BUSINESS INTELLIGENCE BRIEF

March 1, 2019

NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Fourth Quarter GDP at 2.6% -** This was almost exactly what the majority of analysts expected. It is a return to the pace that has dominated the economy for the last twenty yeas and that is certainly respectable. The over 3.0% growth that was notched in the early part of 2018 was somewhat artificial as it owed much of its momentum to the tax cuts that arrived early and served as something of an economic sugar rush. Now the tax changes are serving to weigh the economy down as millions of people are now getting less in the way of tax refunds than they are accustomed to getting. The 2.6% growth is close to what would be considered normal and is considerably healthier than the slow growth (under 1.0%) that has been experienced in Europe and even the 6.0% growth in China. Recession in China is taking place when the growth falls to 6.0% in part due to its population and the status as a developing economy.

- **Hot Job Markets –** To be honest it is really pretty hard to make many definitive statements about the entire US economy. This is the largest economy in the world, accounting for almost a quarter of the total world of economic activity. At any given time, there will be parts of the US that are booming and parts that are suffering economic decline. Right now, the ten hottest job markets are in cities that would not have been in that category a decade or so ago. According to a study by the WSJ these hot job markets are Austin, San Jose, Salt Lake City, Boston, Orlando, Raleigh, Nashville, Seattle, Denver and Dallas. In most all of these cities there has been growth driven by a combination of high tech, health care and education.

- **Coldest Job Markets –** Just as there are changes that have driven cities to the top of the employment heap there are cities where fortune has not been smiling. These are the cities that once supported major growth numbers but shifts in the economy have laid them low to one degree or another. These are the cities losing jobs at a rapid rate and include Rochester, Buffalo, Detroit, Cleveland, New York, Pittsburgh, Philadelphia, New Orleans, Chicago and Hartford. Most of these cities have seen jobs decamp to the suburbs but these are also towns where older industries have been fading and have not been replaced by new ones.

Short Items of Interest – Global Economy

- **UK Feels More Pressure from US –** As the British prepared to break away from Europe there was an assumption they could turn to their long-time ally and become more engaged. The US was not expected to replace all of what the UK stood to lose but it was assumed the Trump White House would be sympathetic given the mutual animosity towards Europe. That has turned out to be an inaccurate assumption. The US is taking a very hard line as far as any new trade deal and is demanding a great deal more access for US goods – especially from the farm sector. This is complicating matters for the British as the Tory party depends on the rural British vote and they are not thrilled by an onslaught of US agricultural import.

- **More ISIS Claims Questioned -**As Trump returned from the Hanoi summit with little to show for the effort, he has been making some additional claims. He stated that all ISIS held territory in Syria has been recaptured but that account has been disputed by those that have been doing the capturing. The Syrian government has asserted there are still dozens of ISIS strongholds and this has been repeated by the Russian forces backing them. ISIS has also asserted it still holds territory and various aid agencies have indicated they still can't enter many regions as they remain in ISIS hands.

- **Estonian Populists –** The populists in Estonia will not win enough votes to rule but they will become the third largest party and will start to have influence with their ardent nationalism and adherence to an anti-western platform.

Credit Managers' Index Trends in a More Positive Direction

After a somewhat rocky beginning there has been a welcome correction as far as economic data is concerned. Now the question is which of these trends will really take hold through the remainder of 2019? There is some evidence to support both optimism and pessimism. As a matter of fact, these contradictory indications have become quite the topic among economists. The Purchasing Managers' Index tumbled dramatically at the end of the year but then bounced back in February. There were similar performances seen in everything from capacity utilization to capital expenditures, durable goods orders and other markers of the economy. The worrisome part shows up with higher commodity prices and the impact of a global economic slowdown. This month's CMI follows some of that same pattern.

The overall reading regained some ground with a score of 54.9 – up from the 53.4 notched the month before. This takes the number back to the levels seen last November when it hit 55.8. The even better performance was noted in the index of favorable factors as it hit 60.7 after falling to 59.5. The only months where this score has been under 60 was December of last year and January of this year – all the rest of the last twelve months have been in the 60s. The index of unfavorable factors also reached a nice milestone as the index escaped the contraction zone with a reading of 51.0. In the last twelve months this index has been in contraction only three times and the February score is the highest seen in the past year.

