

BUSINESS INTELLIGENCE BRIEF

December 21, 2018



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Third Quarter GDP Down a Bit** – The latest revision of the third quarter data is a little less than was earlier thought. The estimate was that growth was at 3.5% and now it seems that consumers were not quite as active as originally thought and the actual number (for now) is 3.4%. There will be more revisions of the Q3 numbers down the road but these are not usually very far off the estimates that are released a month or so out. The change in growth numbers is not all that important but the reason for the decline is a bit of a concern as it was attributed to a less engaged consumer. The all-important consumer plays an outsized role in GDP growth and any sign that consumers are getting less active will be worrying. Now all eyes are on Q4 and the hope that shoppers got busy and stayed busy.
- **Durable Goods Orders Up but Only Because of Aircraft** – This was another of those months when the durable goods data turns out to be a little misleading. The numbers are up and substantially at that. The problem is that there was just one sector that accounted for almost all that gain. The demand for aircraft tends to peak at the end of each year given the way that many nations and companies handle their budgets. It is essentially a matter of getting the spending connected to this year as opposed to next and there are therefore lots of orders. This is good news for the likes of Boeing and Airbus as well as the smaller companies that feed in parts. Take out the contribution from aerospace and the growth of durable goods has been somewhat anemic.
- **Markets Not Ending the Year Happy** – If one is looking for the Grinch it is likely he will be found in the investment community. The last week or two has been one set of negative reports and uncertainties after another. The slowdown in global growth was the first big worry and that was soon followed by concerns regarding the intent of the Federal Reserve when it comes to next year's rates. Now we have the White House turmoil with the resignation of Defense Secretary Mattis and the showdown over the border wall. The government shutdown threat may be an empty one or it could last for weeks and even months.

Short Items of Interest – Global Economy

- **Catalan Ferment Continues** – The new government in Spain had hoped to calm the situation in Catalonia with some reforms, a little more autonomy and some money. It has not been enough and there are still many voices demanding secession for the region. The more that has been offered the more the region has demanded and that will shove the government in Madrid towards harsher steps. He offers of help were contingent on the region accepting its role in Spain and now this acceptance seems all the more unlikely.
- **Media Fueled Protests?** – The French are the latest to wonder what the connection is between media coverage and protest. The public has been glued to the 24-hour news channel as it constantly covers the protests and riots. It makes it appear that all of France is on fire when the reality is that most of even Paris remains isolated from the action. The sense is that media attention is what gets people on the streets and this is a complaint that has been made by many governments. On the other hand, the media would be remiss if they did not cover it – as the Chinese press avoids giving attention to protest and demonstrations there.
- **Oil Keeps Falling** – The price per barrel of oil has fallen to a 15-month low as the market has concluded that demand is going to keep falling through the next few months. This decline has made it clear that OPEC and Russia have not been able to affect the price despite working together to limit output. The global slowdown is still the biggest factor.

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Implications from Mattis Resignation

Before getting too deeply into an assessment of what the resignation of Defense Secretary James Mattis means for the US, the Trump White House and the world as a whole there are some caveats that bear mentioning. It is not all that unusual for a President to change members of his Cabinet. The turnover under President Trump has been a little more aggressive than under previous Presidents but it should be remembered that Trump did not come to the job with a cadre of long-time supporters. George W. Bush has relatively little turnover but he brought literally dozens of people with him to the White House who had been part of his or his father's inner circle. It is also not unusual for a President to change leadership when there is a policy shift underway. Those who held the post previously and opposed the new direction would not be expected to continue leading. The major problem with the Mattis resignation is that there seems to be a major policy shift underway but it is one that has not been discussed openly by anyone. It appears that Congress is unaware and has not been consulted. There seems to have been little discussion within the ranks of the military or the intelligence community. It is certainly possible that these conversations have been taking place in private but given the nature of the issue it is extremely inappropriate to take these steps without input from elected leaders or the public as a whole.

