

# BUSINESS INTELLIGENCE BRIEF

October 31, 2018



## NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

### Short Items of Interest – US Economy

- **Consumer Confidence at 18-Year High** – The latest numbers from the Conference Board are out and they are nothing short of astonishing. They might not be all that indicative of the real mood of the US consumer but they are astonishing. By now readers of the BIB know that I do not place much stock on in consumer confidence numbers as they tend to be rather flighty and it is rare when the consumer puts their money where they mouth is. For example, this year the retail numbers are not all that great – not as good as one would expect with an 18-year high in confidence levels. The thing is that with consumer confidence numbers they are good until they aren't. Sudden falls are the norm – reactions to some bad news that shakes that confidence and looking ahead there are plenty of opportunities to shake the consumer's world view.
- **Tariff War – Tricky and Unpredictable** – The one thing that economists of both liberal and conservative persuasion seem to agree on is that imposition of tariffs on a country like China is not the best option as far as addressing trade imbalance. There is too much self-inflicted pain and too much distortion of business in the US. The other thing that most agree on is that China has been cheating the global trade system for years and has inflicted severe damage on the US and many other nations in the process. It is clear enough that Chinese behavior has to be shaped and altered but it is not clear how. Cajoling and pleading and essentially bribing didn't work and now there is the blunt instrument of taxation. It has been suggested that perhaps the US needs to borrow a page from those nations that have competed so well against the US. Their governments got directly involved in support through everything from R&D to market promotion and the US has rarely been that active in these areas – among others.
- **Tax Cuts Missed the Mark** – The tax cuts that started the year were hyped beyond the point of all reason but that is often how these kinds of political acts are. The promise was that corporations would revel in the additional money and would engage in significant hiring and business investment. Consumers would go on massive buying sprees. That happened in a few cases but not the majority. The corporate community engaged primarily in stock buybacks, higher pay for senior executives and a certain amount of merger and acquisition activity. These are the findings from the National Association of Business Economists – (NABE).

### Short Items of Interest – Global Economy

- **TPP is Far From Dead** – When Trump decided to pull out of the Trans Pacific Partnership it was already on its last legs in the US as Congress had been refusing to sign off on it. Trump was the final nail in the coffin or so it seemed. At the time the other ten signatories had asserted they would carry on anyway but few believed them. Yesterday Australis became the sixth nation to ratify the deal and they join Japan, New Zealand, Singapore, Canada and Mexico. Five other nations are working through that ratification process (Peru, Brunei, Vietnam, Chile and Malaysia) and now the United Kingdom is working on joining as well as India. China is still not invited.
- **Terrorist Threat Thwarted in Denmark** – The Islamic terror threat is alive and well in Europe even as the US now has more to fear from its home grown far-right terror groups than those that affiliate with Al-Qaeda or the Islamic State. Denmark has ended a threat by Iran to attack a group of anti-Iranian separatists branded as terrorist by the current government in Iran. It seems that most of Iran's efforts are being directed at dissidents that have influence back in Iran.
- **"Brazil First"** – The new President of Brazil has been an admirer of Trump's economic and foreign policy and plans to emulate that nationalism and protectionism. The analysts suggest that such an approach might work in a largely self-sufficient nation like the US but will be an unmitigated disaster in Brazil.

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## Credit Managers' Index Dips a Bit This Month

Granted, the job of the economist is to find the dark cloud behind every silver lining but there have been some signals that suggest that the good times may be starting to come to an end. There has been a several month-long deterioration of the housing sector as there has been significant decline in everything from starts to permits. The tax cuts are now far enough in the past to have lost their influence to some degree. The industrial sector is still growing but at a far slower pace than was the case before. Now it seems the Credit Managers' index has joined the parade of party poopers with a decline that is not insignificant – both in the favorable and unfavorable categories.

The overall score fell from 56.4 to 54.5 and that is as low as it has been since April. This is not an emergency situation to be sure as these numbers are still solidly in the mid-50s but it isn't the trend that had been hoped for by this point in the year. The index of favorable factors remained comfortably in the 60s with a reading of 61.6 but that contrasts with the 65.2 that was notched the month prior. This is also the lowest point seen since April of this year. The index of unfavorable factors slipped below 50 and now sits in contraction territory for the first time since (you guessed it) April of this year. At 49.7 it is not all that far off the expansion pace but a dip like this is not welcomed.

