

BUSINESS INTELLIGENCE BRIEF

February 15, 2019



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Wasn't Such a Happy Holiday After All** – It seems that retailers had a far less exciting December than they realized at first. The gangbusters consumer spend that marked November fizzled fast in December and even the usual late season rush by clueless male shoppers was not enough. The retailers had the slowest December sales since 2009. This is not the scenario that had been described over the last few months but it matches the supposed mood of the consumer better than the previous assumptions. Consumer confidence numbers have been down for three months but it had been thought that retailers were still doing ok. Now that assumption is being questioned and those less excited consumers are posing a bigger problem.
- **Tariffs and the Auto Industry** – The Commerce Department is about to release its findings as far as auto imports are concerned and that would likely lead Trump to impose yet another set of tariffs – this time a 20% tariff on imported cars and car parts. This would have an immediate impact on the importation of cars from Germany, Japan and South Korea but it would also hit domestic made cars as on average these vehicles have between 40% and 50% foreign parts. Advocates for the tariff assert that domestic producers of these parts would benefit but many of these imported items are not made in the US. In time there may be US production coming on line but that will likely take between three and five years and in the mean time the cost of vehicles would jump by as much as 20% in line with the tariffs.
- **Industrial Production Falls Sharply** – A very dramatic decline in vehicle production drug the overall industrial production numbers down dramatically. It had been expected there would be a gain of around 0.1%. Instead there was a decline of 0.6%. Industrial production numbers include factory activity, the utilities and the energy sector. There was not that much change in the latter two categories but manufacturing is experiencing a slowdown. The vehicle decline is a matter of concern given that proposed tariffs would slow the sector even more.

Short Items of Interest – Global Economy

- **No Progress on China-US Trade** – The sixth round of trade talks between the US and China have ended without much progress but there is not such animosity that they need to halt altogether. Trump has suggested that he will jump tariffs from 10% to 25% in early March unless an agreement is reached but analysts agree that this round of tariffs will do as much damage to the US as it would to China as it would blast the consumer. The hope is that the deadline will be delayed until Trump meets with Xi later in March. The demands thus far made on China are seen as too far reaching at this point – at least by China.
- **Tensions Ramp Up Between India and Pakistan** – A massive car bomb in the disputed state of Kashmir killed 44 members of the Indian paramilitary and anger in India is visceral. The Pakistani government has declared they had nothing to do with it but few seem to accept this assessment and India's Narendra Modi is promising retribution. This could easily lead to escalating attacks between the two states and this would end the cooperation that had started to build.
- **What to Do With Returning Jihadis?** – Now that ISIS has been systematically driven from their strongholds in the middle east there are hundreds and perhaps thousands of Europeans and Americans and others returning home and without having altered their beliefs. Most have not committed any crime that would allow authorities to detain them but they are clearly a threat and will have to be monitored closely as ISIS seeks to return to their previous tactics.

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Where Will the Workers Come From?

The issue of a labor shortage has been discussed to death and by now nearly everybody knows there is an issue. There are over 1 million more jobs to fill than people to fill them. There is a current shortage of over 60,000 truck drivers, 100,000 skilled manufacturing workers and a like number of skilled workers in construction. The health care sector is facing manpower shortages and so on. The reasons are both simple and complex – the retirement of the Baby Boom generation, lower birth rates, education systems that fail to train people for the jobs available and so on. There are solutions to the dilemma but none are easy or fast. In the meantime, the business community needs people and they need them now. What are they doing?

Analysis: Generally speaking there are five strategies in use as far as getting the workforce needed. The most common has been poaching. The business that needs a given worker tries to pry that person away from their current employer and that usually means offering more money or perks of some kind. This tactic is destructive in a number of ways. It is inflationary as the recruited worker is getting more money regardless of whether they leave for greener pastures or not as their current employer will be offering more money to them to get them to stay. It also tends to turn smaller companies into a sort of “farm system” where they do all the work of training new people and then lose them to that larger competitor.

The second most common option has been to hire attitude rather than aptitude. Given that there are too few people available with the requisite skills there is a move towards hiring with an intent to train. This certainly makes a certain amount of sense but it can be both expensive and risky. There is no guarantee that the person will finish their training or decide that this is really the career for them. The new hire will be nothing but a drain on the company for a considerable period of time - perhaps as long as 24 to 36 months. They are not yet productive and, in most cases, they will be draining the productivity of other employees as they will be engaged in some of that on-the-job training. The estimates have been that almost 60% of those that will be hired to train will leave the company before that training is complete.