Analysis: As there has been no real discussion of the policy change one is left with supposition and inference and much of this is stemming from the clipped comments from Mattis. The issue that became the final straw for Mattis was the sudden and arbitrary decision to pull troops from Syria as Trump declared ISIS had been defeated. At the same time there are moves underway to pull most, if not all, troops from Afghanistan with the same assurances that the Taliban has been defeated. The reality is that not one single member of the global intelligence community has come to this conclusion. If anything, the Taliban is stronger than it has been in over a decade and actually controls almost 60% of Afghanistan. The ISIS presence in Syria is clear and there are signs of rebuilding as this is really the only group that is capable of resisting the Syria despot – Bashar al-Assad.

Why would Trump want to pull troops from these regions when the threat is still very much alive? The most obvious is that many Americans have long ago tired of seeing US troops in harms way in these nations. The war in Afghanistan is by far the longest the US has ever fought and there has been precious little to show for the effort. Syria has been a quagmire from the start and the US has been ambivalent at best. To fight ISIS in Syria meant fighting on the same side as Assad and that was never comfortable. Another rationale is simply rooted in electoral politics in the US. The base of support that Trump regularly panders to is fundamentally isolationist and uninterested in a US foreign policy that is based on intervention and playing the role of global policeman. This is an attitude that is dominant in both right and left wing versions of populism. Trump wants to use the US military in a domestic role as opposed to foreign operations. There is a desire to employ troops in large numbers for border security and this is something that Mattis and most of the military opposes.

The strategic issue goes back to the rationale that was developed at the time of the 9/11 attacks. A choice had to be made as to where to fight the war on terrorism. It was obvious from the moment of the attack the US would be under attack and vulnerable from that point on. The US would either have to adopt a very defensive posture that relied on massive surveillance efforts and the imposition of draconian security tactics or it would have to try to take the battle to the enemy. The phrase used was "fighting them over there so we don't have to fight them here". It was never going to be easy or simple but the US has not suffered another 9/11 attack since. On the other hand, the US has been engaged in various nations for well over a decade and it is not clear when this will ever end. The worry among military and intelligence analysts is that US withdrawal creates a void that will be filled by the terrorist organizations and they will use the opportunity to mount more attacks on and in the US. As much as many in the US would like to pursue an isolationist strategy in everything from economics to diplomacy to military matters the world is not structured that way any longer. The only thing accomplished by isolationism is limiting the US impact on what happens in the world. We lose control and that is unlikely to work out in the country's favor.

Booming Job Market is Not Enough

There are many nuances when it comes to the job market. Most of the attention is focused on the broad national numbers but these are not as informative as one would desire. The most obvious issue is that the unemployment rate is a national number and thus misses the broad regional differences. Some states have rates far lower than the national norm and others are sporting far higher rates. Another important caveat is that jobless rates don't tell people much about the quality of those jobs.

Analysis: The job data has been very good – at least in terms of raw numbers but the more problematic aspect is that many of the jobs are not well paid and have very little future. The bulk of the new jobs have been in the service sector – everything from retail to food service to maintenance and these are not jobs that are suitable for people who are trying to raise families. The large number of retired people who now occupy a lot of these low paid jobs are not earning enough to handle their retirement needs. The fact is that almost half the retired population is slated to outlive their financial situation. They will simply not have enough to pay for their extended period of retirement and will be forced to either stay in the workforce or return to it. This also complicates matters for the gen-x and millennial workers as they will still be competing with the Boomer for another ten to twenty years.

The Global Immigration Conundrum

There is a tension developing in the labor force conversation that has started to shape up as the defining issue for the coming decades. It starts with the fact that nearly every nation in the world is suffering from a labor shortage. The US has been facing severe limitations as far as the number of qualified people in manufacturing, transportation, construction and even health care. The fact is there are more jobs available in the US than there are people able and willing to take them. The shortage is just as acute in Europe and Japan and even China is now suffering from a lack of skills. When a nation faces this kind of issue there are really only two possible solutions and only one of these can be seen as immediate. The country can try to incent the population to train to take those jobs or there can be a focused effort to attract workers from elsewhere in the world. It comes down to “grow your own” or “poach”. In past decades the immigration route was always seen as the preferred and quickest option. The US was traditionally very proud of its open culture and its ability to assimilate the migrants from all over the world. Europeans were very active in terms of their guest worker programs and even some of the Asian states began to allow some other populations an opportunity. Today the borders of the world are snapping shut and two related problems are falling in on each other.

