

BUSINESS INTELLIGENCE BRIEF

February 22, 2019



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Support for Higher Interest Rates** – The consensus view at the moment holds that there is no reason at all for the Fed to even consider hiking interest rates. That has been the admonition from Trump for several months and now the markets have joined in with all their doom and gloom assessments of growth in 2019. Lately there has been pushback from economists that point out that there is plenty to fear from inflation even as the current rates are staying low. They are backing the positions that have been staked out by the likes of Esther George and Loretta Mester. They urge the Fed to watch the tightening labor market and the rise of consumer prices due to the imposition of more tariffs and trade barriers. Inflation moves very slowly until a critical point is reached and then it tends to explode. The Fed is urged to be proactive and that is what the hawks have been saying all along.
- **Housing Market Still Cooling** – For the third month in a row the sales of existing homes has declined and that further reinforces the notion that the housing market is stumbling a little. Much attention is focused on new home construction and permits and the like but the bulk of the housing sector is caught up in the existing home market. This has especially been the case as the new home builders have moved away from the starter home to the more expensive end of the spectrum. Many things affect demand for these homes and there have been more on the market than in past years as Boomers retire and elect to relocate to some form of senior living. The decline in January was not precipitous but a drop of 1.23% on top of the other reductions has started to add up.
- **New Claims for Unemployment Decline** – Under normal circumstances this data can be very volatile as there are many times that people are subject to short term layoffs and furloughs. The data for the last few weeks has been skewed by the government shutdown as many of those who had been furloughed had been eligible for unemployment and now, they are back. The same thing happens every year when the auto sector refits plants and lays people off for a few weeks or months. The four-week running average is more reliable and has been holding at just over 235,000 a week – slightly higher than it has been in previous months.

Short Items of Interest – Global Economy

- **Brexit Build-Up** – British retailers are on a buying spree and one that is likely to last a few more weeks or perhaps longer – depending on whether there is progress made with the Brexit talks. It seems there has been a wholesale loss of confidence as far as the talks are concerned and many retailers now assume they will be cut off from European supply. They are loading up with as much inventory as they can afford but that carries risk with it. The Brexit talks may yet work out and then there will be huge inventory surpluses to work off. There is also the fact that a Brexit fail may send the UK into recession and that will make it hard for consumers to buy anything.
- **Deep Split in Venezuela** – Much conversation revolves around the upper 1% in the US vs. the other 99% but that gap is nothing as compared to that in other states. In the US that 1% still numbers over 3.5 million people. In Venezuela the upper half percent own over 96% of the assets of the country and that is only several hundred people. Today almost 90% of the population is malnourished but the expensive restaurants thrive. Two days ago, Maduro spent \$5,000 (US) on a meal for ten of his family and close friends.
- **Saudi Shift to Asia** – As the Crown Prince has lost much support in Europe and the US, he has turned to Asia to burgeon his position and is using familiar tactics – loads and loads of cash to finance every project one can think of.

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Uncertainty – The Bane of Business Existence

There are many factors that have a negative impact on business to one degree or another. That is the nature of competition after all. The successful business is the one that by luck or skill manages to navigate these challenges. Among those issues that occupy the strategic time for management are taxes, regulation, labor resources, competitive pressure, consumer mood, natural disasters and various global economic trends. The fact is that all of these factors can and do change frequently – most with some advance warning but many will alter unexpectedly. When the changes are more predictable, they can be managed and prepared for but those that are sudden or unexpected can leave a company vulnerable. By definition a natural disaster is unpredictable and to a business it can be either boom or bust – depending on the business. Actions by a competitor can be unexpected as well but usually these moves can be anticipated. The same can be said for the actions and moods of the consumer. The factors that are not supposed to change on a whim are those that are connected to the government or the overall system a company operates in. Changes in tax rules and the regulatory environment rarely take place without some advance warning as the changes are discussed and move towards implementation. When these usually stable or predictable factors become unpredictable the business community is forced to be more cautious and that generally results in a slowdown.

Analysis: The latest numbers suggest that business is feeling a far greater sense of uncertainty than normally would be the case and that is affecting their willingness to expand, invest and grow. The durable goods numbers were released yesterday and the initial enthusiasm about the increase faded quickly as the data was explored. The only sector that grew was aerospace as the sales of aircraft jumped. This sector can be counted upon to skew the data either up or down given that sales of aircraft tends to come at certain times and in large jumps. Planes are not sold to consumers one at a time – they are purchased by fleets and usually in the dozens and even hundreds. When the world's airlines are expanding it will be good times for the likes of Boeing and Airbus and when there is less expansion these sales drop off quickly. This last month aircraft sales jumped and that was good news for some of the smaller companies as well – Bombardier, Embraer, Fokker and some others. If one adds in all this additional aircraft activity the durable goods numbers were up by 1.2% but separate these numbers out and durable goods orders fell by 0.1%. This is a worry given that much of the other economic data would suggest that more investment would have been made at this point.