The third approach was once the most common means by which companies found their new employees but today’s political mood has made this much harder. The US was always a draw for talented people all over the world. It was the proverbial “land of opportunity: and the US business community had its pick of talented and skilled people from anywhere. Today the US reputation is in tatters and many of those that would have been recruited to the US are no longer interested as they assume they will be badly treated. Colleges and universities have seen a dramatic reduction in foreign student interest. Those that do remain interested in the US face a myriad of rules and regulations that present daunting barriers to immigration.

The fourth approach is also a common one but one that has become far harder in recent years. This is the process of encouraging internal migration. People that are in areas where unemployment is high are recruited to areas where the jobs are. In past decades this was what stimulated the migration from the “Rust Belt” to the Southwest and from the rural areas to the cities. Today there are fewer of these enclaves of the jobless and there are far more barriers to moving than in the past. People have to worry about caring for elderly parents and other relatives, child custody is affected by moving, selling a home in a depressed area and having enough to buy one in a booming one is tough, most families are now two earner households and that means that both need to find that new job. The list of inhibitions is long.

The fifth strategy is perhaps the newest and it involves hiring people who have not been seen as traditional recruits in the past. There are more and more women in professions that were once seen as male enclaves – everything from truck driving and construction to engineering and various science-based jobs. This tactic also involves extending the traditional period of employment as many people who are retired are lured back into the workforce. It has been assumed that most of the retirees coming back to work have been forced to by economic need but the surveys find that over 60% just want to return to work or have been attracted by the money and perks offered.

Border Wall – Round 45

It seems like this issue has been dominating the political discussion since Rutherford B. Hayes was in office and the latest “agreement” has done little to end the controversy. What is known at this point is that the deal worked out by the bi-partisan committee will hold and Trump will sign the spending bill. There will not be another government shutdown and that will cause a major sigh of relief for those affected government workers and the 22,000 companies that deal with the government. The issue of border security itself remains up in the air.

Analysis: There is nothing close to the over \$500 billion Trump was demanding – the allocation will be enough for a few more miles of steel barriers but there will be more money for electronic surveillance and personnel. Trump now says he will declare a national emergency and pull \$8 billion from other sources. The majority of this will likely come from disaster relief programs and from military construction projects. Aid to Puerto Rico will suffer the biggest reduction as well as the aid that has been going to California to deal with last year’s fires. Upgrades to military facilities will be shelved and some abandoned. There will be very little left in the event of another major disaster and that has people watching the upcoming storm season very closely.

Worst Case Scenario Looms in the UK

The Brexit debacle has baffled analysts for years now. From the beginning the situation made no logical sense. The grievances that Britain had with the European Union were and are real enough but it was always assumed that some kind of compromise would be worked out and that everybody would be able to calm down. The emotional reaction to the issue was shocking and everyone was surprised to see the outcome. That sense of shock has continued as the British and the Europeans try to figure out how to disengage. It is abundantly clear the British economy has suffered and that it will be even more profoundly damaged if there is a “hard exit”. The economy is now in recession and one that is deepening. Jobs are being lost by the thousands as companies flee the UK. The currency has lost a significant amount of value. The situation in Northern Ireland will most certainly bring back the “troubles” and the violence and death that entails.

Analysis: It was assumed that the powers that be in the Conservative Party would voice their positions and take their tough stances as they agreed to the compromises that are evidently necessary. The UK has no leverage in this fight and analysts have been pointing this out for months. The EU doesn’t need Great Britain anywhere near as much as the UK needs Europe and the EU negotiators know it. As Prime Minister Theresa May prepares to meet with the EU in the near future, she has been handed yet another crushing blow to her leadership by her own party. For all intents and purposes, she has been humiliated by her party and has lost all effective influence so there is no reason for the EU to give way on anything as they suspect nothing they do will change the situation.

The fanatics and fantasists are in control. Despite all evidence to the contrary they insist on believing that the UK is going to be better off outside Europe. They remain focused on the issue of immigration to the exclusion of all else and there continue to be waves of lies and conspiracy rumors feeding the paranoid xenophobes. All of this throws the analysts into a nether world where facts are ignored and innuendo dominates. Ostensibly the objection to the East European migrants was that they took jobs but the Brexit mess has already cost more jobs to be lost than any of the migration over the last decade. It doesn’t take long to realize that most of the opposition is based on prejudice and bias and not on specific economic issues.

