

BUSINESS INTELLIGENCE BRIEF

November 7, 2018



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **The New Political Reality** – Looks quite a bit like the old political reality but with some new wrinkles that will play a bigger role as 2020 gets closer. By now you have heard the major stories – the Senate is more firmly in the hands of the GOP with the loss of three Democratic incumbents. The House is now in the hands of the Democrats and by a pretty healthy margin. There are already a couple of inter-party divisions that will have a major influence on the next two years and the next election. There are still some moderate Republicans who have not been big fans of Trump and they have concluded that it may be safer to oppose him in the future. At the same time the Trump base came out strong in many of those Senate races. In the Democratic Party there is a growing rift between the progressive wing and the centrists as the more liberal candidates did very well in those House races. One of the ironies is that populist Trump supporters and very liberal democrats share a lot of positions on issues such as trade and globalization. This new Congress may be very challenging for many business interests.
- **Stock Market Seems Happy** – Thus far global markets have been calm as they got about what they expected. The polls have been suggesting a divided Congress for months and that is exactly what transpired. If there is any suspense it will be around how President Trump reacts. During the campaign two years ago, Mr. Trump adopted a number of positions that agreed with Democrats but these eroded as he took office and focused on his base. Now that he has a Democrat controlled House to deal with, he may see a reason to soften some positions to get cooperation.
- **More Jobs than People** – The political mantra has not yet changed although it may be high time it did. There is still the constant refrain that more jobs need to be created despite the fact there are currently more than a million jobs open – far exceeding the number of people seeking work. It even exceeds the number of unemployed unwilling to seek work. The crying need is to train a new generation of workers and to keep that pipeline open and full but nobody in politics seems to be focused on this issue at all. The major inhibition is that it will take money to address the issue and there is no will to spend on this priority as compared to all the other competing programs.

Short Items of Interest – Global Economy

- **Pressuring Iran** – It turns out that putting pressure on Iran is not as easy as it would seem. The oil economy is very thoroughly integrated and it has always been hard to isolate any one country or region. The US has promised to ratchet up the sanctions on Iran and that means essentially prohibiting other nations from buying their oil. The sanctions were imposed this week but with exemptions. Greece was allowed to keep buying as Greek refineries need that oil so that Greece can keep paying off debts. The exemption given China is a little harder to fathom. The bottom line is that hurting Iran without hurting many others is nearly impossible.
- **France Aims to Subvert Iran Sanctions** – The US and France are going to be on very opposite sides when it comes to Iran and France has made it clear they have no issue with that confrontation. The French have invested a lot into Iranian oil development and simply have an issue with how the US has handled Iran. It is also the case that French President Macron has not tolerated the perceived snub by President Trump and intends to make that abundantly clear.
- **Russians Banned from Upcoming Davos Meeting** – Three Russian business people have been banned from the next World Economic Forum and Russian leader Putin is livid. The WEF leaders assert these people are unwelcome due to the machinations of the Russians.

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What Should They Do Now?

The elections are over and we are safe from campaigning for maybe another week or two. We now have some new people but no reason to expect the bitterness and animosity to end. This is a divided nation and a divided Congress and that now seems to be the norm. Given the outcome, we will have even more opportunity for gridlock than we had before and thus we face the big question – what can we expect from our fearless leaders now. When it comes to the economy, the good news is that much of what has propelled the US economy to these new heights has not been due to the actions of government as much as the collective actions of the business community and the nation’s consumers. It is not that government is wholly unimportant but very often the actions are indirect. Take the tax cuts for example. These worked as a stimulus because the US business community reacted to them and so did the consumer – eventually. When this same approach was tried in Japan (Abenomics) it largely failed because Japanese companies did little investing and the consumer in Japan basically sat on their hands. Lucky for the US policymakers the US consumer will spend under almost any circumstances. So – if we were going to provide a wish list for the country as far as the economy was concerned, what would that look like for the next two years?

