

# BUSINESS INTELLIGENCE BRIEF

November 2, 2018



## NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

### Short Items of Interest – US Economy

- **Labor Report** – As discussed later in this issue here were some aspects of the latest labor report that were eagerly waited and for the most part the news has been better than many had expected. The wage hike that most had been expecting did indeed materialize with a 3.1% annual rate. That is as good as it has been seen since the start of the recession. There was also a nice jump in the number of new hires – up to 250,000. There have been available jobs for the last few years but the business community had not been finding the people they wanted to hire. Now there is evidence that business is hiring people who just want to work and plan to train them later. That has added to the rolls but this month the overall rate of unemployment stayed where it was. This was a good jobs report and that could be important as far as the coming retail season is concerned.
- **Trade Deficit Widens** – Thus far the efforts to address the trade deficit with threats of tariffs and trade wars has had little impact and many would go as far as to say it has backfired. The fact is that when one wants to impose these kinds of tariffs and taxes it is better to do it quickly and with little warning. There is no time to react if this is the policy. Instead the threats have been issued months in advance and that gives importers plenty of time to bring in the goods they want before the tariff kicks in. Now the trade restrictions may not be imposed after all, but if they are, the deficit may reduce substantially as companies will have little incentive to buy these goods at the new higher price as they have already loaded up on the goods and commodities they needed.
- **Retreat Registered by PMI** – The latest data from the Purchasing Managers' Index shows a little weakness but certainly nothing to panic over at this stage. The number last month was 59.8 and this month it has fallen to 57.7. This is still very high and well over the 50-line that separates growth from contraction. The suspicion is that trade wars and tariff threats combined to slow some sectors down a little and there also seemed to be less engagement by consumers than had been expected as the annual holiday spending period started.

### Short Items of Interest – Global Economy

- **Why the Market Rally?** – The rebound in the global markets started with the Asian exchanges and then moved to Europe and the US has also opened with some enthusiasm both because of the potential thaw between the US and China but also the good employment numbers. It now seems that China has been sending deeper signals that suggest it is ready to make some major concessions to the US – enough to head off a trade war in any case.
- **Brazil to Embrace Friedman?** – A few decades ago the Chilean dictator- Augusto Pinochet – announced he was instituting reforms based on the free market theories of the “Chicago Boys” – the disciples of Milton Friedman who had created the Chicago school of near-libertarian economics. That series of efforts was controversial but it largely worked in that small and middle-class country. The new Finance Minister in Brazil is now planning a similar effort in his nation but many fear that it is too big and too poor for this system to work as well as it did in Chile.
- **Major Comeback in Germany?** – Ten years ago, one of the rising stars of the German conservative establishment quit the Christian Democratic Union when he failed to defeat Angela Merkel for leadership. He is now back and challenging for that role again and is using the immigration issue as the club to defeat her. She has already resigned but had hoped to see an ally take over – not Friedrich Merz. They continue to be very hostile to one another.

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## The War on Migrants

Human migration from one country to another has always been controversial and complicated but it has been a very long since the issue was as politicized and emotional as it is now. The mid-term elections in the US have largely centered on the issue and every day there is another statement from the White House aimed at attacking migration into the US. The German elections have turned on the issue of migration and thus far the issue has cost Angela Merkel her position as head of the Christian Democratic Union. Migration has been behind the rise of several other right-leaning parties in Europe such as the Northern Alliance/Five Star Movement in Italy, Freedom Party in Austria, Sweden Democrats in Sweden and even the National Front in France. The key issue behind the British decision to leave the EU (Brexit) was antipathy towards opening the British border to European migrants. Wars are raging in Africa over migrant movements into the territory of other nations and tribes. Asia has been no different as Nobel Peace Prize winner Aung San Suu Kyi is on the verge of being stripped of that honor over the issue of how the Burmese authorities are attacking Rohingya migrants and China is waging all-out war on its Uighur population.

**Analysis:** Broadly speaking there are two fundamental reasons for people to migrate from their homes – illegally or legally. The most common motivation is a desire for a better life. This means they are seeking a better economic environment as their home regions offer too little opportunity to make money. This creates a constant pressure on richer nations as people from poorer parts of the world will be drawn to these nations as if by magnet. The second broad motivation is the need to flee violence. This could mean running from war or the tyranny of a dictator or the bullying of drug gangs or even the predations of family and neighbors. There is a huge difference between these motivations as the former really wants to start a new life and is prepared to assimilate into a new culture while the latter has been chased from their home and yearns to go back as soon as they are able to. They have far less interest in adapting to the new world they live in.

