BUSINESS INTELLIGENCE BRIEF

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KC CHAMBER

NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Economic Slowdown was Corporate Slowdown –** the latest data that has been coming from the investment community shows that much of the problem with economic growth at the end of 2018 can be attributed to a radical slowdown in the rate of corporate profits. This slowdown was masked to some degree by the surging stock market as it was assumed that investor optimism was being fueled by the performance of the companies they were investing in. Turns out that many were ignoring the fact these companies were struggling. This is due in pat to the large volumes of foreign investing in the US markets as there have been such limited options in Europe and Asia. The corporate community is now showing that struggle graphically and the economy is stuttering.

- **Fed Warnings About Global Growth –** Vice Chair Richard Clarida has highlighted a risk that the Fed always pays attention to but now wants to apply more scrutiny towards. There has been some confusion regarding the need for the Fed to pump up the US economy given the fact that growth numbers are not really all that bad. Clarida points out that global growth has become anemic and that this has especially been the case with nations the US does a lot of business with. Exports are over 15% of the US GDP and if there is a serious level of slack demand from overseas markets the US suffers. He warns that steps could be taken to push stimulus even if the US economy is still growing at a respectable rate.

- **Q4 Data Revision -**The latest Q4 numbers are being released today and they will look worse than original thought – growth may be down to 2.2% or 2.3% rather than the 2.6% that was originally reported. On the more positive side there has been a partial rethink of Q1 and these estimates have been slightly improved. Some had thought that Q1 growth would be down as low as 0.5% but now the view is that growth will be somewhere around 1.2% and that the second quarter may see numbers that are getting closer to 2.0%. It is possible that by the end of the year the economy will be close to 2.5% - not exciting but on pace to replicate what has been the norm for the last twenty years.

Short Items of Interest – Global Economy

- **North Korean Incident Nothing Less than Bizarre –** A few weeks ago the Spanish police were called to the North Korean embassy after reports that a badly beaten woman was staggering around the street nearby. She said that she had been attacked at the embassy and had escaped by jumping from a balcony. When the police tried to gain entry, they were denied access by what seemed to be a North Korean official. It wasn't. The embassy had been seized by a group of anti-Kim activists who had beaten embassy officials and stole computers and documents before vanishing and escaping to Portugal and other locations. The anti-Kim groups have become more and more desperate as they assume that President Trump is now supporting him.

- **Chinese Crackdown on Labor Unions –** A group of workers in Shenzhen have been trying to form an independent union and this has drawn the ire of Chinese officials. Organizers have been detained and many have simply vanished. The crackdown has been harsh and seems intended to signal to others that such a move will be thwarted and violently if need be.

- **Ukrainian Comedian Leads Polls –** The populism and anti-establishment argument is winning the day in Ukraine as well. The leading candidate to win the Presidency is Volodymyr Zelensky. His campaign has had very little substance and no platforms – just wicked jabs at the others running for the office. Despite the massive issues facing the country (collapsing economy, Russian occupation and threats etc.) his campaign has focused on jokes and new dance moves.

Credit Managers' Index Dips Again

Each month we have the responsibility of summarizing and assessing the data that is collected from the National Association for Credit Management in their Credit Managers' Index. This is an index that is modeled to some degree on the Purchasing Managers' Index and tends to be even more forward looking than the PMI. To see the complete CMI with graphs and charts and historical reference go the NACM website – www.nacm.org .

Month after month we seek that ever elusive trend that has the index going further into positive territory and each month that gets our hopes up it is followed by one that dashes them again. This was one of those dashing months where the scores reversed again. It is not a crisis situation by any stretch as the numbers are still firmly in the expansion zone but we all would like to see improvement. The challenge is that much of the other economic data is telling much the same story as there is a low expectation for first quarter GDP and reductions in the readings that are coming from the Purchasing Managers' Index as well as data from industrial output to capacity utilization. Maybe we should be glad this month wasn't worse.