The details in both the favorable and unfavorable sectors are instructive. The "sales" reading fell hard – from 68.8 to 62.7. This reading has not been this low since December of last year (even April of this year was only down to 65.8). The "new credit applications" reading stayed about where it had been the month before as it slid a tiny bit from 61.9 to 61.7. The data for "dollar collections" skipped into the 50s for the first time since April when it skidded all the way to 46.7. The "amount of credit extended" also fell quite a bit from 67.1 to 64.5, a low point that goes back to January of this year.

The unfavorable factors also slipped quite a bit and that is even more concerning as it suggests there are some companies in trouble as they head for one of the more robust times of the year. The "rejections of credit applications" stayed very closer to what it had been the month before – moving from 51.8 to 51.4. This coordinates well with the stability in the applications for new credit. The reading for "accounts placed for collection" slipped back into the contraction zone with a reading of 48.8 after getting as high as 50.2 last month. The latest reading is about where it has been for the last three months. The "disputes" reading actually improved a little with a reading of 48.9 after being mired at 47.6. The dollar amount beyond terms" fell fairly dramatically from 49.9 to 47.7. This is one of the readings that can be concerning as it can be the first step towards bigger issues. "The dollar amount of customer deductions" improved a little from 48.6 to 49.5. The "filings for bankruptcies" also fell by quite a bit and that causes more concern as this actor has traditionally been more stable than this. It had been at 55.6 and now stands at 52.1 and that is the lowest point since 2016. Up to this point the various challenges that companies have faced have not been as serious as all this and now that may be changing. This would mean that many companies are not very resilient and will need some good luck to survive any kid of a slowdown by the economy as a whole.

There has been a pattern as far as slowdown are concerned. The first phase is that some of the motivation for a growing economy begins to erode and that appears to be what has been seen with the weaker favorable factors and trouble for the unfavorables as well. The next step is that the unfavorable readings start to falter and that suggest that companies are starting to face a real crisis they may not be able to easily recover from. The sense right now is that some of the artificial stimulation has been wearing off and that is causing some sectors to falter.

**Manufacturing Sector** - At the start of the year the best news was coming from the manufacturing sector and for a variety of reasons. The tax cuts that started the year actually did the smaller manufacturers more good than it did the larger company and that led to some aggressive spending for a while. Much of that has now tapered off. There was also some expectation of relief from some of the global competition that US makers have been facing but that has proven to be ephemeral to this point. The consumer has started to get engaged as the holidays come closer and the manufacturer has been watching improvements in everything from durable goods to general factory goods. The slump of late may not be a permanent thing but some of the factors that pushed the economy earlier in the year have been fading.

The overall manufacturing score slipped from 56.4 to 54.4 – a number that has not been this low since the April slump. The favorable factors stayed in the 60s with a reading of 61.5 after hitting 64.4 the month before. The unfavorable factors slipped into the contraction zone with a reading of 49.6 as compared to 51.1 the month before. The numbers closely paralleled the numbers for the overall CMI. The differences are found in the details.

The "sales" data slipped quite a bit from 68.2 to 62.3 and that was not unexpected given the slump that had been seen in both durable goods orders as well as factory orders. It is important to note that this category as well as four of the others remain well above 60 and that is certainly expansionary. The "new credit applications" stayed almost where it had been before – moving slightly from 61.8 to 61.5. The all-important "dollar collections" numbers remained very close to what they had been but they slid further down into the 50s from where they had been – going from 59.0 to 58.5. Again, this is certainly no sign of a crisis by any stretch but it is a trend worth paying attention to. The "amount of credit extended" dipped a bit from 68.5 to 63.7 and that may suggest some additional caution on the part of those issuing credit.

## CMI Continued

The “rejections of credit applications” slipped but not by a lot - moving from 53.1 to 51.9 and that is good news given that new applications have been steady enough. The “accounts placed for collection” sagged into contraction territory with a reading of 49.1 after last month’s 51.2. This definitely not a category that anybody wants to see worsen and this reading is the worst since October of last year (although it had dropped to 49 twice this year – August and April). The “disputes” category remained in contraction territory but it didn’t get any worse as it remained where it was last month at 48.7. This category has been under 50 for the last few years and shows no signs of improving much. The “dollar amount beyond terms” is often an indicator when it comes to dollar collections as it is first sign of impending trouble. It fell this month from 50.2 to 49.1 and is back in contraction territory where it has been most of the last year. The “dollar amount of customer deductions” improved just a little but stayed in contraction territory anyway. It went from 47.4 to 48.0. Finally, there is the category of “filings for bankruptcies” and there was a big drop – from 56.0 to 50.9. This is a worry as bankruptcies have been seen as the course of last resort and throughout the last year these had not been accelerating. Now they are and this reading is by far the worst that has been seen in several years.

