

BUSINESS INTELLIGENCE BRIEF

May 21, 2021



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Record Home Prices** – The price of homes has never been this high and so consistently. Why? The answer is not all that complicated but the question is how long this situation can be expected to last. The primary motivator is still that the US remains in a housing shortage situation despite all the building that has gone on over the last few years. The millennial buyer finally started to make their appearance at the same time that people started to seek homes further from the congested cities. The low mortgage rates allowed people to essentially ignore the higher prices and that fueled demand as well. To top it all off the price of building materials have risen to astronomical levels. Will all of this continue as it has been? The short answer is no. Mortgage rates will start to rise and maybe as soon as the end of the year, inflation issues will cool a bit and there is likely to be an ebb in demand.
- **The Major Threat to Crypto** – Some of the investment analysts have characterized the market for cryptocurrency as more of a cult or religion than any sort of legitimate investment tool. The majority of the early adherents were attracted to bitcoin and the other alternatives because they appeared to be out of the reach of government. There was an element of that conspiracy attitude towards government that has faded a little since. Now it just appears to be a way to make money fast (and lose it just as fast). The future of cryptocurrency is more in doubt now than ever as governments are stepping in to regulate it more aggressively. China already has and now the US and EU are moving in the same direction. The connection between bitcoin and ransomware has driven some of this desire to crack down. While we are on the subject of ransoms, we need to point out a mistake earlier this week. The number for that ransom paid by Colonial pipeline was \$4 million and not \$4 billion (that would have been quite a windfall for those thugs)
- **Jobless Claims Keep Falling** – The number of new jobless claims keep falling. The fact is that businesses are no longer engaging in layoffs as they were during the pandemic crisis and there are now 22 states that have moved away from the process of paying an extra \$300 a week in unemployment benefits. The need now is to get people back to work and with close to 9 million jobs on offer there is no longer much need to support people with government largesse if they are able to hold a job. The unemployment rate has not fallen as fast as expected as there has been too much job resistance.

Short Items of Interest – Global Economy

- **Ceasefire in Place** – At the risk of extreme cynicism it seems that both sets of leaders in this tense conflict got what they wanted in the short term and at the expense of the people they ostensibly serve. The move to confront Hamas in the Gaza strip bolstered the political position of Benjamin Netanyahu at precisely the moment he needed it. His hold on Likud was starting to fray and is now solid again. The Hamas leaders have been working to undermine the Palestinian Authority and they have succeeded as the “government” of the Palestinian region was exposed as inept and impotent. Hamas made it clear who was in charge and attacked Israel with an extensive arsenal. Now there is yet another inconclusive ceasefire which will allow Hamas to rebuild that arsenal and get ready for another round while Netanyahu pushed settlement even harder. The people caught in this vise just get killed.
- **China Rejects High Level Military Talks** – For years, the US and China managed to maintain a thin veneer of cooperation on military and diplomatic matters. No matter how tense things got there was always an opportunity to meet. The latest overture from the US has been rebuffed by the Chinese military. The US wants to talk about the aggressive posture China has adopted towards Taiwan and the South China Sea and China wants no part of this lecture. The fact is that China holds nearly all the cards as far as a confrontation in this region and has no intention of reducing that influence. The US wants China to back away but has no leverage to demand it.

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Europe Starts to Come Out of its Slumber

There are many reasons the US business community cares about what happens in Europe. The most basic connection is that the nations of the EU constitute the largest trading partner for the US and the economy of this country is 15% reliant on exports. To put that in money terms, there is close to \$400 billion at stake. The investment connections are vast and complex as European companies own assets in the US and vice versa. It certainly doesn't stop there as there are plenty of diplomatic, political and military ties. As the US economy has been getting back on its feet the economy of Europe had been struggling. The lockdowns had not been lifted as aggressively as in the US and that has been inhibiting all aspects of the recovery. In the last few weeks there have been some real signs of progress in Europe and the economy of this region is showing the same surge of growth that has been manifesting in the US. This is both good news and bad. The growth is certainly welcome but with this surge comes all the attendant issues that surround rapid growth – inflation and shortages.

Analysis: As with the US this growth has come down to vaccines. This is certainly not a shock as this has been the understanding since the start of the pandemic. At the start of the crisis there were several assertions that seem to have been forgotten over the course of the crisis and its ridiculous politization. The first assertion was that a slow response to the global outbreak limited responses. An earlier admission of the problem by China or a more aggressive response by other nations might have meant earlier and effective quarantines and better testing. That didn't happen so the next option was a temporary measure – a move to slow the spread of the virus through isolation and masking. It was admitted from the start that this was largely ineffective but it would serve to reduce some of the strain on the medical system UNTIL a vaccine was developed. The entire focus of the real fight against the pandemic has been developing the vaccine and distributing it widely.

