

# BUSINESS INTELLIGENCE BRIEF

May 14, 2021



## NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

### Short Items of Interest – US Economy

- **Jobless Claims Drop** – The number of new jobless claims have dropped below what they were at the start of the pandemic. The latest number is 473,000 and the data from the month prior has been revised down to 507,000. There is certainly still an issue of people reluctant to return to work but it is clear that business is not laying people off. The service sector is back in nearly full swing and employers are focused on retaining who they have. The layoffs that are taking place are often in the sectors that grew during the pandemic. There have been many delivery options that have been curtailed and there has been less demand from some of the medical sector. The rest of these layoffs have been the more predictable seasonal adjustments.
- **Retail Spending Slows Down** – The latest retail numbers are not bad but neither are they gaining. The data shows that spending was flat in April. This is not altogether surprising but it does create some concerns as far as predicted growth over the next few months. There was a ferocious enthusiasm shown by consumers eager to get back to their old habits but now some of that has been satisfied and people are settling back into a more stable routine. The expectation is that retail will see another bounce in the summer months as all indications are that people intend to travel and vacation more as they make up for the opportunities missed last year. There will also be some gains as the price of goods and fuel rise. It will make the numbers look good even if the gains are only driven by inflation.
- **Everybody Wants What Somebody Else Pays For** – In a not very shocking assertion the corporate community indicated its steadfast and urgent support for a massive improvement in the nation's infrastructure – as long as they do not have to pay for it with higher taxes. This is a very common refrain and one hears it from all levels. Everything is a great idea as long as I don't have to pay a dime for it. The reality is that it doesn't work that way. The choice is as it always has been. Either some means is devised to pay for this kind of development or the infrastructure is simply left to further deteriorate and at this point it seems the latter is the path chosen by Congress as the two sides are still miles and miles apart on everything from what the money should be used for and where it is supposed to come from.

### Short Items of Interest – Global Economy

- **Security vs. Access** – The reality is that almost anything can be made ultra-secure – including technology. The problem is that people want to use what this technology provides and that means it has to be accessible. If a system is locked down tight to protect against hackers it is also very hard for the user to access. A good example has been the explosion of webinars and virtual meetings. The systems that are easy and convenient to use are also the easiest to hack into and manipulate. If the choice is made to use the highly secure system the users are blocked and confused. I have run into that when trying to do webinars. The systems have been so secure that I could not gain access as I was judged an "outsider" by the system. This is the dilemma of overall cyber security.
- **Drought Warnings Already** – The parts of the world that have been facing water shortages are seeing them again and earlier than in previous years. The assertion is that climate change is manifesting and the evidence remains overwhelming that climate patterns have been changing. The reasons for the shift are not simple and there are plenty of culprits to blame. The real issue is what to do about the immediate situation and the only real option is to adapt in some way or the other. Even a complete halt to the production of greenhouse gas would take years to manifest so the issues demand immediate coping responses. This means radical changes in land use and the way that people interact with the place they live and work and none of that adjustment will be easy and it will not be welcomed.

Knowledge  
is said to  
be power.

Only if that  
knowledge  
leads to  
action

The Black  
Owl Report  
is that tool  
that turns  
knowledge  
to action

Click the link  
below for a  
**FREE TRIAL**  
of the  
Black Owl  
Report.

[www.armada-  
intel.com/trial](http://www.armada-intel.com/trial)

## Two Reasons Inflation Surge is Likely Temporary and Two Reasons it Might Last

This would be the kind of assessment that economists are notorious for – the analysis that covers all the bases. The question is simple enough – how long will inflation last and how bad will it get? If you were expecting a simple answer you have come to the wrong place as there are several factors that will determine the ultimate answer to the question of inflation. As has been repeated more than a few times in these pages there are three major drivers for inflation and at the moment only one of them is playing a major role but the other two have started to have an impact. The three include wages, commodities and money supply. The assertion that inflation threats will fade in the next few months is based on the assumption that commodity pricing will return to normal and that money supply concerns will fade somewhat. This is not guaranteed however and this is what sustains the concern regarding inflation through the rest of the year.

**Analysis:** Generally speaking, there will be wage inflation issues when the unemployment rate is low but even when that rate was down to 3.5% prior to the recession there was little evidence of wage driven inflation and now that the rate is around 6.5% there is no expectation of an inflation surge connected to wages. This has been a near permanent change due to factors such as globalization and the advance of technology but the point is that inflation from wages alone is not happening. It is important to note that there continues to be a threat in select areas as there are significant labor shortages in manufacturing, transportation, construction etc. and where there are few qualified workers the wages have risen.