In general, the news for the manufacturing sector has been decent but the troubles that had been predicted earlier in the year are starting to manifest. It is hard to pin down exactly what the issue is as manufacturing covers a pretty wide variety of industries but the boost from the tax cut has faded and now the worry is over an impending trade war with China as well as arguments over tariffs with once close trading partners in Europe as well as Canada.

**Service Sector** - As with the manufacturing sector the service sector has ridden the ups and downs of the recently volatile economy. This is the largest part of the US economy – accounting for nearly 80% of the national GDP and a similar amount of employment for the population. There are many sectors that move seasonally and that can affect the overall readings on the economy – including the CMI from time to time. The responses received from participants tend to be heaviest with retail and to some degree construction. Health care plays a role but there is very little impact from the higher paid service sectors such as law or accounting or finance.

The overall service CMI slipped to 54.6 from 56.4 and this marks the lowest reading seen since April (that was one bad month!). The good news is that even with this decline the numbers are thoroughly in expansion territory. The readings for the favorable factors went from 65.9 to 61.7 and this was a fairly precipitous decline but the important part is that the category as a whole remains in the 60s. The news was not quite as good for the non-favorable factors as this sector slipped into the contraction zone with a reading of 49.8 after hitting 50.1 the month prior.

The “sales” category fell by quite a bit and that is more of an issue with the service data than it is with manufacturing. This is the holiday spending season and one would expect to see more rather than less sales but there is still some time for a reversal and it has to be pointed out that most of the retail community bought their inventory some months ago. The “new credit applications” category stayed very close to what it had been as it moved from 62.0 to 61.9. The “dollar collections” data took a huge hit and that is not good at all. It moved from 66.5 to 56.4 and this suggests that some of those retailers are not paying as quickly as they were expected to. The “amount of credit extended” stayed steady with last month at 65.8 and this month at 65.2.

The “rejections of credit applications” stayed very close to last month’s reading – moving from 50.5 to 50.9. The “accounts placed for collection” fell deeper into contraction territory with a reading of 48.4 as opposed to last month when it was 49.2. The “disputes” reading was better than last month but still stayed in contraction territory with a reading of 49.1 after one last month of 46.4. The “dollar amount beyond terms” worsened a bit as it slid from 49.6 to 46.3. The “dollar amount of customer deductions” broke out of the contraction zone with a reading of 51.1 after one of 49.7 last month. As with manufacturing there were worsening numbers with “filings for bankruptcies” as this month the reading was 53.2 and last month it was 55.3. Of the six sub-categories three are still in the contraction zone and that may well worsen as the holiday season ends. This will be another critical year for retail.

To see the Credit Managers’ Index in all its glory – graphs, charts and historical data you need only go the website for the National Association of Credit Management [www.nacm.org](http://www.nacm.org) and search for the CMI.

## What Else Can You Get from Armada?

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## The Real Meaning of Halloween

I am not going to try to remind readers that this is some kind of religiously inspired holiday designed to extol the virtues of apple cider and candy apples. I am not buying into the conspiracy theory that it was invented by greedy dentists nor is it a creation of the candy companies or costume dealers. We all know perfectly well what the real meaning of Halloween is. Revenge – pure and simple. It is our chance to terrorize those who have been terrorizing us from birth – literally! It is generally frowned upon to inflict decades of mental anguish on our own progeny (at least not with intent) but there is an unspoken pact among us that allows us to terrorize other people's children. I annually look forward to playing my part.

As the greedy hordes descend on my place, eyes glazed with the sugar rush they started hours ago they encounter what I can only describe as “adult pay back” for all those sleepless nights, tantrums and peanut butter sandwiches crammed into the VCR. They are initially taunted by a 12-foot witch promising a grisly end and from there they will see a werewolf dad and son, vampire bats, pirate skeletons threatening mayhem, giant spiders, zombies and a skeleton walking his five skeleton dogs (I have to keep my cats in line somehow). There are more witches and ghouls and screaming things that I don't even have the words for. There is no sweeter sound than that of terror-stricken children unless it is the hearty laughter of the dads and moms relishing the moment.

There are always the wise ones and the fearless ones – the kids that comment on what is different from last year and kids like the four-year-old in the pink elephant costume who simply raised his trunk and bellowed at the pirate -no skeleton is going to be able to handle an elephant after all. Not even a very tiny one made of shocking pink fluff.

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