As is generally the case, the details provide some better insights. As mentioned, the index of favorable factors returned to the 60s with a reading of 60.7. Two of the sub-index categories remain in the high 50s and two are solidly in the 60s again. The "sales" category had fallen to 59.7 and is now at 62.6. This is higher than it has been for the last couple of months but not back to the 64.5 level reached last November. The "new credit applications" sub-index remained in the 50s but improved from 58.2 to 58.9 while the "dollar collections" reading stayed almost the same as last month with a reading of 59.1 compared to the 59.0 in January. The "amount of credit extended" number went from 61.2 in January to 62.3 this month and that is higher than it was in December or January.

There was some significant movement in the sub-index readings for the unfavorable factors as well. The "rejections of credit applications" shifted up again and now stand at 52.1, the highest score notched since August of last year when it hit 52.2. The "accounts placed for collection" also moved up from 48.2 to 49.0 although this remains in contraction territory. The "disputes" category likewise moved up slightly but remains in the contraction zone with a reading of 48.5 as compared to the 47.1 noted in January. The reading for "dollar amount beyond terms" escaped the contraction zone by hitting 51.3 after languishing at 47.4 the month prior. This is a substantial jump and in a critical area as slow pays are often the start of bigger issues down the road. The "dollar amount of customer deductions" also jumped back into the expansion zone by the narrowest of margins as it hit an even 50.0 after tracking at 48.0 in January. The "filings for bankruptcies" numbers improved as well and the reading remained strongly in the md-50s with a 54.9 as compared to 53.8 the month before.

The combination of improved performance in the favorable factors and a real recovery in the unfavorable index casts a different light on the start of 2019. It is not that the concerns voiced at the start of the year are not valid – there is plenty to worry about as far as inflation is concerned and the issues of trade and tariff war will be biting sooner than later. What this does seem to show is continued resilience in many businesses and that would suggest they could survive a bit of downturn this year.

Manufacturing Sector - Manufacturing has been growing rapidly in the US over the last few years and for a variety of reasons. At the top of the list has been the advantage brought by the heavier use of technology and robotics. There have also been some advantages created by cheaper commodities costs and improved options as far as transportation. Global demand has played a major role as well. These are all factors that are in some jeopardy now. The dollar has gained value and that hurts exports, tariffs have added to commodity costs, trade wars inhibit market opportunity and there are chronic issues like labor shortage and productivity decline as fewer trained people are available for hire. These factors seemed to be weighing on the sector the last few months but the latest readings from the CMI indicate there is still strength.

The overall index rose from 53.1 to 54.8 and that is taking the readings back to levels seen last November. The index of favorable factors moved back into the 60s after having dipped into the 50s in December and January. The index of unfavorable factors moved out of the contraction zone with a nice jump to 51.4 – marking the highest reading since May of last year. This data is consistent with the various manufacturing readings that have come from the Purchasing Managers' Index as well as data on industrial production, durable goods orders and factory orders. As is often the case there are some unusual factors at work that may not extend that far into 2019 and some could even reverse by year's end.

The "sales" numbers improved and are back in the 60s again with a reading of 61.7 – still a far cry from the 68.2 that was notched in September of last year. The "new credit applications" reading also improved but fell a little short of the 60s at 58.6 as compared to the 53.3 the index noted the month before. The "dollar collections" data jumped back into the 60s with a reading of 60.5 after hitting 58.4 the month before. There was a little dip in the "amount of credit extended" category as it went from 60.3 to 59.2. There seems to be a little more frugality showing up in terms of what kind of credit is asked for and for what kind of purchasing.

CMI Continued (manufacturing)

The "rejections of credit applications" stayed almost the same as it was the month before -moving from 53.3 to 53.5 and that is good news when twinned with the numbers of new credit applications. The "accounts placed for collection" category slipped back into expansion territory by the narrowest of margins – hitting 50.5 after last month's 49.7. The category of "disputes" improved a bit but stayed in the contraction zone at 48.7. Still, this was an improvement over the 46.8 that was noted the month before. The "dollar amount beyond terms" also jumped out of contraction territory into the expansion zone with a reading of 52.8 following the 49.1 from January. The "dollar amount of customer deductions" stayed in contraction territory but improved over the month before. It was at 46.7 and is now at 49.3. The reading last month had been the lowest number seen since June of last year and now it is back to semi-respectability. The "filings for bankruptcies" slipped slightly but has remained in the expansion zone with a reading of 53.3 as compared to 54.0 last month.

