BUSINESS INTELLIGENCE BRIEF

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KC CHAMBER

NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Housing Sector Off to Weak Start –** The expectation for this year was not especially high given all the accumulated issues that have been affecting the housing sector but the latest data in new home starts has been weaker than had been expected. The decline was 6.9% when the majority thought there would be a small increase. In January the decline in sales was 4.3% on an annual basis so there has been a slowdown manifesting for some time. There are extenuating circumstances to be considered and this data is often revised later as details emerge. One of the more salient factors was the weather as it has been utterly impossible to get in a construction mode with a winter this brutal and extended. The big inhibitions have been the higher price of homes and to some degree the financial anxiety of new home buyers.

- **Jobless Claims Up Last Week –** Thus far this is causing no heartburn as these readings are volatile from week to week and there have been no signs of a big layoff in any industry sector at this point but there are some concerns starting to develop given the data on sectors like construction and retail. The construction employment data is always volatile but the bad weather this year has slowed progress in almost all part of the country and that has spiked layoffs in both construction companies and in those companies that supply the sector. There are also worries that poor retail numbers may start to cause employees to be laid off due to reduced activity. This month's data is likely more reliable than those of the last few as there is not the impact from the government shutdown to contend with.

- **PPI Not Causing Much Concern Yet –** There was very little movement in the Producer Price Index this month – only a slight gain of 0.1%. That small increase was mostly due to a rise in the cost of energy as the OPEC/Russia decision to reduce output has started to have an impact on the per barrel price. Nothing else is really affecting the PPI – not even metal prices which had been such a major factor last year when the steel and aluminum tariffs were being imposed. This would suggest that an imminent inflation threat can be dismissed – at least for now. The potential remains for higher commodity prices and even higher prices for energy.

Short Items of Interest – Global Economy

- **Another Atrocity and in a Very Unlikely Place –** Unfortunately the world has become accustomed to mass killings in the US and often in Europe but there have been countries that seemed immune to this kind of brutal madness and at the top of that list was New Zealand. The news is still developing but what is known is that a mass killing was carried out at two mosques in Christchurch. Four people have been detained thus far and one has been accused of murder. The killers made their right-wing agenda very clear with a series of manifestos and ranting screeds over the course of the last few years. The fact is that hatred and bigotry are not unique to any one place and stopping this kind of terrorism is extremely difficult. More details will emerge and the death toll will rise – it stands at 49 now.

- **AKK Emerges –** The contest over the future of the Christian Democratic Union was intense and in the end the winner was Annegret Kramp-Karrenbauer after holding off the challenge from Friedrich Merz – who positioned himself as the more conservative of the two. AKK as she is conveniently referred to has made it a point to establish her independence from Merkel without losing the support of Merkel and her backers. She has challenged those in the CDU that seem to take offense at everything and remarked that "Germans are the most uptight people in the world and need to lighten up.

- **World Bank Critic Likely to Get Job as its New Head** – David Malpass is on his way to becoming the next head of the World Bank despite having been a major critic over the years. There was opposition from some member countries but it has faded.

Is the Economy Slowing Down? If so, Why?

The latest poll of economists surveyed by the Wall Street Journal is not a very encouraging one. The consensus view is that economic growth is stalling this quarter and the pace will be far lower than it was at any time in 2018. The view is that growth will be no more than 1.3% and that would mean that the US was sinking to levels that have been vexing the Europeans and Japanese. The slump is not unexpected given all the turmoil in other global markets but the US had seemed somewhat immune to that chaos – at least for a while. There are always questions regarding the economists that are surveyed by the WSJ or any other group. After all there is the old joke that states when you put five economists in a room you will get five opinions (six if one is from Harvard). The group that is surveyed by WSJ are all private-sector economists (no government or academic economists). These are all people working for large corporations, banks, investment houses, and the like. They are generally not particularly ideological and take a very pragmatic view. There are two questions that beg answering. The first is how accurate this assessment might be and the second is what might have caused the US economy to stall out this quarter.

Analysis: It was only a few weeks ago that these same economists predicted a growth rate of around 2.0% and that was considered pretty anemic as compared to the nearly 3.0% rate that dominated 2018. This assessment comes in sharp contrast to the predictions that have been coming from the White House and from elements of Congress as they look ahead at the 2019 budget. They are predicting continued growth at between 3.0% and 3.5%. Even with that rate there would have been a significant increase in the deficit and debt but if there is only growth of 1.3% that deficit and debt jump would be greater than anything seen in the last thirty years. This predicted rate of growth would be as slow as anything seen since 2015.

Over 80% of the economists pointed to the same issues. The number one concern was trade policy. The fight with China has already cost the US economy billions and a further tightening will hurt even more as the affected goods will be those that consumers buy in the US. The reports of an imminent deal have not cheered the assemblage much as the offer seems loaded with potential land mines that would continue to impact trade. As described the plan would have a review every 90 days and the US would be able to impose tariffs unilaterally if they find China in non-compliance. Given the lack of Presidential predictability and the politization of this issue there is no confidence that a trade war can really be averted for long. It is not just China that is of concern to economists. The future of the US Mexico Canada Agreement is in serious doubt as it faces stiff opposition in Congress and lukewarm support from Trump. The talks with Europe have all but fizzled out and the US has managed to alienate most of its traditional trade partners. The US depends on exports for 15% of the GDP – around 3 trillion dollars. The sense is that all of this business is at risk. That makes analysts nervous as well as investors and executives. The latest survey of the Business Roundtable execs is also down and for much the same reason.