Analysis: The number one concern on the part of many economists is the debt and deficit. Remember those? It seemed that the public as a whole had gotten behind the idea of reducing the debt and deficit a few years ago. This was when those who referred to themselves as Tea Partiers pushed candidates who pledged they were going to do something about this issue. Somehow that enthusiasm faded as is often the case in politics. Nobody really wants to be the party pooper who stands there demanding that all that spending cease and at the same time that taxes would be coming up to provide more revenue. Even those who asserted they were budget hawks ended up just being against a few government programs they didn’t approve of while defending others to the death. Nobody talked about hiking taxes and instead the decision was made to lower taxes. This activity would be justified to some degree were the US in the midst of a recession but the tax cuts and the additional spending took place after the economy started to grow. Is there any chance the powers that be will get frugal now that the economy is growing at a respectable pace? From what we hear from the good men and women of Congress the answer is an emphatic “NO”. The sense is the deficit will just get worse and worse – until something drastic alters the ability of the US to borrow money to cover those deficits.

The second major issue is likely to be infrastructure and addressing this challenge will make dealing with the debt and deficit all the more difficult. The US transportation system (roads and bridges) is annually ranked D- by the American Society of Civil Engineers. Airports are old and unable to handle the traffic imposed on them. Seaports are a wreck and may pose the greatest security threat the US faces. The lack of broadband service in farm country makes it impossible to take advantage of the technological innovation that has been created for the agricultural community. The bottom line is that infrastructure needs have been ignored for decades and the need has accumulated to the point that it will cost billions to just bring things to adequate. In an era where people are starting to look at the debt and deficit it is hard to figure out where that money will come from.

The third issue on the minds of the economist is the labor shortage that has plagued a wide variety of business areas. The development of this shortage manifested first in manufacturing but right behind came construction, transportation and now sectors as diverse as health care and energy related development. The world has changed for people who once worked in these fields. Manufacturing alone lost 20 million jobs since the late 1990s but contrary to popular myth these were not lost to outsourcing but to robots and technology. Now the manufacturing employee needs to be part computer programmer, part engineer and part mechanic and those who lost jobs do not fit that profile. What can legislators do about this? The first step is for us to understand the real power lies in the state and local legislatures and city councils. The need is to educate and train – the young people who are just now working their way through the K-12 system as well as the older worker who lost their job and now need to train for another. This means more community college programs, more trade schools and a return to industrial and practical arts in high school and middle school.

Based on what we have been bombarded with over the last few months the powers that be are not even thinking about these issues. Nor are they worrying about inflation or another recession. The fact is the elections this year were not about the economy at all. The other issues took center stage and it will be hard to get the politicians to make a shift towards these less emotional concerns.

Would Gridlock be That Awful?

The prevailing wisdom holds that gridlock at the Congressional level would be awful and perhaps derail the economic recovery but many polls suggest the business community as a whole may not agree. It seems that many would prefer that Congress and the Executive find some other ways to keep themselves busy and thus leave the business community alone to pursue their own goals.

Analysis: In the abstract this sounds great but the reality is that business spends billions on lobbying their representatives for a reason. They want the government to support certain programs and they want others to be altered or ended altogether. Construction companies would like to see that infrastructure money break loose, those in the oil sector want more land opened to oil development and there are all manner of regulation and structure that some companies back and others deeply oppose.

The World and the US Election

At the time of this writing it was not yet known what the elections would bring. The polls have been suggesting the Democrats would take control of the House of Representatives and the GOP would hang on to the Senate – a gridlocked Congressional scenario. By the time you read this the outcome will be known and we will see if the pollsters got it right this time. Beyond the outcome of the mid-terms there is a very intense debate among both American allies and enemies. Is populism and nationalism dominant in the US today or is this an aberration. Given the spread of these populist and nationalist ideas throughout Europe as well as in India (Narendra Modi and the rise of Hindu nationalism), Brazil (the recent win by Jair Bolsonaro) and many other states in the emerging market world it is safe to assert that populism is not exclusive to the US.