As mentioned earlier there was an improvement in manufacturing this last few months but there are some factors that may have led to this expansion. The threatened tariffs and the impending trade war has pushed a lot of advance buying and stockpiling on the assumption that everything from commodities to intermediate parts and finished goods will be unavailable. Inventory levels are as high as they have been in some time. If the trade deal worked out in some fashion it may be very hard to reduce the size of that inventory overhang.

Service Sector - As with manufacturing there was an improvement in the service sector as well. This set of gains has been a little harder to pin down as there seem to be several factors at work. There are also major differences between service sectors with more concern expressed over the pace of retail and less concern expressed as regards health care and construction for that matter.

The overall reading for the service sector was 55.0 – up from 53.8. This marks the highest level reached since November of last year. The combined index of favorable factors stayed roughly the same as it had been with a reading of 61.5 compared to the 61.3 reached previously. The combined index for the unfavorable factors was 50.6 and that marked the return to expansion after falling to 48.8 the prior month. The data was solid enough and the sub-readings reinforced this notion.

The "sales" numbers hit 63.5 and that is back to numbers seen last November. The "new credit applications" data slipped however and fell out of the 60s with a reading of 59.2. This is still very healthy but just last month it was at 63.0. The "dollar collections" numbers also fell a bit – from 59.6 to 57.7. This remains solidly in the expansion zone but the trend is not quite what would be desired. The category of "amount of credit extended" improved however and jumped further into the expansion zone with a reading of 65.5 as compared to the 62.1 from last month. It seems that much of the down data has been coming from retail and much of the positive data is coming from construction and health care.

The "rejections of credit applications" improved a little as it went from 50.3 to 50.8. This is good news given the fact that applications have been in decline to some degree. The "accounts placed for collection" improved from 46.7 to 47.5 but this is still in contraction territory. The category of "disputes" also improved but stayed in the contraction zone with a reading of 48.3 compared to 47.3 in January. The "dollar amount beyond terms" staged yet another improvement that fell just short of entering expansion territory. It was at 45.7 (the lowest level in well over a year) and has now rebounded to 49.8. The "dollar amount of customer deductions" did expand enough to leave the contraction zone. The reading in January was 49.2 and it is now sitting at 50.6. The "filings for bankruptcies" improved further on the 53.6 reading last month and now stands at 56.5. This very good news as this the time of year that often features retail sector bankruptcies.

The rest of the year promises to be a challenge for the retail sector as the levels of consumer confidence are drooping steadily and there will likely be additional inflation pressure as the trade wars and tariff battles continue to heat up.