There are other factors that have worried the economists. The extent to which these issues will impact the economy vary with the analyst but the issues mentioned include the lingering impact of the government shutdown on those companies that do business with the government. They are not compensated for that lost month of business and there are 22,000 companies affected. There is worry about the weak job numbers reported in the last month even as many acknowledge that there were plenty of extenuating circumstances. Other issues brought up include the weak retail sales numbers, drooping levels of consumer confidence, the threat of higher commodity prices and the potential for higher wages and wage inflation. Most of these worries are still tentative and there is a chance this data will reverse later but for now the estimate is that these have been enough to put a drag on the first quarter economy. Thus far this pessimism has not extended to the rest of the year as most are still asserting that growth will be in the 2.5% range. Should this poor start to the year extend into the second quarter that outlook will be revised downward as well.

The Costs of Business Interruption

Anyone relying on the airline industry to get them where they need to go, when they need to get there knows all too well the fragility of that arrangement. Delays and cancellations are just part of the experience and there are so many factors that play a role – weather is the main issue but then there are the mechanical issues and disputes with unions and the actions of government. The decision to ground the Boeing 737 Max may or may not be justified – time will tell. The assumption is that cancellations and delays are the problem of the airline – that they will lose money but passengers will simply adjust and alter their schedule. This is not how it works. It is hard to estimate exactly but quick computations show that business is affected by these moves as many aspects of business are time sensitive. Each canceled flight is thought to cost the passengers in the neighborhood of $150,000

Analysis: These are clearly "back of the envelope" numbers as every flight is very different in terms of who is flying and for what reason but speaking just for myself the costs can be dramatic. If a flight I am on is cancelled I will likely miss the presentation I was scheduled to make. On a flight a few months ago, I was in the waiting area with two other speakers on the way to the same conference – they were the keynotes. None of us could make it and that meant that they both lost a $10,000 speaking fee. The conference was suddenly without its program and was forced to refund much of the money that attendees paid – total of $300,000. The cancellation was obviously a significant drain and when multiplied by the thousands of events like this one it is obvious what a drain this can be on more than just the affected airlines.

Britain Will Ask EU for Delay

This seemed an inevitable outcome given all the wrangling that has come very close to toppling the government of Theresa May. Yet it was never seen as inevitable as there have been many in the UK parliament as well as in the EU that rejected the whole idea of extending this ongoing crisis. It is now a partially done deal in that Britain will formally request an extension of the Brexit past the end of March. It is not guaranteed that Europe will go along with this but the betting is that they will but not after asking some very pointed questions. The most important of which will be "how long". The second most important question will be what the plan might be to break the stalemate that has locked the UK and the EU into this fight. At this stage it is not clear that anybody in the UK has an answer to either one of these questions.

Analysis: In theory this is what happens next. The automatic extension on technical grounds will be until June. If May is not able to get a deal that her party can agree to, she will ask the EU for a much longer delay – perhaps of a year or more. This would presumably give her time to find ways to pressure the hardliners. They seemed to waver a little in the last few votes as they started to realize that any new deal proposed will be worse than the deal on the table. There is now renewed talk about the "Norway" option which leaves the UK connected to the single market but free of most of the political entanglements. This would presumably satisfy those that are mostly concerned about the immigration situation but leaves the UK economy subject to many of the EU rules and regulations of the single market. The argument against the Norway option has always been that a nation is subject to the rules and regulations but will have no voice in setting them. Norway was essentially powerless regardless of what their status but the UK had a position that was at least as influential as that of Germany, France or Italy.

There remains a possibility that the UK would return to the polls for a second referendum but that rankles many on both sides of the debate. It seems to say to voters that they will be given opportunities to vote until they get it right. The sense is that voters made their preference known and now it is up to the politicians to figure it out. On the other hand, the polls suggest that the population as a whole has changed its mind on the issue and a substantial number want another chance at the decision.

Given the turmoil within both the Conservative Party and the Labor Party it is very hard to predict what happens from here. This may be the point that cooler heads start to prevail but it may also simply be an extension of the crisis as members of parliament continue to focus on their ideological positions and their specific constituents.