Analysis: A populist America changes a lot of assumptions and the fact is that many of these populist and nationalist ideas are capturing adherents across party lines. It is not just the GOP and Trump that have an issue with China and its trade practices. The unions in the US have long fought China and stalwart Democrats such as Ohio’s Senator Sherrod Brown have been enthusiastic backers of Trump’s trade war on China. Globalism is as bad a word for the US left as it is for the US right. A populist US is not a trustful or overly generous US and will look at every trade deal from a very simple lens – is it good for the US right now? There will be far less interest in cultivating friendships with trade concessions. There will be no interest in self sacrifice at all. In past years the US would respond to calls to help emerging market nations with sweet trade deals but these will be few and far between.

Populism as it is developing globally is fundamentally isolationist and that goes counter to the approach the US has taken for many years under both Democrats and Republicans. The last real focus on international engagement took place under Bush Jr. with the neocons like Don Rumsfeld, Dick Cheney and Paul Wolfowitz. Even Obama had started to retreat from that world view as he avoided further entanglements while working to reduce the US involvement in Afghanistan and Iraq. Both Obama and Trump have kept their distance from Syria or any other Middle Eastern mess (Yemen, Libya, Palestinian territories). The US is not willing to play world policeman any longer although there have been moves by Trump that are a little contradictory. His attempts to open up North Korea and his overt threats towards Iran are not all that consistent with isolationism.

Populism is also hostile to the “other” - however that is defined. The US is deeply split along a number of social lines. The experience of the black community is not the same as that of the white community and that seems especially true when it comes to areas like policing or employment. The MeToo movement has brought the issue of sexual harassment into focus and many still struggle with what all this means long term. The nation built by immigrants and symbolized by the Statue of Liberty now identifies illegal immigrants as the scourge of the day and there is not much tolerance for the legal migrant either. It is a matter of tightly hanging on to old patterns of behavior and distribution of power and there is no desire to see it change.

This kind of populism is hardly unique to the US and has been aggressively developing in Europe as well as many emerging market states. In some cases, the response has been even more heavy handed than in the US. Would be immigrants to Europe have been imprisoned and many have been allowed to die on the waters of the Mediterranean. Political movements that overtly proclaim their allegiance to fascism have developed in most of the nations in Europe and adherents to the old military juntas of the past are popping up in Latin America as well as Africa. In past years the US would have been opposed to this but today it is just another society going down that same path.

Split Decision

There was enough for both Democrats and Republicans to celebrate from yesterday and there was enough to bemoan. If there was any further indication needed that the US is a deeply divided country this would be it. The split is profound as it has pitted the city and suburb against the rural areas. The Senate became more strongly Republican with three incumbent Democrats losing. The rural areas and small towns rallied behind Trump’s message on immigration and their animosity towards the liberal values of the city.

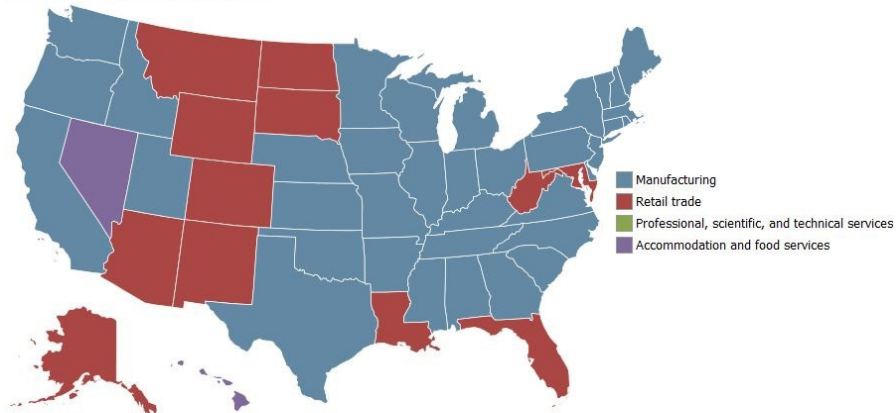
Analysis: The Democrats crushed the GOP in those very suburbs and won back control of the House with a record number of women and minorities. The first two Native American House members to serve were women elected in Kansas and New Mexico. The first two Islamic women were elected in Michigan and Minnesota. It will be a more difficult political environment from this point.