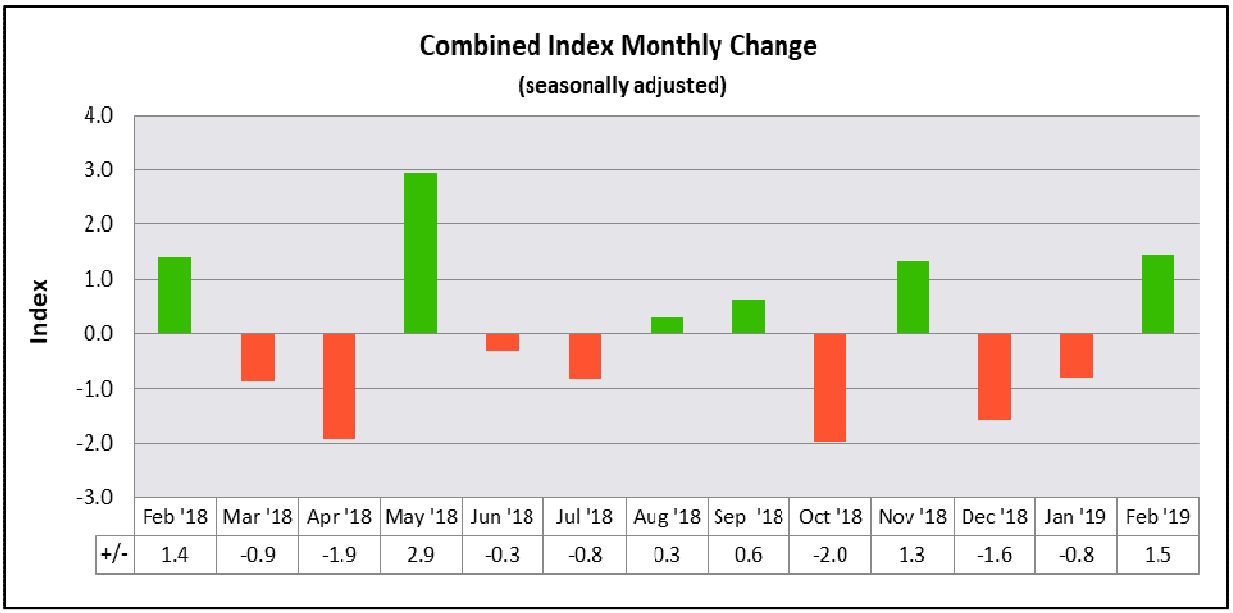
Pretty Much Everybody Saw This Coming

To the shock of absolutely nobody the summit between Trump and Kim was a bust. If there was any surprise at all it was that Trump acted quickly and left Kim with no doubt that this was entirely a collapse of his making. The North Koreans have done nothing but make demands and Trump made it clear they had to disarm before any more sanctions would be lifted.

Analysis: The real question was why this summit took place at all given that Kim has made no progress on any of his promises. He continues to be the dishonest tyrant he has always been.

What Else Can You Get from Armada?

The Black Owl Report is published three times each week and is aimed at the business executive. Keith Prather is the primary writer for the BOR and you can get a free one-month trial. It is 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.



The above chart is the year over year comparison for the Credit Managers' Index. As you can see it has been volatile with down months followed by good ones. It has been hard to get a trend going as these shifts have taken place roughly every other month. The last of these readings has been positive and the fervent hope is that this lasts for a few months.

Speaking this Month

03/01/19	Kansas City	McCray Lumber Event	Public
03/04/19	Charlotte	TIAA District Conference	Public
03/05/19	Nashville	Fabricators and Manufacturers	Public
03/07/19	Palm Springs	American Supply Association	Public
03/13/19	Ft. Worth	UEDA	Public
03/15/19	Las Vegas	NACM Steel Importers	Private
03/20/19	Orlando	Assoc. of Equipment Mgmt. Professionals	Public
03/26/19	Austin	Bank CEO Network	Private
03/27/19	Napa	Association of Rotational Molders	Public
03/28/19	Kansas City	Nat'l Tooling and Machining Association	Public

Being Aware

To be honest there is a great deal to be aware of these days and a person can be forgiven for missing a lot of what goes on around them. I am quite sure I miss many opportunities to do some small thing for somebody when they needed it but I try to keep my eyes open. Lately I have noticed a group of people that could really use help and rarely seem to be given any. These are the people who are taking care of elderly or infirm relatives and friends. We tend to be willing to assist parents with their small children but perhaps look right past the adults.

Today in the airport there was a woman with her mother – apparently dealing with Alzheimer's to some degree. Her mother would abruptly jump up and head to the exit from the airport and her daughter had to leap up to stop her. I struck up a conversation with the mom – just to keep her distracted and still. It was a rambling interaction and I am sure she thought I was an old neighbor but her daughter got to finish her lunch. Earlier in the week a man of some years was trying to navigate the crowded airport with his wife in a wheel chair and towing two mammoth suitcases. I offered to push her to the appropriate gate.

Very, very small things but when people are dealing with this every single day, they get weary and start to feel very alone and invisible. They would never ask anyone to help but they are genuinely grateful for such a simple gesture.

What Do We Mean by Intelligence?

The name of this publication is the Business Intelligence Brief. Why did we call it that? All three words mean something to us and inform what we do. The first is business. This is a very broad term as there are tens of thousands of different businesses and they have only a few things in common. Our intent is to provide the kind of information that helps people understand the world and helps them grow their business and make bigger contributions to the companies they work for.

That brings us to the intelligence part. We believe in providing intelligence that is actionable and timely. The aim is to be able to anticipate what is to come so that contingency plans can be developed. We are not reporters, we will rarely be involved in "breaking news". We are analysts and we strive to provide answers to the key questions of "why" and "so what".

Finally – we strive to be brief. That is far harder than one would assume. The temptation is to go on and on in detail but that is too much to digest. We simplify when we can but encourage readers that want more to reach out and ask.

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