The motivation for those who oppose the migration is more complex. There are those who are opposed to the influx purely out of bigotry and prejudice. They dislike the race or the ethnicity of those who seek to come into their country or community and they make no secret of that bias and antagonism. There are those who really do not have any real animus towards a given group of people but fear the impact of their arrival on the local culture. They worry that these new arrivals will take jobs from the local population and they fear that the local way of life will be altered by the migrants. There are those who oppose the migrants for economic reasons. They know that the majority of those coming will have nothing and will depend on their new home to provide extensive welfare benefits. This may be a short-term dependence or it may be a long-term issue but either way it costs money and that cash is taken away from other programs. There is also fear that illegal migration will make it easier for criminal elements to exploit the system - everything from drugs and prostitution to terrorism. There is the possibility that legal migrants will pose that same threat but it is far less likely as there is some vetting that takes place for the legal migrant.

The reality is that the US and every other nation needs migrants and perhaps now more than ever. The US and Europe are aging societies with a major labor shortage. More people retire from the workforce than enter it every day. The average age of workers in manufacturing, construction and transportation is now in the late 50s and 60s and many other sectors are close. The need is for skilled and educated migrants and that is not often the group that arrives at the border. Unfortunately, those who oppose migration due to bigotry and bias rarely make a distinction between the types of migrants and attack anyone who sparks their prejudice and hatred.

The controversy has been amplified by the political use of the issue – using the fear of migrants to motivate some part of the voting base. The US has seen the vilification of the “Honduran caravan” with outright lies as to the number of people (there are between 3,000 and 5,000 but claims have been made that the number is six times that many). The German AfD (Alternative for Germany) tried to assert that prisons and jails in the Middle East were emptied and inmates sent to Germany (not remotely true). The Burmese government tried to assert that it was the Rohingya migrants raping female refugees when it was documented that the rapes were being committed by Burmese soldiers.

The fact is that every nation has to maintain its borders. The US is no position to host the entire population of Latin America because they want better jobs and Europe can’t resettle the entire North African and Middle Eastern population. The solutions are immensely complex but will always involve some level of law enforcement and control.

## Productivity Remains an Issue

Despite all the good news regarding the economy of late the issue of worker productivity remains a sore spot. For the last several years the rate has been under 2.0% annually that is the slowest pace in nearly half a century. The reaction to the tax cuts earlier this year may have provided a clue as to why this has been the case. The one thing that lagged after the tax cuts was business investment and that the lack of that investment is what has been affecting productivity.

**Analysis:** Ironically it has been manufacturing that has kept pace with its shift to more technology and robotics but the service economy has lagged behind dramatically as business has not invested in the kind of tech that boosts worker output.

## No Surprises Expected as Far as New Jobs Data is Concerned

The latest employment numbers will be coming out later today and as of this writing there was no expectation of anything unexpected. The same concerns will likely remain but the good news that has surrounded employment will be intact as well. The sense is that big changes may start to manifest as far as the job market is concerned as business has started to reach a breaking point due to the lack of qualified people to hire. This has been the dominant conversation within sectors as diverse as manufacturing, construction, transportation and health care for some years now and the list of affected industries has been expanding to include the professions like law, finance and accounting. There has been an acute lack of people qualified for engineering and scientific jobs for years and now that migration from other countries has been made harder that lack has become crippling.

**Analysis:** One of the first manifestations of how serious this issue of labor shortage has become is the fact that wages are starting to come up. That has been one of the vexing parts of the employment data for the last few years. The Phillips Curve held that when the rate of joblessness was very low the threat of wage inflation would quickly manifest as business would have to pay more to recruit the few people that still remained to be hired. Thus far that has not happened as business in general has not been willing to pay a premium for people who are not skilled and ready to contribute right away. That reluctance seems to be eroding and the data today is expected to show that wages are growing at a 3.0% rate for the first time since 2009. This essentially means that companies have given up on hiring skill and aptitude and are hiring attitude. They are now hiring less experienced people with the knowledge they will have to train them. This can create a cascade of pay hikes as those who do have experience will question why they are being paid the same as someone who is unskilled and must be trained. Soon the company is paying more to everyone on the payroll.