The temporary impact of inflation is connected to commodities. In the last few weeks, the spikes in price have been astonishing. Record prices for lumber and very high costs connected to steel and copper and oil and just about everything one can imagine. There has not been anything complicated about this rise – it is good ol’ demand and supply pressure at work. Very few expected the resumption of growth at the pace we have seen thus far. At the start of the year the Federal Reserve boldly asserted that annual growth this year might reach 4.5% (when our normal rate is around 2.5%). Just a month or so later the estimate changed to 6.5% and there is likely to be yet another upward revision. The growth has taken the producers by surprise and there has been a predictable reaction. The supply chain was already wounded by the pandemic and now demand was overwhelming it with the expected results. There have been shortages and inflation as higher prices are always used to control demand. In the next few months, the suppliers and producers will catch up and start competing for market share and the prices will start to fall. Will they go back to what they were prior to the growth spurt? Probably not but they will come off their peaks and will become far more stable.

That leaves the last motivator and that is a little tricky. The most reliable means by which to control inflation is the consumer’s rejection of the higher price. There will be many that simply can’t pay the higher price and many that will refuse as they search for an alternate or substitute good. This consumer rejection depends on how much money the consumer has and at the moment the consumer has a great deal more cash on hand than normal. There is estimated to be \$5.4 trillion in excess savings in the world and that allows many people to ignore inflated prices if they want to. They will complain and object to the costs but in the end they will decide they have the money so they will grumble and pay the price for what they want and need.

Those are the two reasons the inflation surge will not last long but these are the same reasons that the situation might extend. As long as there is all this cash in the system there will be tolerance for higher prices and the potential for more inflation. The consumer is indeed spending more aggressively as they resume their former patterns but will this additional spending dry up that money supply quickly? At the same time that people are spending they are earning more money and businesses are making more profit and that also adds to the money supply. Then there is the fact that producers may not be able to boost output as much or as fast as they would like. There will be inhibitions ranging from weather to geopolitics to regulations. Oil prices peaked because of a cyber attack and there is nothing to indicate this will be the last one. The criminal thugs that used that ransomware got their \$5 million and are very, very likely to do this again.

## The Upside of Commodities Inflation

“It is an ill wind that blows nobody good” – an old Scottish proverb that indicates that something good results even from the bad. The developed nations are contending with higher rates of inflation driven by commodities but those that sell these commodities are reaping the benefit from that surge. Many of the developing nations that have been hammered by the pandemic are the nations that supply commodities such as copper, bauxite, iron ore and so on. They are getting some reward from the suddenly higher prices. Even many of the more developed nations have seen a benefit. Canada supplies lumber and oil and gas (although the US tariffs on their softwood lumber exports have limited them).

**Analysis:** As with most things, there are price pendulums that shift the benefit from producer to consumer. The period of low prices that existed for several years made it hard for producers to make profits and now the shift is away from the consumer to the producer. It will not last – it never does. The higher prices attract more producers eager to get some of that revenue and profit and soon that competition drives the prices back down. The developing nations are regularly caught in this pendulum and struggle to maintain any sort of financial stability.

## Sharp Contrasts as COVID 19 Threat Remains

The world is now experiencing a full range of experiences related to the pandemic and that will make setting policy and establishing strategies even tougher. The virus will never vanish – that is a given. The best that can ever be achieved is a modicum of control. Every virus that has ever affected the world population is still with us in some form and still sickens and kills people every year. People die from the flu by the thousands annually and they will die from the COVID 19 infection for years. A point is reached where a given death toll is deemed acceptable as the alternative is worse. Collapsed economies create death and destruction as well. The differences in the world as far as the pandemic are stark. The US has achieved enough immunity through vaccines and the fact that millions have had the disease and recovered to resume much of normal life. Masks are no longer required for those who have been vaccinated and most business has resumed but with many new limitations that are likely to remain in place for an extended period. Meanwhile Singapore is getting hit hard by another wave and is considering another very strict lockdown. The UK is far ahead in terms of resuming normal behavior as they have aggressively vaccinated but Europe still lags and is far from resuming old patterns.

**Analysis:** While this scourge has been controlling policy and politics there have been plenty of other threats to the world and the business community to contend with and most have the same issue in common. The Colonial pipeline is coming back on line and will be functioning normally in about a week by the fundamental problem has not been addressed at all. The resumption of activity is because the criminals that blackmailed the entire US have been paid their \$5 million. The US authorities still do not know who they are or precisely where they are. All that is known is that this group is in Russia and has been launching ransomware attacks for years. They will most certainly do it again and in fact are doing it right now. The pipeline remains at risk and could be shut down again in an hour.