One of the factors that had been pushing investment should still be serving that purpose but it seems that business is slowing when it comes to capital investment and expansion. The labor shortage has been acute for manufacturing, transportation, construction, health care and many other sectors and this shortage has been manifesting for several years now. There have been several reactions to this shortage. Companies have tried to recruit the labor needed but the pipeline is extremely limited so they are turning to poaching workers from other companies. In past years there would be more interest in bringing people from other countries but immigration is now a dirty word. This leaves using machines and robots to replace people. That trend has been accelerating but now shows signs of stalling out as this kind of commitment is expensive. Putting in technology and robotics is far riskier than hiring people. If the expected business does not manifest or there is a downturn of some kind the company can lay people off to save money but what can they do if they spent millions on those machines?

This is the part where uncertainty comes in. If the business is unsure what comes next, they become cautious to the point of paralysis. They are unwilling to buy these new machines and they are even reluctant to staff up (assuming they can even find the people they need). What is making businesses feel so uneasy right now? In the majority of polls taken of business leaders in a variety of business sectors one factor stands out as the main concern for companies of all sizes. Trade wars and tariff wars have introduced a level of uncertainty that has become crippling. It is not even that these tariffs and trade barriers are being erected although this has been a huge issue for companies that engage in global business. The real problem is that nobody has a clue where all this ends up. The renegotiated Nafta (the USMCA) is stuck in Congress and picking up new enemies every day, China is threatened with higher tariffs but the deadline keeps moving, Europe is threatened with tariffs unless they buckle under to the US but nobody knows when. Every US trade partner is in the dark as to what comes next and that is slowing US business significantly.

Speaking of Uncertainty

For the US to take a tough position with China has always made a certain amount of sense given that China has been playing its own games with trade for decades. The positions taken by Trump when it comes to long time allies like the Europeans, Canadians and Japanese are far harder to explain or justify.

Analysis: President Trump continues to threaten the Europeans with very high tariffs on imported cars and car parts if they do not make a deal that satisfies him. The issues that vex Trump are not even trade related and that is the crux of the issue. Trump doesn't like the European position on Iran's nuclear program or their stance on Brexit or their position as far as Israel and the Palestinians are concerned and these are the issues that have prompted the US to threaten trade barriers and tariffs – even as it is pointed out that such moves would do significant damage to the US economy in the process. The relationships between the US and Europe are very complex and have been in place for decades and this threat to destroy these relationships will not end well.

Breaking the China Impasse

At this point it is not clear there is a path forward on this topic as it is really not clear what the real issues are as far as the US and China are concerned. It may be helpful to try looking at this complex relationship with some degree of realism. The current conversation seems to revolve around trade but on closer examination it really isn't. In many ways the economic relationship between the US and China is an anomaly as far as relations between rivals are concerned. The US and China have been overtly hostile towards one another for most of modern history – at least since the end of the Second World War. The Korean War was really a war between China and the US and one that ended unsatisfactorily for both nations. The US and China started down a different path with the death of Mao Zedong and the rise of Deng Xiaoping. To some in the US and the western states in general this transition meant that China was on its way to becoming just like the US, Europe, Japan and others. That was, it turned out, a very naïve assumption. China did indeed change and adopted more of a capitalist economic system under the rubric of Deng's exhortation of "to get rich is glorious", but the western assumption that moving to capitalism meant moving to democracy was wishful thinking at best. The Communist Party has as much or more control over China now as it has ever had.

Analysis: There are many things the US would like changed in China today and only some of them have to do with trade and economics. Just as a starting point the US would like China's support for the North Korean regime to end or at least scale back so that Kim was required to comply with global demands regarding his nuclear program. The US wants China to stop threatening The Republic of China with threats to invade Taiwan. The US wants China to stop expanding their influence into the South China Sea and they want China to stop persecuting Tibetans and Uighurs. The US wants China to stop propping up governments such as Nicolas Maduro in Venezuela and the dictators in Africa. Then there are the economic and trade issues.

China has a built-in advantage when it comes to production as the government squashes protests and any form of worker organization into unions. Pollution is ignored, worker safety is ignored and so is consumer safety. The government subsidizes export industries and discriminates against imports. The country allows overt theft of technology and widespread counterfeiting. To put it bluntly there is a lot to dislike about Chinese policy and behavior. The part that adds complexity to all this is the fact that China is also a massive and lucrative market for hundreds of US businesses. It is a manufacturer of consumer goods at such price levels to enable US consumers to have enviable lifestyles.