The combined score was at 53.6 and it was at 54.9 the month prior. It was at 53.4 in January so perhaps February was the little anomaly and now the numbers are back to where they should have been. The combined score for the favorable factors slipped back out of the 60s again at 59.0 and that is the lowest point reached in the last twelve months (even going back to 2017). The combined score for the unfavorable factors fell as well and is back in the contraction zone under 50. It was at 49.4 in January and is now at 49.9 – very close to the 50 line but still below the level of contraction.

The detail is interesting as far as identifying trends. The sales numbers fell out of the 60s with a reading of 58.2 and that is the lowest score for the past two years. These numbers have been in the 60s consistently until this year and now three of the four months are in contraction territory. There was also a decline as far new credit applications are concerned but they have been about this low before (53.2 in January and 57.5 in December). It is now sitting at 57.8 after reaching 58.9 the month before. The dollar collections reading slipped as well – from 59.1 to 56.6 and that marks the lowest point in the last 12 months. The amount of credit extended stayed in the 60s and actually improved as it went from 62.3 to 63.5. This may be the most interesting piece of data of all. In spite of all the down performance there was more credit extended and that suggests that good customers are asking for and likely getting more credit. It is also important to note that even with these reversals the favorable factors remain comfortably in the 50s.

The changes were also noticeable in the non-favorable categories. The rejections of credit applications trended down a bit but not as much as would be expected given the drop in new applications for credit. The reading last month was 52.1 and this month it was at 51.2. Those that are applying for credit seem to be worthy enough to get what much of what they are asking for. One of the major concerns is the sharp drop in the readings for accounts placed for collection. Last month it was at 49.0 and close to the high point for the last twelve months. This category has not escaped the contraction zone since September of last year when it hit 50.2. There was actually a little improvement as far as the disputes category was concerned as it rose to 49.5 after a reading of 48.5 in February. Still not in the expansion zone but getting a little closer. The reading for dollar amount beyond terms also fell but managed to remain in the expansion zone (barely) with a reading of 50 as compared to the 51.3 the month before. The dollar amount of customer deductions fell out of the expansion zone with a reading of 48.8 as compared to last month's 50.0. There was also a dip in filings for bankruptcies – meaning that there were slightly more this month than last. The reading was at 53.7 after a 54.9 mark set in February. As stated above there is no wholesale collapse under way but the data trended down generally and in some sectors the decline was significant and the worse reading in the last twelve months. The hope is that next month trends back up but with all the other generally down data that has been coming out of late that doesn't seem all that likely.

Manufacturing Sector - In many respects the manufacturing sector has been pretty healthy the last few years – its share of GDP has grown and the sector now accounts for about $2.7 trillion dollars of the total US GDP. If manufacturing was an independent country its GDP would be larger than that of India – it would be the ninth largest country in the world. There have been some weaker signals of late – everything from a reduced Purchasing Managers' Index to slips in capacity utilization and capital investment. The shift is seen in the CMI data as well.

The combined score for the manufacturing sector is 54.6 and that is only slightly less than the reading the month before when it stood at 54.8. The combined score for the favorable factors stood at 60.3 and that was very close to the reading in February when it hit 60.0. The combined score for the non-favorable factors slipped slightly from 51.4 to 50.7 but still managed to escape the contraction zone. As usual the details tell a more complete story.

The sales reading slid out of the 60s with a bit of a thump. It had been at 61.7 and now sits at 58.4 – the lowest point since the middle of 2017. The sluggish economy has been taking a toll on sales. The new credit applications data improved however – from 58.6 to 61.2. The sense is that companies are feeling some of that reduction in sales and are trying to improve the situation with more offers of credit. The dollar collections reading slipped out of the 60s with a reading of 57.8 after being at 60.5 the month before. The amount of credit extended jumped dramatically from 59.2 to 63.9. All in all, the data for the favorable factors looked pretty solid and even improved in some key categories.