Hurricanes and typhoons and tornados and fires and floods will be occurring in the weeks and months ahead and wars will break out and intensify. The Israeli attack on the Palestinians has escalated to an all-out war on the scale of 2014. The grim and tragic list of threats goes on and on. Is there anything that can be done about any of this? In some ways no but in many ways the answer is yes. There is an old adage that is often repeated but rarely taken to heart. “An ounce of prevention is worth a pound of cure”. In almost every situation there was something that could have been done to prevent it or at least minimize the damage. The vulnerability of the pipeline has been obvious for years, the fact that viral attacks have been occurring every year for decades has been well known, fire risks are obvious and even storms can be prepared for. The problem is that preparation is expensive and people generally make the decision to trust to luck to protect themselves.

The price for depending on luck and accident has become far too steep. The report from the independent group commissioned by the WHO has been scathing when it comes to the WHO itself and to the governments of the world. The COVID 19 threat should never have materialized. Simple steps taken at the right time would have limited the disease to Hubei province in China and would have allowed its isolation in a matter of weeks. A comprehensive plan to protect the pipeline would have thwarted the ransomware attack. But to make things far more personal – choosing to lose 30 pounds, exercise and reduce salt will result in lowering the risk of a heart attack by over 80%. Millions and millions of people will refuse to do so.

## Alternatives to Higher Pay

The acute labor shortage that has affected business in the US as well as Europe and developed Asia has sparked a whole series of responses and suggestions. The most common assertion has been that companies unable to find workers are not paying enough to attract them and should therefore simply raise the rate of pay. The reality is that this has not been enough in many cases and the hike in pay usually means a hike in the costs of the service or product provided. Many of the companies that pay low wages are in low margin businesses and have very little price flexibility.

**Analysis:** There is an alternative to higher paid employees. Technology and robotics have been changing many aspects of the workforce and that process is accelerating. It can be as simple as replacing counter help with touch screens or eliminating checkers with self-check out but it is going beyond this and quickly. The low wage job is overwhelmingly a service sector job and this past year has demonstrated how easily these jobs can be held by machines and technology. A fast-food restaurant employing around 25 people and asked to pay a \$15 minimum wage will see labor costs rise by an average of \$300,000 annually. That pays for a lot of technology and allows for a lot of workforce reduction.

## Armada Strategic Intelligence System Signals a Strong Rebound

The data that has been coming from the Armada Strategic Intelligence System is looking better than ever. This is consistent with most of the other economic assessments that have been released in the last few weeks. The projections are showing a more rapid rebound than had been expected in all the key manufacturing sectors. Check this out for yourself. The ASIS has been showing accuracy in the 96% range with a very reliable model. The two-month trial is absolutely free – no obligations at all. Simply go to [www.asisintelligence.com](http://www.asisintelligence.com) and engage with us.

## Colonial Pipeline system map



In case you were wondering what parts of the country were most likely to be affected by the pipeline hijacking, here is the route. The reality is that the refineries on the east coast are far too reliant on one system and that has been an issue for many years. The worry used to be weather and damage and now the concerns have escalated.

## Selective Hearing

On far more than a few occasions I hear something that is not quite right. I would attribute this to advancing age but I have always done this – especially with songs. I watched an old comedy bit from a British comedian who based his dialogue on mishearing lyrics and I am right there with him. For many years I was confident the song was about “the reverend blue jeans” and then there was “bald headed woman”. Today I am confident that I have just been told to “beat the sprinkler guy” but decide to stop for clarification before engaging in fisticuffs. The dialogue on TV often leaves me baffled and somehow intrigued. The baking competition featured a woman who repeatedly informed the judges they were eating a lemon fart. I know what she meant but I played that clip over and over and never heard the “T” sound.

I suppose hearing things is superior to seeing things but I have to wonder what people think they are hearing me say on all these webinars and talks. I shudder to think what twisted versions of my blather have been consumed by slightly disengaged zoom listeners. Perhaps I have even committed a few of what are referred to around here as Pratherisms. My business partner has been known to create some interesting turns of phrase such as “that will be a feather in his kudo” or “that is deader than a hot potato”. My contributions have included reverting to some long-forgotten phrases in a moment of stress. As in the time that a woman at my presentation tipped her chair back too far and took the whole table with her as she went. My response from the stage – microphone in hand? “Zounds!” was all I could come up with in the moment.



LEARN THE LATEST MANUFACTURING TECHNOLOGIES.  
INFORM YOUR MOST IMPORTANT EQUIPMENT DECISIONS.

**FWM**  
FIFTH WAVE MANUFACTURING  
[www.fifthwavemfg.com](http://www.fifthwavemfg.com)  
THE STORY OF MAKING TOMORROW

additive manufacturing    ai    automation    bending    camera    coil    conveyors