Analysis: One of the countries that has been especially vexed by the two issues is Hungary. At least they have been an example of the way these dual crises converge. A number of years ago the country aggressively pursued a development plan that would bring manufacturing to the country. Investment as sought from all over Europe and lots of concessions and breaks were offered to companies from Germany, France, the UK and many others. It was the usual argument of the economic developer – breaks mean jobs. The plan worked to a degree but soon the issue was that companies could no find enough workers with the skills needed to take those jobs. Hungary was faced with a familiar dilemma. It would have to attract the people needed to fill these jobs from outside Hungary or it would have to undertake a massive education and training program. The latter is very expensive and time consuming as it would take two or three years to get someone to the appropriate level. So, the answer must be immigration – correct? The problem is that the intense nationalism of the Orban regime made that next to impossible. The border has been shut down and there is no push at all to gather talent from elsewhere. The country has now tried a third tactic and it has been aggressively resisted by the working population. It is called the “slave law” by some as it allows companies to demand unlimited overtime and allows them to renege on vacation and sick leave agreements. It has been observed that some companies are routinely working employees 50 to 60 hours a week and they have had their vacation time and sick leave requests denied.

Migration has become immensely complex and evokes a whole gamut of reactions. Most countries are more excited about taking in talented and educated people than they are about taking in the low skilled migrants that are generally arriving illegally. This is not a universal position however. The skilled people who will be competing with the immigrants resent the fact they will keep wages lower than they would otherwise be. The low skilled person is thought to be costing the system in terms of welfare assistance despite the fact that studies have repeatedly shown that immigrants (both legal and illegal) contribute more than they cost. The bottom line is that labor shortages compromise the economic growth of a country in a very direct way and countries need to develop both short term and long-term solutions. Immigration reform is the short term and training and education is the long term.

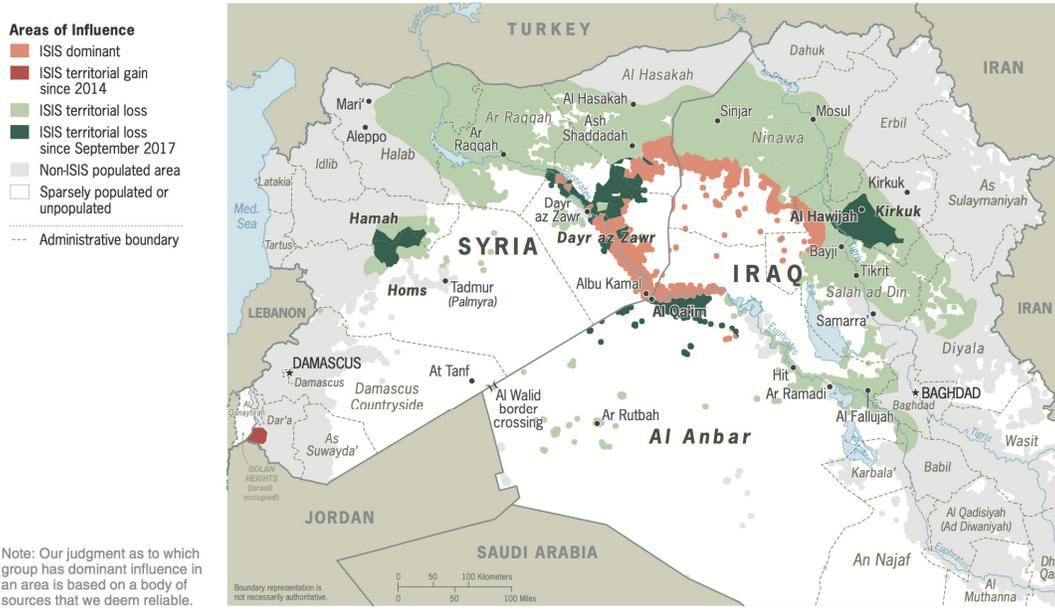
Shutdown Drama

The drama over the government shutdown has roiled the markets, created panic in a variety of circles and has demonstrated just how utterly unpredictable the administration has become. Only a day or so ago it appeared the Trump position on border security had softened and the shutdown would be averted. Now it seems imminent and President Trump is asserting that it will “last a long time”. Statements have been made that will become part of the future political campaigns and the divisions within the US electorate are even more stark.