The US has done a better job than most in getting the vaccine out there. The challenge now is getting the reluctant to accept the need and once again the prime issue has been politics. Europe lagged behind for a variety of reasons – lack of the vaccine, poor distribution strategies and the existence of some resistance (again motivated mostly by politics). Europe has finally started to catch up and now the expectation is loosening of lockdowns and a surge in service sector activity – just as has been the experience of the US. If anything, the European populations have been more eager to resume old habits than the population of the US.

The downside to this surge has been the same as has affected the US in the last few months. The rapid return of demand has strained the ability of producers to keep pace. They had not been expecting this kind of resumption (even though they should have – given the experience of the US). The result has been predictable when demand overshoots supply. There will either be shortages or higher prices and usually both. The inflation threat the US has been experiencing is now being felt in Europe as well and that will mean a more pronounced global threat as now the producers are trying to match demand from the European nations at the same time they react to US demand. Throw the recovering Asian economies in that mix and you have some very significant global inflation. This will inevitably trigger responses from global central banks and there will be reactions that ripple through almost every industry. There are actually quite a few industries that are essentially recession proof but almost none are immune to inflation.

Weather and the Economy

For the most obvious of reasons the focus of economic worry has been on the pandemic and the response but that hardly means the usual concerns have vanished. The spring is bringing some unfortunately familiar challenges. The drought conditions that savaged California four years ago have returned and this will end up creating more inflation when it comes to food. There are many farmers that have been forced to destroy some of their crop and even trees to conserve water for the surviving vegetation. The water allotment has dropped to zero in many cases. On the other extreme there have been floods in many parts of the country and these have inundated fields that would otherwise have been planted by now. There is nothing unusual about harsh weather and that is why farming and ranching will never be for the faint of heart.

Analysis: The issue this year is timing. These shortages will be coming on top of other commodity shortages and these will combine to drive the inflation rates still higher. The impact of food shortage is diverse as these crops are used for human and animal consumption. The longer-term consideration is determining what can be grown where. In the days of abundant water and the ability to alter the environment there was more flexibility. Corn could be grown in dry areas despite the fact this crop is often described as water on a stick. It will become apparent that many areas that are now used for agriculture are simply not suitable for the kinds of growing that currently takes place.

California is at the very center of this debate as this state is essentially more desert than anything else. The farms are very productive when there is water as everything else favors growing. The water has been made available by irrigation and large reservoir systems but this is not working as it has. The winter snow melt has been inadequate and the reservoirs no longer fill up. The rains that once took place in the spring are not showing up and that leaves a very dry state. The ferocity of the fire seasons has been yet another indication of these changing conditions. The demand for food is ever growing and that has meant more and more emphasis on importing what might have been grown in the US previously.

The Remittance Economy

There are many complex and interconnected aspects as far as migration is concerned. For the US, Europe and other developed nations there has been resistance to the influx of people from less developed nations. There is worry about how they will integrate into the economy and the culture, worry about the potential expense of taking care of the migrants. The motivation for the migration is extremely varied and that further complicates the issue. Some are coming as they fear violence and war in their own nations, others are seeking a better opportunity to make a living. Some fully intend to make a new life in a new nation on a permanent basis and others want to return home as soon as that becomes feasible. There are two major economic issues that revolve around migration. The first is important to the destination nations and the second is vital to the nations the migrants come from.

Analysis: The vast majority of the migrants are motivated by economic pressure. They can't make a living where they are for a variety of reasons. The country they hail from is poor and has few jobs, they are part of a group that is discriminated against, they are victims of war and violence and so on. The US, Europe and other developed nations (Australia, Japan etc.) become the solution to their dilemma. This driver is what creates the economic impact. To the developed nations the migrants constitute a source of much needed labor. These are very frequently the people that work them jobs that domestic workers will not. In the US and Europe, the migrants take jobs in agriculture, maintenance, food service and so on. These are low paid jobs and are often shunned by others. In many cases the migrants have skills that are in short supply in the country they enter. At the same time there are migrants that do not bring skills and are unable to find work. These are often the people who have fled war and violence and are not equipped to handle a new nation. They are rarely entitled to the services and support offered citizens but they have access to some of this largesse.

A bigger and often overlooked contribution is the remittance flow back to the country they came from. For decades, the third or fourth largest share of foreign income for Mexico was remittances from those that had found jobs in the US and had been sending money to their families back home. At this time, the number one source of these dollars is oil and manufacturing ranks number two. The third-place position is remittances and that exceeds tourism. The same pattern exists in North Africa, the Middle East and South Asia. The money sent back home by migrants working in Europe ranks as the second or third most important source of foreign currency and this money sustains not only the family back home but the entire community.

The pandemic all but destroyed the remittance system as millions of people who would have otherwise worked in another nation were unable to find that work or were otherwise denied entry. The flood of people who have been arriving in the US and Europe over the last few months has been attributed to the opening of these economies and the need to fill those service and support jobs. The migration pattern has also reflected the desperation of families that worry about their children. The surge of minors is a reaction to fears for their future and the assumption they will stand a better chance of staying in the US or somewhere in Europe. The majority of these kids are seeking contact with relatives and friends of their parents who are living in the US and Europe already. As these developing nations try to cope with the pandemic damage, they need this part of their economy to restart as well. Given the controversy over migration in the US and Europe this will be a challenge.