Credit Managers' Index (continued)

The data for the non-favorables was also somewhat mixed. There was almost no change as far as rejections of credit applications is concerned. It was at 53.5 last month and 53.2 this month and it was at 53.3 in January. The big change this month was in accounts placed for collection as it has shifted from 50.5 to 46.8 and that is as bad as this reading has been in over a year. This is of some concern as this can be the last stage before companies start to slip into bankruptcy. In contrast there was an improvement in the disputes category as it moved from 48.7 to 50.2. The dollar amount beyond terms slipped a little but has remained in expansion territory with a reading of 51.0 after one of 52.8 the previous month. The dollar amount of customer deductions also fell a little and is now a bit deeper in the contraction zone with a reading of 48.4 as compared to 49.3 the month before. The filings for bankruptcies improved a little from 53.3 to 54.6.

By and large the manufacturing data was pretty solid. There was no real shift in either direction this time and the numbers are still solidly in the mid-50s.

Service Sector - The service sector has not fared as well as has manufacturing. The numbers are still in the low-50s but have slipped a bit from what they had been the month before. The service sector as a whole has suffered some reversals in the past several months as measured by the Purchasing Managers Index as well as some of the other measures of spending and consumer confidence. The consumer is spending far less on things like entertainment and restaurant meals. There have been declines in many areas but health care has been holding steady as usual.

The combined score for the service sector was 52.6 and that is down from the 55.0 that was notched last month. This remains a respectable number but slipping closer to the contraction zone. The combined score for the favorable factors slipped out of the 60s and is now sitting at 57.7 as compared to the 61.5 marked earlier. This is the lowest point this index has reached in over a year. The combined score for the non-favorable factors dropped into the contraction zone with a reading of 49.1 as compared to the 50.6 marked the month prior.

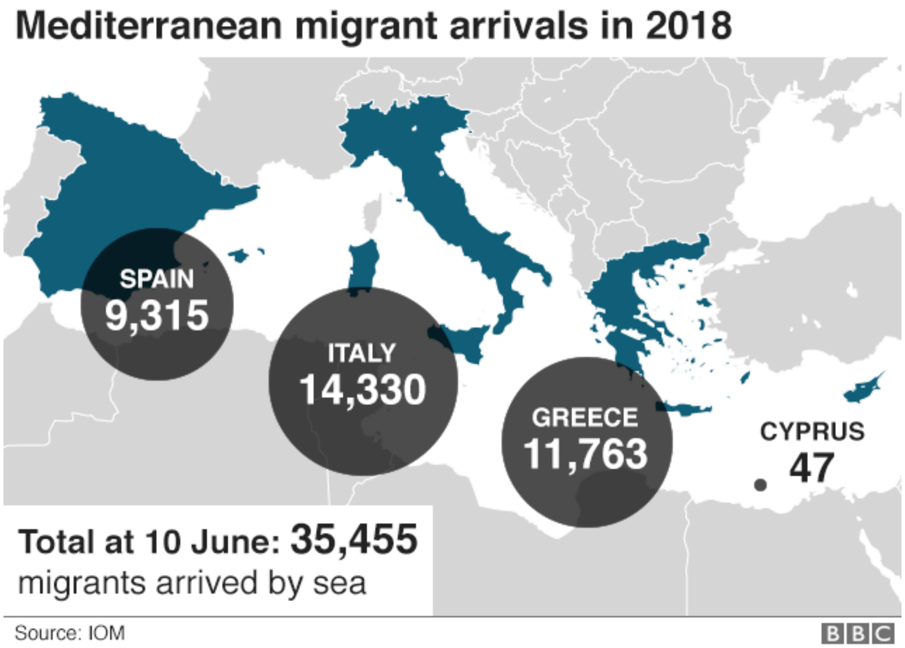
The sales category saw a major dip – from 63.5 to 58.0 and the lowest point reached in close to three years. The numbers are still in the high 50s so there is no room to panic but it isn't the trend that anyone would prefer. The new credit applications data also fell pretty hard as it moved from 59.2 to 54.3. There is obviously a lot more trepidation regarding requests for credit. The dollar collections data also fell off but not quite as dramatically – from 57.7 to 55.5 and the amount of credit extended skidded as well but still managed to stay in the 60s with a reading of 63.2 as compared to 65.5 in February.