Is there a way to have a relationship with China? It has always demanded an ability to take the good and either ignore or tolerate the bad. The question is whether the Trump team really wants a trade pact of some kind or is really after something bigger. There are those on the team that want to see China as rival and enemy and not as a partial ally in some things. Others want to keep trying to maneuver the relationship to better favor the US but without escalating tensions any further.

Syrian Reversal

The decision by President Trump to leave some troops in Syria has thrilled the Kurdish allies that had been lobbying hard to maintain some kind of presence but it may complicate things for Trump given his strong statements regarding the withdrawal. The number of troops that will stay is small but significant as it means that attacks on Kurds and other US allies risks killing US personnel and that invites a bigger US response. It also makes it far easier to beef up that involvement should it be deemed appropriate later.

Analysis: This reversal comes at the behest of most of Trump's military and intelligence advisors who pointed out that leaving meant that Russia would have a free hand in the area and that Bashar al-Assad would be untethered as well. The US will be there as advisors and trainers but they will be there and that gives the US a stake in what happens next. The Kurds had been feeling betrayed and still do not trust Trump but they now assume that the US military is truly behind them and that cements the relationship between the Kurds and the US in Iraq. Neither Russia or Syria is happy about the decision and there has been opposition from Iran as well. The Saudi government had also been lobbying the US to stay and this reassures them regarding US commitment to other parts of the region.

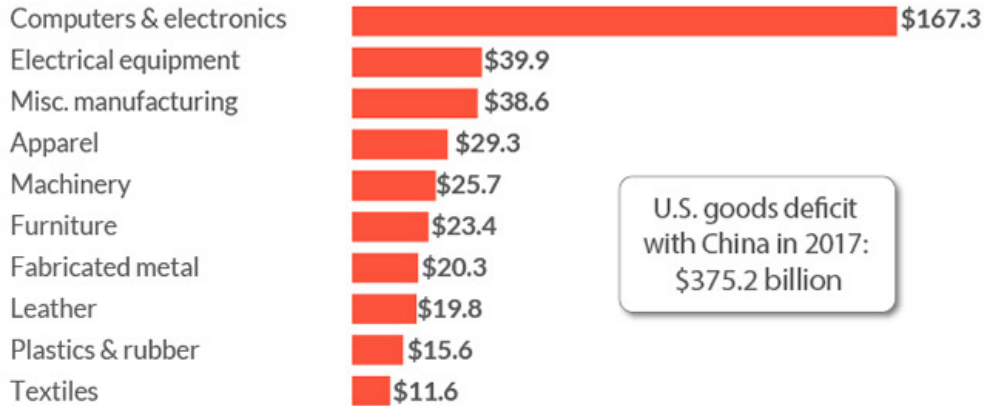
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One-sided deal? U.S.-China trade in 2017

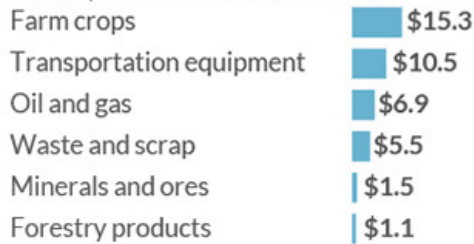
China runs up huge surpluses in tech, manufacturing

U.S. deficits with China, in billions



U.S. goods deficit with China in 2017: \$375.2 billion

U.S. surpluses with China, in billions



Source: U.S. Census

If there was any doubt as to the one-sided nature of the trading relationship between the US and China – this chart should dispel it. The Chinese are supplying one of the most aggressive sets of consumers in the world and at the same time they have erected substantial barriers against imports from the US. If there is a decision made to focus on just the trade aspects of the US-China relationship there is obviously a lot to work on.

Speaking this Month

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
03/13/19	Ft. Worth	UEDA	Public

The Workers

I have gotten to know many of the people that work at my local airport – the kind of thing that happens when one flies as much as I do. I am on a first name basis with many of the TSA people as well as gate agents for Southwest and the ladies that run the various snack bars. The other day I had a chance to talk to both Margaret from TSA and Judith from the snack bar. Both women are at the point where they could have retired some time ago and one might assume they were still working because they needed to. Neither has that as their main rationale – although both appreciate the extra pocket money.

All their life they have worked and really don't want to stop now. Judith seems to be at that snack bar 24/7 as she is always there when I am coming and going. I find out that she has a second job driving big vans and limos for groups and various teams. She works a seven-day week and seems to enjoy it. Margaret takes extra shifts and also has other part time work. It seems that people who like to work just like to work and find little enjoyment in being idle. I think I can relate.

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.