The assumption that cooler heads would prevail has been dashed and it looks more and more that there will be a hard withdrawal that will leave the UK with no trading relationship with Europe, no protection for Brits living in Europe, no border accommodations for Northern Ireland and no alternatives for British business as they lose their number one market. It is now assumed the UK is headed for a full-fledged depression that could last for years.

Spain Heads Back to the Polls

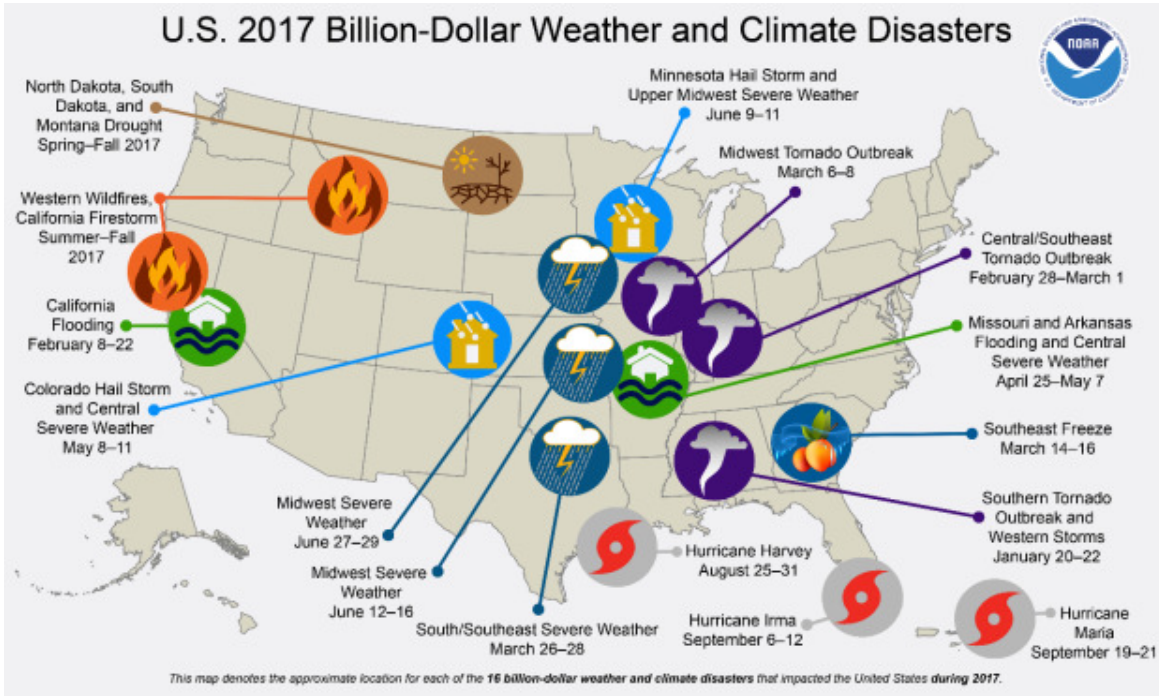
The current government in Spain will go down in history as the shortest lived – having only stayed in power since June. The issue that led to Prime Minister Pedro Sanchez calling for snap elections at the end of April was the rejection of the budget put forward by the Socialists. The very fragile coalition that put him in power in June fractured once again over the issue of Catalan separatism. The Catalan separatist parties had backed the Socialists in the summer but have since rejected Sanchez as he has not moved on the issue of independence for Catalonia. They switched sides and joined with the center right People’s Party and the liberal Ciudadanos group. This left the Socialists with few options and now the country tries again to find a ruling coalition with some staying power.

Analysis: The two parties that once dominated the country are the Socialists and the People’s Party but both are seeing far fewer voters than in past years. The parties that have been on the rise include Ciudadanos and a new far-right party called Vox. The latter is in the same mold as the National Front in France and the AfD in Germany. They are focused on immigration and are hostile to the Catalan notions of independence as well as the Basque movements.