White House Budget – Politics Over Economics

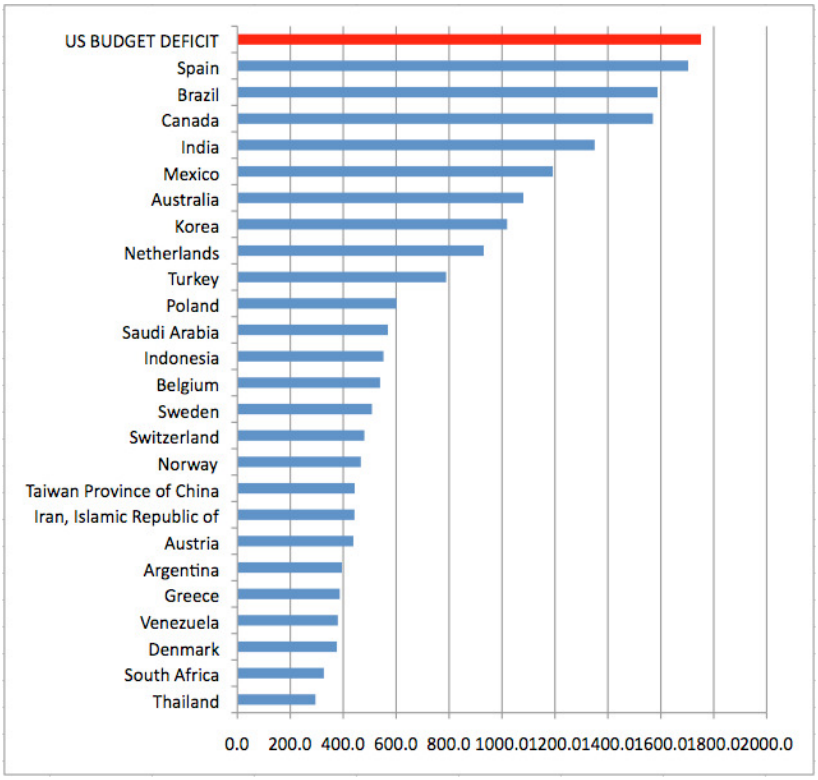
To be honest the budgets that come from any President are only remotely connected to economic priorities and growth, they are all essentially political statements as the decisions on what to put in and leave out of a budget will be up to the members of Congress. When there is a split in leadership as there is now that political dimension is even more obvious as the President knows there will be pushback from the other political party. Trump knows full well that he will be fighting the Democrats in the House of Representatives over most of his plan.

Analysis: The budget does demonstrate the priorities of the Trump administration and few of the ideas come as any shock – they reflect the issues that have been at the top of his agenda since he took office. To the surprise of nobody he has a big chunk of cash earmarked for his border wall. There is a massive increase in the military budget at the same time he has been ordering the withdrawal of US troops from bases all over the world. Much of the military spending seems to be geared towards new weapons rather than personnel. There is a call for a major infrastructure effort – perhaps as much as $500 billion over the next couple of years.

The proposed cuts are also instructive. Nearly all domestic programs would be subject to deep reductions – everything from welfare to research and development. Almost all foreign aid is cut and there are plans to reduce funding for the State Department as well as the intelligence services. The budget is very optimistic as far as expected growth is concerned – expecting rates at between 3.5% and 4.0%. As the previous article pointed out, economists in general are not that confident and assert that growth of 2.0% would be about the upper limit. The plan also preserves all of the tax cuts from 2018 – even those that were supposed to have expired this coming year. The budget as it has been presented would drastically worsen the deficit and debt burden.

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.



Just in case you wanted to console yourself with the notion that other nations must be running larger deficits than the US we give you this handy comparison chart. The deficit in the US is higher than any of the others. Bear in mind this includes such fiscally responsible nations like Spain, Italy, Brazil and Greece. This is not a leading position the US should want to maintain but by all indications there is no appetite at all for reducing it. The Trump budget would deliver the worst deficit numbers in decades and there is nothing frugal coming from the Democrats or even the GOP.

Speaking this Month

03/15/19	Las Vegas	NACM – Metal Importers	Private
03/20/19	Orlando	AEMP	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
03/29/19	Kansas City	Retired Old Men's Eating Organization	Private
04/03/19	Wichita	The Bradbury Group	Private
04/10/19	Phoenix	GAIN/PGI	Public
04/11/19	Kansas City	Landmark Bank Lunch	Public
04/17/19	Kansas City	Construction Financial Mgmt. Assoc.	Public

Corruption

There is nothing quite as corrosive and destructive as corruption – especially at high levels. It sends a very destructive message as it tells people that nothing they do will matter as far as pursuing their goals and dreams. You can work hard, get the skills and education you need, get experience and all of that. But if you watch someone get what you have worked so hard for by bribing or cheating, your motivation to keep working hard vanishes.

I spent many years as a student of the Soviet Union – majoring in Soviet and East European studies. There were many things that brought that system to an end but from what I observed the most destructive aspect of that system was corruption. Nobody got anything without "blat" and who you knew was far more important than what you knew. In short, people simply stopped trying. Nobody cared about their job as they knew the only thing that mattered was the ability to bribe.

The sad fact is that corruption has been a sleazy reality in many colleges and universities for many years. This latest episode is the more outrageous because these people had all the legitimate resources they or their progeny would ever need. They could hire dozens of tutors and paid for dozens of prep classes. They could have had their precious little flowers actually learn how to participate in a sport and get good enough to earn their entry. That was too hard – better to just bribe and cheat. Today their ability to engage in that activity is compromised – not only by the legal system but by the fact that most of them are now losing their jobs and their kids are getting expelled. The real tragedy is that once again we have been smacked in the face with the fact that we do not begin to compete on a level playing field.

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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