacturing accounts for about 12% of GDP...U.S. manufacturing would be the 9th largest economy in the world on a stand-alone basis:
 - For every \$1 spent in manufacturing, another \$1.81 is added to the economy...the highest multiplier of any economic sector.
 - There are over 252,000 firms in the manufacturing sector, with 83% being either S-Corps, partnerships or sole proprietorships (sole proprietorships comprise about 18% of this total):
 - All but 3,750 of these firms are classified as small (under 500 employees)...with three-quarters of these firms having less than 20 workers.
 - U.S. manufacturers perform over 75% of all private sector research and development in the nation:
 - R&D spending has more than doubled since 2000 to \$250 billion (pharmaceuticals account for one-third of all manufacturing R&D).
 - Manufacturing accounts for 9% of the workforce (12.3 million workers)...the sector has added over 1 million jobs since recession:
 - For each manufacturing job created, it is estimated an additional 3.4 jobs are generated in other fields.
 - The average manufacturing worker in the U.S. earned \$81,300 at the end of 2015...average earnings in all industries was \$64k.
 - Manufacturers have one of the highest percentages of employer offered health benefits at 92%...79% is national average:
 - 84% of manufacturing workers eligible for health insurance utilize the benefit, 3rd highest of all sectors.
 - During the past quarter-century, manufacturing worker productivity has increased over 2.5 times, aiding the competitive edge over global competition...U.S. worker efficiency for all non-farm businesses improved at a 1.7 times rate during this period:
 - Manufacturing Unit Labor Costs have declined by 8.4% since the Great Recession...even larger cost declines for durable goods firms.
 - It is estimated, over the next decade nearly 3.5 million manufacturing jobs will likely be needed:
 - 2 million of these new jobs are forecast to go unfilled due a gap in needed skills...*blue collar back-log!*
 - U.S. exports of manufactured goods have quadrupled over the past 25 years to 1.3 trillion:
 - Nearly half of all manufactured goods exports went to countries that the U.S. had free trade agreements:
 - In 2015, the U.S. had a \$12.7 billion manufacturing trade surplus with its trade agreement partners...this compares to a \$639.6 billion trading deficit with the countries with no agreements (China comprised the majority of the gap at a \$336.2 billion).
 - Foreign investment in U.S. manufacturing exceeds \$1.2 trillion...has more than doubled in the past 10 years:
 - U.S. affiliates of foreign multi-national companies employ over 2 million manufacturing workers in America.
 - Manufacturing uses 30% of total U.S. energy consumption (*for the science minded readers, that's about 31.5 quadrillion Btu's*).
 - Manufacturers pay on average \$19,564 per employee to comply with federal regulations:
 - Firms operating outside the manufacturing sector pay \$9,991 per employee on average to meet regulations:
 - Small manufacturers (less than 50 employees) spend 2.5 times the amount of large manufactures in compliance costs.
 - Environmental regulations account for 90% of the difference in compliance costs between manufacturers and other firms.

At the turn...

We ask, listen and solve.



Investments in Securities are:
Not FDIC Insured • No Bank Guarantee • May Lose Value

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The Back Nine...

Grain Wars...planted acres of soybeans may exceed corn for the first time since 1983:

- Farmers have committed to planting more soybeans after seeing February's cash price rise more than 9% since last year's harvest...creating the widest premium to corn in almost 30 years:
- More acres are available to plant corn and beans due to the smallest wheat plant since 1909:
 - Unfortunately, with everyone getting on the soybean planting bandwagon this year, the price of soybeans has contracted 10% in value (while the value of corn is off 3.5% during the past 3 months)...*arbitrage anorexia!*
 - The rising global consumption of meat, poultry and dairy has doubled the amount of soy used in feed since 2000:
 - China is the world's largest pork producer...Chinese soybean imports have doubled in the past 8 years.
 - Seed technology that combats drought, insects and disease has helped farmers produce record corn & bean crops:
 - It will cost about \$292 to \$315 per acre to grow beans this year, compared to \$521 to \$531 for corn.
 - Before soybeans late winter price swoon, the crop was expected to be \$47 an acre more profitable than corn.
 - Corn remains the largest U.S. crop by value and volume (when corn prices were topping over \$5 per bushel in 2014, it was yellow gold).
- Farmers remain wary of the President's plan to cut farm subsidies and disrupt trade deals.

Irrational Exuberance?...stocks get jump out of new-year gate (enough endurance to sustain fast pace?):

- Data format: April 1, 2016 / January 1, 2017 / April 1, 2017 :

Equities

Dow: 17685 / 19762 / 20663
S&P 500: 2059 / 2238 / 2362
NASDAQ: 4869 / 5383 / 5911
Russell 2000: 1114 / 1357 / 1385

Commodities

CRB: 170 / 192 / 185
Oil: \$38.34 / \$53.72 / \$50.60
Gold: \$1232 / \$1152 / \$1249
Natural Gas: \$1.95 / \$3.72 / \$3.19

Borrowing Benchmarks

Libor:

1mo: .437% / .771% / .982%
3mo: .628% / .997% / 1.149%
6mo: .898% / 1.317% / 1.423%

Treasuries Issues

3mo: .19% / .51% / .73%
6mo: .37% / .62% / .91%
1yr: .59% / .85% / .99%
2yr: .72% / 1.19% / 1.25%
5yr: 1.20% / 1.92% / 1.92%
7yr: 1.54% / 2.24% / 2.21%
10yr: 1.77% / 2.44% / 2.38%
30yr: 2.61% / 3.06% / 3.01%

Currencies

Euro: 1.138 / 1.051 / 1.065
Yen: 112.57 / 116.96 / 111.39
Peso: 17.27 / 20.72 / 18.72
Canadian \$: 1.300 / 1.344 / 1.331

Grain Futures

Corn: \$3.51 / \$3.52 / \$3.64
Soybeans: \$9.10 / \$10.04 / \$9.46
Wheat: \$4.73 / \$4.08 / \$4.26

Federal Funds Open: .37% / .66% / .90%

Prime Rate: 3.50% / 3.75% / 4.00%

Job / Inflation Indicators

Unemployment: 5.0% / 4.7% / 4.5%

Consumer Price Index: 1.0% / 2.1% / 2.7%

Core PCE Index: 1.67% / 1.6% / 1.8%

19th Hole...

The person who makes no mistakes does not usually make anything.

W.C. Magee

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