Analysts are convinced that the Socialist move will offer them a better opportunity to win support as they will no longer be tied to the Catalans. In the rest of Spain, the Catalans are seen as greedy and selfish and disloyal. The coalition that formed last summer likely cost Sanchez as many votes as he won. The real challenge for him will likely come from Ciudadanos but there are not many obvious coalition partners for them while Socialists may be able to draw some support from the Greens and maybe even disaffected members of the PP. This would be especially true if the PP tries to work with the far-right Vox.

What Else Can You Get from Armada?

As you peruse the Business Intelligence Brief you are no doubt wondering what else you might get from the authors of these reports. You are in luck as the BIB is not our sole publication. There is the Black Owl Report – published three times each week and aimed at the business executive. Keith Prather is the primary writer for the BOR and you can get a free one-month trial if you like. It is a subscription-based publication available for \$84 a year. In addition to these regular reports we do longer in-depth studies, white papers and analysis of breaking economic and business stories. Beyond all that we like to be responsive to our readers and regularly answer questions posed by our readers – just e-mail chris.kuehl@armadaci.com for more details or to ask one of those questions.



The disaster budget is always a source of controversy. It is either going to be too much or too little. The map above shows that in 2017 there was \$16 billion in disaster costs. Not all of that was handled by the government but close to 75% of these disasters pulled heavily on government resources. This was roughly twice what had been anticipated prior to 2017 and the outlay in 2018 was also more than had been budgeted for. If the border wall does pull \$8 billion from disaster relief funds there will certainly be a deficit if 2019 behaves anything like prior years.

Speaking this Month

02/22/19	Greensboro	North Carolina Society of CPAs	Public
02/26/19	Ft. Lauderdale	Food Manufacturing Assoc.	Public
02/27/19	Dallas	Triumph Business Capital	Private
02/28/19	Tampa	National Systems Contractors Association	Public
03/01/19	Kansas City	McCray Lumber Event	Public
03/04/19	Charlotte	TIAA District Conference	Public
03/05/19	Nashville	Fabricators and Manufacturers	Public
03/07/19	Palm Springs	American Supply Association	Public

Things I Really Don't Understand

Oh, but this list is so very long. I seem to be in a state of perplexed confusion most of the time. I don't understand why people find it so easy to hate and be cruel and so hard to be tolerant and kind but that is a column for another time. Today I want to focus on the trivial. I find it hard to understand the animosity expressed towards little holidays like Valentine's Day or St. Patrick's Day or more recent creations like Admin Asst. Day or Cute Fluffy Cat Day (I just made that one up). For days I have heard a never-ending litany of attacks on Valentine's Day as a creation of the greeting card cabal or some sinister movement by makers of chocolate and sellers of flowers. There are protests that it discriminates against those without a loved one or that it forces an interpretation of romance down our collective throats.

For crying out loud – it is just an opportunity to tell people you love them. Not that we should need a specific day for this but a little reminder can't hurt. As for the secret conspiracy led by candy makers and florists – please understand the first celebration of this kind was in 496. I am sure flowers existed back then but I am not sure about chocolate. I took my sweetie to dinner last night – just one of our favorite neighborhood haunts. Low key and just an opportunity to slow down for an evening and let each other know they are loved. Later we lavished attention on our other Valentines – they didn't get chocolate but it appeared that at least one was chewing on a plant.

The bottom line is that I like silly little holidays and am now looking forward to St. Patrick's Day as my lovely head chef and bride always puts together an Irish feast with corned beef, potatoes colcannon, soda bread, Guinness cake and the like. Last year at this time I was in the midst of all that radiation treatment and was unable to eat anything at all for Valentine's Day or St. Patrick's Day. I am thoroughly relishing the opportunity this year.

What Do We Mean by Intelligence?

The name of this publication is the Business Intelligence Brief. Why did we call it that? All three words mean something to us and inform what we do. The first is business. This is a very broad term as there are tens of thousands of different businesses and they have only a few things in common. Our intent is to provide the kind of information that helps people understand the world and helps them grow their business and make bigger contributions to the companies they work for.

That brings us to the intelligence part. We believe in providing intelligence that is actionable and timely. The aim is to be able to anticipate what is to come so that contingency plans can be developed. We are not reporters, we will rarely be involved in "breaking news". We are analysts and we strive to provide answers to the key questions of "why" and "so what".

Finally – we strive to be brief. That is far harder than one would assume. The temptation is to go on and on in detail but that is too much to digest. We simplify when we can but encourage readers that want more to reach out and ask.



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