

WEEKLY ECONOMIC UPDATE

January 9, 2017

WEEKLY QUOTE

“One must know oneself, if this does not serve to discover truth, it at least serves as a rule of life and there is nothing better.”

- Blaise Pascal

WEEKLY TIP

Child care costs for working parents can be steep. Fortunately, some employee benefit plans offer dependent care flexible spending accounts. Parents can pay for qualified child care expenses and get a tax break at the same time by using these FSAs, which can be funded with pre-tax dollars.

WEEKLY RIDDLE

It lacks fingers, yet it points. It lacks feet, yet it constantly runs. It lacks arms, yet it may periodically strike. What is it?

Last week's riddle:

Kylie tells her friend Danielle that she knows of a place where Valentine's Day comes after the Fourth of July. Where is this place?

Last week's answer:

In the dictionary.

RIISING WAGES, MODERATE HIRING IN DECEMBER

The Department of Labor's latest employment report shows the average hourly wage at \$26.00 last month, up 2.9% in a year. That is the largest annualized wage increase seen since June 2009. Payrolls expanded by 156,000 additional hires in December, leaving total 2016 job growth at a 5-year low of 2.2 million. (This could be a sign of the labor market reaching full employment.) The headline jobless rate ticked up to 4.7%, while the U-6 rate encompassing the underemployed was at 9.2%.¹

MANUFACTURING ACTIVITY PICKED UP AS 2016 ENDED

Investors liked what they saw in the Institute for Supply Management's December purchasing manager indices. ISM's manufacturing PMI rose 1.5 points to 54.7, its best reading in two years. The Institute's service sector PMI held steady at an impressive 57.2 last month.^{2,3}

FED OUTLOOK: CAUTIOUSLY OPTIMISTIC

Minutes from the December Federal Reserve policy meeting noted that Federal Open Market Committee members were reasonably confident about the economy for 2017, while citing some "uncertainty about the timing, size and composition" of future policy moves. In other words, the Fed may or may not ultimately follow through on its 2017 forecast of three interest rate hikes. FOMC members saw "only a modest risk" of a "sharp acceleration in prices" this year.⁴

DOW ENDS WEEK AT 19,964

The blue chips hit an intraday high of 19,999.63 Friday on the way to a 1.02% weekly advance to 19,963.80. As the Dow flirted with history, the S&P 500 and Nasdaq made history, respectively closing at record peaks of 2,276.98 and 5,521.06. The S&P gained 1.70% for the week; the Nasdaq, 2.56%. Dropping 19.37% in five days, the CBOE VIX "fear index" finished the trading week at 11.32.^{5,6}

THIS WEEK: On Monday, Acuity Brands, Alcoa, and WD-40 report Q4 results. Nothing significant is scheduled on Tuesday. KB Home and SuperValu announce earnings Wednesday. Thursday, the latest initial jobless claims report appears, Federal Reserve chair Janet Yellen addresses teachers at a Washington, D.C. town hall meeting, and Delta Air Lines shares Q4 results. The week's major news items all arrive Friday – investors will consider the December retail sales report from the Census Bureau, December's Producer Price Index, the initial January University of Michigan consumer sentiment index, and earnings reports from Bank of America, BlackRock, JPMorgan Chase, PNC, and Wells Fargo.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+1.02	+18.08	+12.30	+6.10
NASDAQ	+2.56	+14.17	+21.29	+12.68
S&P 500	+1.70	+14.41	+15.64	+6.15
REAL YIELD	1/6 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.46%	0.65%	-0.11%	2.38%

Sources: wsj.com, bigcharts.com, treasury.gov - 1/6/17^{6,7,8,9}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

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Website: www.fulcrumfinancialgroup.com



Sarah L. Carlson CFP®, CLU, CHFC

1403 S. Grand Blvd. Suite 201 N.
Spokane, WA 99203
p. 509-747-2075
f. 509-456-2438

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