Risk Management

There are few that have any desire to actually manage risk but we are required to do it every day our lives. In a perfect world there would be no risk to our life and health or even our plans for the future. But as the time-honored quip states – “life is what happens when we are making other plans”. We know that thousands of people die and are injured on the road every day and yet we still decide to drive. But with considerations designed to minimize the risk. We have air bags and seat belts and speed limits and so on.

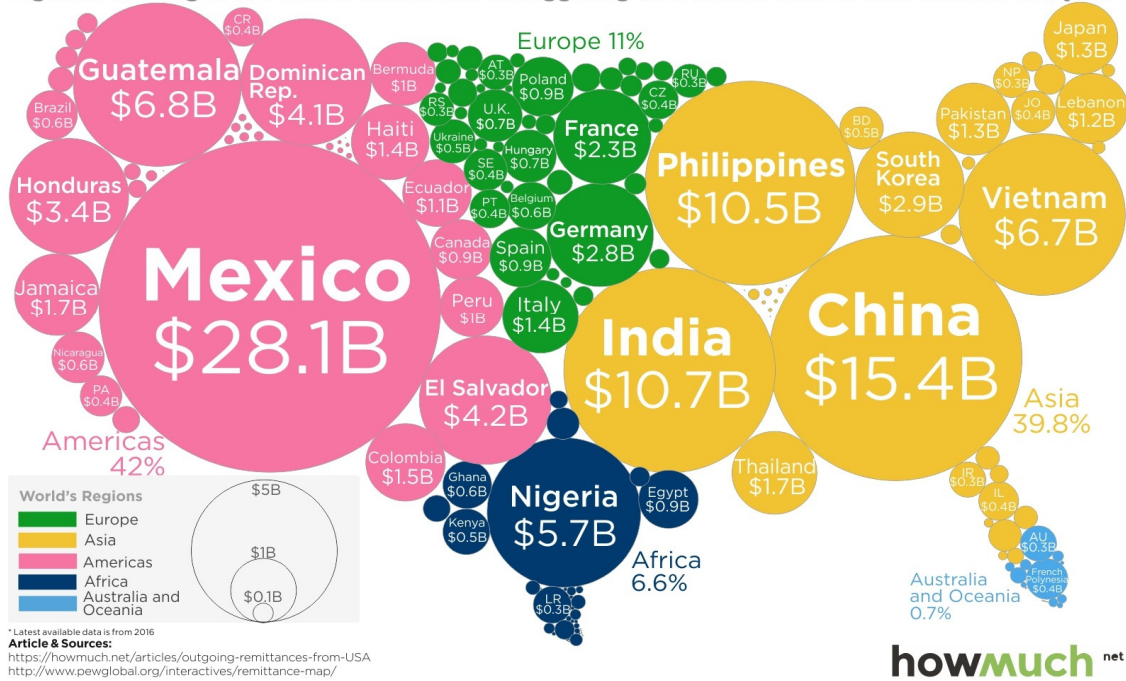
Analysis: The world now faces the same challenge with the pandemic. Every day there are reports that encourage – more vaccinated people, fewer deaths and hospitalizations. We decide we can open economies up in response. The next day there is a report about a new variant and that process of resuming normal life stalls. Is there a point where risk management has to enter the conversation? The primary means by which to lower risk is to maximize immunity and that means vaccines. But we know that millions will refuse them. The virus will not vanish and it will keep mutating. The only real option is management of that risk. Locking down entire economies inflicted heavy damage and few want a repeat of this experience. By the same token nobody wants a repeat of the virus waves that killed tens of thousands. Maintaining a balance will be challenging and will not completely satisfy anyone.

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 and engage with us.

Outgoing Remittances from United States to other Countries

Migrants working in the United States sent a staggering \$138 billion back to their families last year *



This is data from a couple of years ago and pre-pandemic but it gives a good sense of how important the flow of remittances from the US can be to the rest of the world. The total was \$138 billion. This money then circulates in these nations and works its way back to the US as these nations purchase US exports. The US consumer is the engine of the US economy as well as the economy of the rest of the world.

Finding the Forgotten Worker

There has been a chronic issue of labor shortage for years and this has affected manufacturing, construction, transportation and many other sectors. This is something we have harped on for years (and will keep harping on). These shortages are creating opportunities for some creative solutions. A couple that I have run across lately include employing the disabled worker as well as the formerly incarcerated. The companies that have engaged in this kind of recruitment are finding that accommodating people with varying abilities is not as difficult as often assumed. These companies are using technology to augment people and to allow the needed adjustments to people who have different physical and mental capabilities.

There are thousands of people who have struggled to get back in the workforce due to their criminal record but the vast majority of these people have been convicted of non-violent crimes and have taken steps to leave that past behind if given a chance. These companies are finding that employees who have battled disability bias or the prejudice leveraged against convicts make very loyal employees and that is a characteristic that has been in short supply.



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