

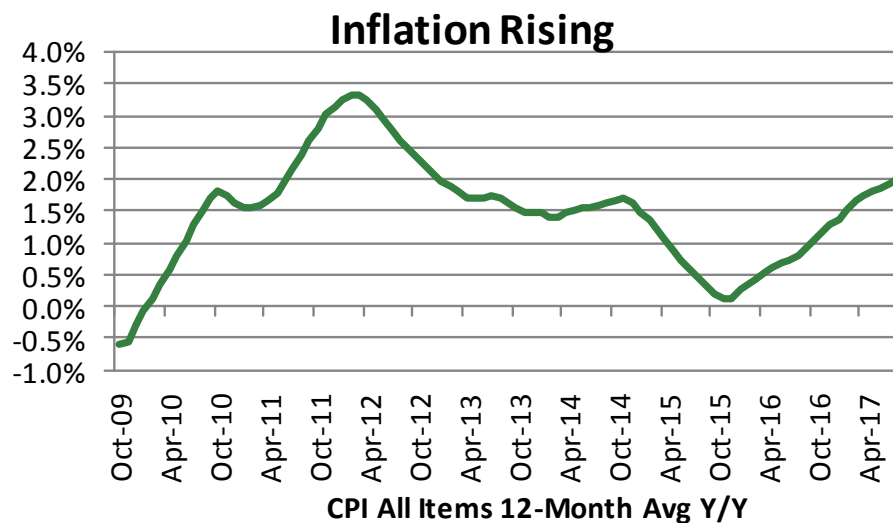
**“The Merry Minuet”**

**October 2017**

The cold war era song by the Kingston Trio “The Merry Minuet”<sup>1</sup> was first performed in San Francisco at the hungry i nightclub almost 60 years ago. It started like this: “...There’s hurricanes in Florida...” and it ended with thoughts about the atomic bomb. “...What nature doesn’t do to us will be done by our fellow man.” Sound familiar? This last quarter seemed to echo those fears. I find the fact that the song was written in the late 1950’s somewhat comforting. Catastrophes and maniacal dictators have always been with us and yet so far we seem to be able to power through it all. Grim humor seems to help.

The major economic forces in the world today are at a crossroads. An aging work force in the developed countries, accelerating and disruptive technological change, urbanization and global trade are dominating economies. Offsetting this is mass migration away from developing countries, rising nationalism worldwide and increasing demand for workers at both ends of the skill scale. These offsetting forces have kept inflation in check for some time, but have wreaked havoc in many sectors of the economy. One economic force in the U.S. that has not been volatile has been inflation.

Slow steady growth, low inflation/low interest rates and full employment seem to have become the norm. Yet this paradigm may soon be changing. We are starting to see signs of accelerating inflation. Both the skilled work force and unskilled labor are in high demand, which will drive up wages. The Dollar has dropped sharply this year against the Euro, the Yuan and the Mexican Peso. This weakening Dollar will increase the price of imported goods. Home prices are now above the 2006 peak as measured by the Case Shiller national median and climbing.

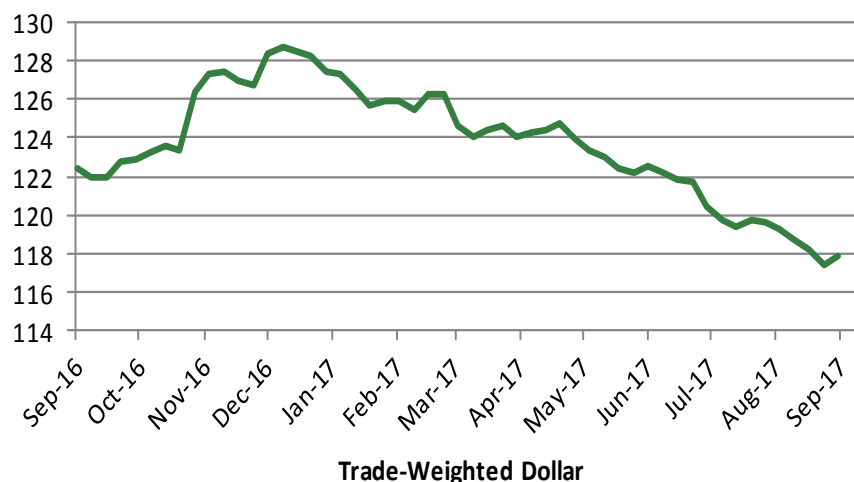


Source: FRED

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**US Dollar Weakening**



Source: FRED

Rising inflation is not all bad for our economy, as long as it does not spiral upwards. Companies have more flexibility in pricing, financial firms profits increase, stock markets generally rise, and bond yields go higher. During the current expansionary phase of the economy, we welcome a little more inflation, and at this point do not see it getting out of control. The Federal Reserve is tapping on the brakes with bond sales and measured interest rate increases. An aging population spends less and technology continues to drive down prices. This could change given uncertainties in world governments and extended climate issues. We hope not. We were worried about the same thing 60 years ago and most likely we will be worried about it 60 years from now. We will most likely always be dancing this minuet.

<sup>1</sup> Kingston Trio, “The Merry Minuet” By Sheldon Harnick, ...from the Hungry i, Capital Records, 1959

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