The rejections of credit applications slid a bit from 50.8 to 49.1 but the shift was not all that dramatic and that is a good thing given the reduced number of new applications. It would seem to indicate that those that are applying are quality applicants. The accounts placed for collection went from 47.5 to 46.0 – not a major drop but heading the wrong direction. The disputes reading stayed very close to what it has been the month before as it moved from 48.3 to 48.9. The dollar amount beyond terms category also changed very little and that is also good news. It was at 49.8 and is now at 49.0. This is still not in the expansion zone but is certainly close to breaking out of contraction. The dollar amount of customer deductions shifted from 50.6 to 49.1 – not a major dip but it is another marker that has now fallen into the contraction zone. The filings for bankruptcies slipped from 56.5 to 52.7 and that is not a welcome piece of news but at least this category is staying in the 50s which is more than can be said for any of the others. This marks the first time in over a year that there have been this many categories stuck in the contraction zone.

Migration Crisis in Europe

There has been such focus on the immigration mess in the US that to some degree the press has forgotten about the issue as it has affected Europe. It has certainly not escaped the notice of the European governments and the populations most affected by the exodus from the Middle East and North Africa. The latest drama involved the seizure of a tanker by a group of migrants that had been rescued by the tanker as their small craft was falling apart. When the migrants learned that the ship was heading to Libya, the country they had just escaped from, they took control of the ship by overpowering the small crew.

Analysis: The ship ended up in Malta where authorities retook control but the incident underscores the desperation of the migrants.



The numbers are already staggering and they keep increasing as the countries of the Middle East and North Africa continue to deteriorate. The EU is overwhelmed by the task of rescuing and accommodating the refugees and the populations of Europe are ejecting any further engagement. The populism that has swept people to power in Italy, Hungary, and elsewhere is often rooted in the ferocious opposition to the influx of people from throughout Africa, Middle East and South Asia. The strategy has shifted from trying to rescue to halting the migration in the country of origin through blockades and through providing aid to these governments to beef up their own security.

Speaking this Month

03/29/19	Kansas City	Retired Old Men's Eating Organization	Private
04/03/19	Wichita	The Bradbury Group	Private
04/10/19	Phoenix	GAIN/PGI	Public
04/11/19	Kansas City	Landmark Bank Lunch	Public
04/17/19	Kansas City	Construction Financial Mgmt. Assoc.	Public
04/18/19	Chicago	NACM	Private
04/24/19	Kansas City	Infinitas Breakfast	Public
04/24/19	Kansas City	NACM	Private
04/25/19	Columbia	Missouri Banker's Association	Public
04/25/19	St. Louis	NACM	Private
04/30/19	Memphis	FMA Pipe and Tube	Public

Work Ethic

I do not want to sound like some kind of crotchety old geezer complaining about "kids today". I am sure it will sound that way though. I addressed a small group of manufacturers in Kansas City yesterday and inevitably the conversation worked its way to the issue of labor shortage as this continues to be one of the most pressing issues for the sector as a whole. One of the comments I hear frequently from people who are not directly engaged in these businesses is that companies need to do their own training and stop whining that schools are not doing their jobs for them. This is a stunningly ignorant comment – makes me wonder if these folks would like to go to a doctor that had no medical school experience and was getting all their training from another doctor or two.

Beyond that there is the experience these guys have with almost every new hire they make anymore. One guy took out an ad and offered a job where the applicant would be trained fully and completely as a certified machine operator – complete with formal classes, one on one mentoring and support. All while being paid close to $20 an hour. He did not receive one single applicant. The others commented that new hires jump ship for a dollar or two more an hour and last no more than six months – even when it is pointed out that with experience comes raises. They can't get people to show up for work on time, can't get them to quit wasting time at work on their cell phones and can't get people to take responsibility for much of anything. It was not just one or two complaining – every one of them had similar stories. There really does seem to be a "work ethic crisis" in the country at this point and that does not bode well for the future of the US economy.

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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