Another aspect of the report to pay attention to is the total number of new hires. The September number was a little lower than had been expected at 311,000 and if this month is similarly slow the sense will be that hiring has reached a peak and may not be surging as it has for the best part of the last few years. It has been asserted that the US needs to add some 300,000 jobs a month to keep pace with factors like retirement and the addition of young people to the workforce. The fact that many Boomers have delayed retirement has altered expectations. At some point even, these workaholics will end their careers and that will mean that people will be needed in ever greater numbers to fill those vacancies.

A third part of the report to focus on will be the impact of weather and other factors. The job market now is so tight that a natural disaster like a hurricane can have a major impact on job numbers. There will be the larger number of people who are unable to make it to work and end up counted as unemployed (at least temporarily). Then there is the reconstruction period. The country was already struggling to find enough people to work the skilled trades and now that people are in demand to rebuild the storm damaged areas the shortage elsewhere has become acute and has all but halted development in the areas that people are migrating from.

## Trade Thaw?

Last week the interaction between the US and China seemed to herald the start of a major Cold War between the first and second largest economies in the world but then there was a phone call between President Trump and Xi Jinping and the suggestion was that some kind of breakthrough was imminent. At least that is what the markets have been saying as there has been a rally in Asia that carried through into Europe.

**Analysis:** President Trump's style is transactional and that is to be expected given his background in real estate. The deal is all that matters and if that means abrupt changes and shifts that is all part of the process. If he is searching for a consistent pattern with China or Europe or any other nation it will be nearly impossible to find. The hostile language of today is replaced by hugs and kisses the next day and back to hostility the day after that. China has been facing more economic distress than the US and presumably has a greater interest in keeping the trade war at bay. This has made them more conciliatory but Xi Jinping is extremely strategic. He has a total reform of China's economy in mind, one that is not dependent on foreign trade and is rooted in its own consumer population. The role of the US is critical to that long-term goal and he is quite willing to make short-term concessions to remain on that track.

## 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](mailto:chris.kuehl@armadaci.com) for more details or to ask one of those questions.

## Halloween Recap

This is the holiday for the person who can't bring themselves to grow up. I was a big fan as a kid and loved the costume that I could put together. I was big for my age and started to get grief from the neighbors before I turned ten – they thought I was a teenager and chastised me for trick or treating. I have recovered my attraction to Halloween by being on the giving side and turning the house into a ghouls' paradise.

This year the numbers were down a bit – only about 175. In past years we have been above 200. The kids are not all from the neighborhood. Every few minutes there will be a flotilla of cars disgorging children who race to our door and pass the howling werewolves, screaming zombies, malevolent witches and the eight-foot-tall pirate waving his cutlass. They come from a part of the county where it is not all that safe to go door-to-door and this is their big outing. We have lot of repeat customers who like to point out the new stuff. The littlest ones cling to parents and older siblings and the older ones try not to jump when one of the animatronic figures go off.

It was a hit and justifies the fact I put it all up in one day and take it all down the next. My back is killing me right about now!!!

## Big Changes Coming to the Business Intelligence Brief

The BIB has been published now for over a decade and through the years we have tried to adapt to the needs and interest of our readers. It is with this desire in mind that we are planning some changes to take place in the next week or so. I will be interested in what the readers have to say about these and welcome further suggestions on ways we can improve.

- 1) We will be going to a three day a week publishing schedule – Monday, Wednesday and Friday. My travel schedule has become more and more packed and I end up missing more issues that I care to. The thinking is I can accommodate a more regular schedule and still deal with the travel requirements.
- 2) Each issue will have new content for you to peruse. There will be the “graph of the day” – some interesting chart or graph that pertains to some element of the economy and some explanation of what it means and where it comes from. People seek to be better informed with facts and statistics these days and this will be our contribution.
- 3) The BIB will expand to a 5-page publication to accommodate the “graph of the day” and that page will also feature articles that focus on the issues involved in running a business. This will include everything from HR pieces to management tip and hints and many other topics that will appeal to business people at every level.
- 4) Down the road we are developing a weekly version of the BIB that will capture several of the smaller pieces that appear through the course of the week – this will be published on Fridays as an opportunity to catch up with what might have been missed that week. We are also developing a podcast version of the publication that will summarize the news in each issue in a brief presentation.
- 5) Speaking of presentations, we will be running a list of places where the Armada guys will be speaking. This allows you to come and make your comments personally. Not all of these engagements will be open to the general public but we will let you know when you can arrange to come hear Chris Kuehl and Keith Prather live!



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