Analysis: Part of the current strategy as far as Trump is concerned is that his base is all that matters at this stage. He is well aware that a significant part of the voting population dislikes him intensely and they will never be persuaded to change their minds. The only hope of a second term rests with keeping his followers close and hoping that the opposition divides itself. The Trump base is generally anti-government and relishes the possibility of a long shutdown. They are also fanatic about the border wall. A perfect “base” strategy.

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.



It is clear enough that the territorial gains made by the Islamic State have been reversed dramatically in the last few years. The talk of a Caliphate has been abandoned as the terrorist group calling itself Daesh has been routed in Iraq as well as Syria. The intelligence community has hastened to point out that defeating their territorial ambitions doesn't mean the end of their operations. As the ISIS strongholds were being eliminated there was a consistent pattern of abandonment. There were virtually no attempts to defend these positions to the end – as soon as the forces arrayed against the ISIS fighters arrived the fighters melted away and became invisible. They lived to fight another day and in other ways. The more insurgent based tactics will dominate now and these are nearly impossible to defend against consistently.

Speaking this Week

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| 01/10/2019 | Kansas City | Heartland Heroes | Private |
| 01/14/2018 | Detroit | Automotive Plastics and Rubber | Public |
| 01/17/2019 | Kansas City | Home Builders Association Breakfast | Public |
| 01/18/2019 | Kansas City | CCIM Breakfast | Public |
| 01/22/2019 | Appleton | Fox Valley Technical School | Public |
| 01/23/2019 | Milwaukee | International Credit Executives | Public |

Just Good Manners

Once again there is another war over Christmas – contrived as this always is. There are the idiotic claims that some group or another is trying to eliminate Christmas in some way by using alternative greetings like Happy Holidays. I have long looked at all of these “correctness” battles as evidence of a considerable lack of good manners. Why is it not common sense to simply ask people what they prefer in terms of greetings and references? It is nothing more or less than being a good host or a considerate stranger.

I try hard to be aware of people and the things that make them unique. I have friends that celebrate many different things this time of year and it is not so very hard to acknowledge the desire to hear Happy Hanukah or to note the importance of Ramadan. I have very religious friends that appreciate remembering the birth of Christ as the important part of this time of year and I have friends that focus on Santa and the elves. All that I ask of people is that they understand they have to tell me what they like and don’t like. I am perfectly prepared to honor their requests – as long as I know them.

This extends to issues of “correctness” in general. I have no desire to insult anyone or make anyone feel underappreciated. If something I say or do is making you uncomfortable, I will have the decency to alter my behavior if I know it is an issue. Much of the battle over what is and is not correct stems from the fact we insist on not treating people as individuals. I have two friends that are restricted to wheelchairs. One is extremely sensitive to people trying to do things for him (opening doors, getting things from shelves). He hates it. The other friend is utterly baffled by the fact that many people never offer to hold that door or help him shop. They are individuals and are entitled to their differences. We only have to know those differences and respect that individuality.

What are Your Reactions to the “NEW” Business Intelligence Brief?

The BIB format has altered a little and thus far readers seem to like the changes. What do you think? It seems that reducing the frequency of publication has made it a bit easier to keep up with and the charts and graphs at the end have been well received. We always keep tinkering with the publication so that we can stay relevant and any ideas are more than welcome. Below are some of the suggestions we have received over the last few months. Do any of these appeal to you?

- 1) We have been asked to consider doing podcasts or some kind of YouTube offering on a weekly basis and this seems a good idea to us. It would have to be far less detailed than what we have in the BIB now but could be something of a presentation on the “highlights” of the week.
- 2) It has been suggested that we do more market analysis. This is something we touch on from time to time but we have never asserted that we are stock analysts or qualified to analyze the behavior of the markets. On the other hand, we can certainly report on the economic impact of that market behavior.
- 3) We cover global economic news but it is a big world out there and space is limited. Right now, we tend to focus more on Europe and countries that are engaged with the US (such as China). Some would like us to spend more time on those emerging market nations in Africa, Asia and Latin America.