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 for more details or to ask one of those questions.

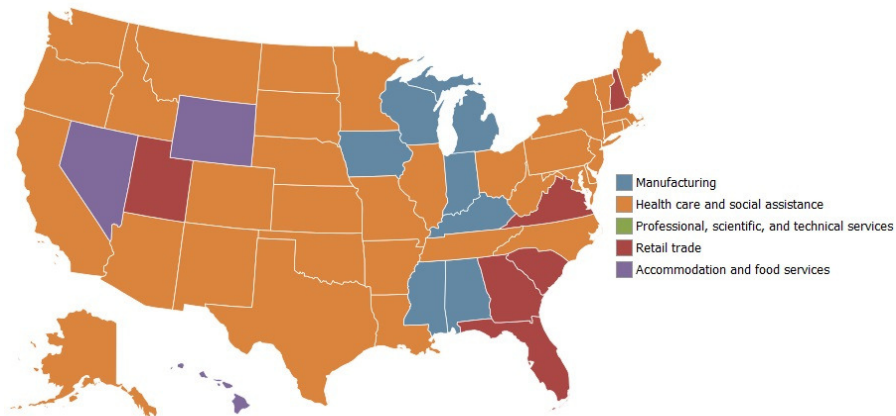
Major industries with highest employment, by state 1990

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Major industries with highest employment, by state 2013

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Hover over a state to see information.
Source: U.S. Bureau of Labor Statistics.

This will be a new feature for the Business Intelligence Brief – each issue will contain a chart or graph of some other visual interpretation of the economy. Sometimes it is easier to look at this kind of data to get a sense of what is happening in the world – it certainly can make comparisons easier. Along with the visual we will offer some commentary regarding what this all means.

The chart above shows just how much has changed in the way of manufacturing employment over the years. As recently as the late 1980s and early 1990s the majority of the states listed manufacturing as the number one sector as far as employment was concerned. Today the number has shrunk dramatically to just a few in what has been referred to as the Rust Belt. The sector that has taken over the role of mass employer has been health care and that is not expected to alter any time soon. If anything, the number of states reliant on health care jobs will expand as today’s manufacturer is more likely to add robots than people. The challenge is to train and keep new people in a sector that is continuing down that automated path. How does the worker who trains today know that the job they hold will not be replaced by a robot soon?

Speaking this Week

11/08/2018	Lawrence, KS	Kansas Bankers Association	Public
11/08/2018	Kansas City	Heartland Heroes	Private
11/09/2018	Tampa	AWMI	Public
11/12/2018	Bismarck	NDIDA	Public
11/14/2018	Kansas City	KCAFP	Public
11/15/2018	Nashville	TSCPA	Public

Can the Divide be Crossed

The elections made it apparent that Americans are in vastly different places politically, socially and economically. The vitriol was intense and by the time people went to the polls there was palpable anger at every level. It is nearly impossible to conjure up an image of these legislators working together to achieve much of anything. The lack of comity and even common courtesy has been remarked upon for years and it is going to get worse. It is unrealistic to expect people who were elected on campaigns of hate and fear to lead the charge towards cooperation so it will have to come down to the people who voted them in. What will it take for us to return to some semblance of national unity?

I would suggest that it starts with our refusal to acknowledge the extremists on both sides of these issues. We have to return to our former pragmatic and understanding ways. Of course, we have to protect the border of the US – we simply can't welcome in the entire population of South America. But that doesn't mean we need to label these desperate people as murders and rapists and terrorists. We have to find solutions – not just bellow. We need to understand the lives that people really lead – the coal miner afraid of losing everything if the mine shuts down and the black student who fears his every interaction with the police. These are real issues and deserve more than screaming obscenities on Facebook. It is time we took our country back by realizing that we are all Americans.

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!