

BUSINESS INTELLIGENCE BRIEF

April 12, 2019



NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Fed Independence** – From the start there was an opportunity for Trump to pack the Federal Reserve as there were six vacancies in a seven-person Board of Governors when he started his term. Outside of some back and forth over the fate of Janet Yellen the choices made were all quite safe and traditional. Jerome Powell was elevated to the chair position and then there were the appointments of Randy Quarles, Richard Clarida and Michele Bowman. Lael Brainard was the lone holdover. The nominees for the remaining two positions were Marvin Goodfriend and Nellie Liang but the Senate did not take their appointments up in time. Now Trump has “about faced” dramatically and has selected two people for their partisan position rather than their qualifications. It already seems unlikely that Herman Cain will win nomination as four GOP Senators have already opposed him and Stephen Moore is getting strong opposition as well. At issue is the overall independence of the Fed.
- **Where is all the Expected Capital Expenditure?** – Perhaps the most striking aspect of current corporate strategy is the lack of capital investment. The plan was that companies would reap the rewards of the big tax cut in 2018 and would set about investing in new capacity and expansion. This has not happened as corporations have engaged in just about everything they can think of other than expansion. They are borrowing and buying back stock and making acquisitions but not expanding. Part of the issue is that capacity utilization rates are still signaling there is more slack than preferred and part of the reason is that hiring is harder than it has been in years but a big problem has been uncertainty when it comes to political decision making – not just in the US but in terms of other nations as well.
- **Death of the Republican Hawks** – In truth it is hard for a politician to maintain a hawkish position on the budget at any point. The constituents back home are really not interested in some abstract notion of fiduciary responsibility – they want tangible benefits from their elected officials. They want jobs and growth and financial progress – they want their representatives to bring home the bacon. The GOP once had a sober group of fiscal hawks that opposed this kind of free wheeling but they are almost nowhere to be seen these days. The Trump approach is as profligate as the most free-spending Democrats ever was – willing to borrow to the hilt and forever avoid revenue growth. This is now the dominant position for both parties – all they disagree on is where the money should be spent.

Short Items of Interest – Global Economy

- **Japan’s Population Collapse** – This has been the crisis that has been coming at Japan for decades and it is now obvious that too little was done and too late. The population of the country is declining at a very rapid rate – the equivalent of losing a mid-sized city every year for the foreseeable future – last year saw a decline of 430,000 people as opposed to 161,000 immigrants. This was the highest number of new arrivals in decades but comes nowhere near the appropriate number. The birth rate is well below replacement level and shrinking. Of those in Japan, the majority are elderly and the workforce is shrinking fast. The only real hope is mass immigration but with that comes massive cultural change.
- **Will Iran be Next?** – Elderly autocrats and dictators are dropping like flies in the Middle East and North Africa. Abdelaziz Bouteflika of Algeria is gone and now so is Omar al-Bashir. Will the ancient rulers of Iran be the next to go? The big question is who will replace the clerics who are now in their 80s and 90s. The reformers have been on the defensive for the last few years as the overtures to the western states were rebuffed.

**Knowledge
is said to
be power.**

**Only if that
knowledge
leads to
action**

**The Black
Owl Report
is that tool
that turns
knowledge
to action**

**Click the link
below for a
FREE TRIAL
of the
Black Owl
Report.**

**[www.armada-
intel.com/trial](http://www.armada-intel.com/trial)**

The Great Minimum Wage Debate

Not that economics is short of controversy but there are few issues that generate as much passion as that of the minimum wage. The very existence of a mandated rate of pay for people rubs many the wrong way as they insist that market conditions should always determine what people are paid and what the conditions of their work should be. The advocates counter with the assertion that market forces are imperfect at best and without a minimum there is a very real opportunity to exploit people unfairly. The government is expected to demand a safe work environment and consumer protections – why should the rate of a person's pay be protected by government as well? The debate is made the more intense as there are several ways to approach the issue. The first is to consider whether a higher minimum wage really benefits those who are at the bottom of the wage scale. Then there is the impact this wage has on the employer that has to pay it. There is the greater economic impact to consider as well – does the higher minimum provoke an inflation threat? Does it promote more consumer activity? Does it change the behavior of those who are getting the higher wage? Beyond these big questions there are a myriad of others – should there be a national minimum wage given the broad differences in the cost of living throughout the US? A \$15 an hour wage goes a lot further in rural Mississippi than in downtown San Francisco. Should there be jobs that pay below the minimum for some reason?

Analysis: In a recent poll about a third of business economists asserted that a hike in the federal minimum wage would result in job losses among those who are at the bottom of the labor pool. These are economists who work in the business world as opposed to those that are employed by the government or the academic sector. They are not judging whether the wage hike is a good thing or a bad one – they are simply asserting that the business reaction to the wage hike will be predictable. In a very real sense this is the crux of the debate. It is hard to dispute the assertion that being paid more is going to be a positive development for the person who is getting the additional pay. The amount of the increase will matter of course and \$15 may not be enough to really change the circumstances of the recipient. A person working a standard 40-hour week at \$15 an hour will be paid \$600 a week or roughly \$31,200 a year. This assumes the employee works that full 40 hours all 52 weeks of the year and that is not common. The US poverty line is \$12,490 for a single person and \$25,750 for a household with four people. The person making \$15 an hour and working full time and living alone is well above that poverty line but the reality is that very few minimum wage workers have that schedule or living arrangement. The average number of hours worked per week is between 20 and 30 and the average number of weeks working is 35 to 40. Now the take home pay is between \$10,500 and \$18,000. This creates the category of the working poor. The person working at the current minimum wage will be making \$290 a week or \$15,080 a year (assuming that 40 hours and 52-week schedule). It is quite apparent that those making the current minimum will be in financial distress and even at \$15 they will be struggling.

The problem is that business has to make decisions as well. The majority of the businesses that pay minimum wage are small to mid-size (although there are plenty of exceptions). They have to allocate expenditures if they plan to remain in business. They can only pay so much for rent and utilities, supplies, inventory, marketing, taxes and all the other aspects of running a business. Labor costs are one of the most expensive aspects of running a business. Changing a person's wages from \$7.25 to \$15 is a doubling of that labor cost and many businesses simply can't absorb that hike. This is especially the case when one considers the follow on impact of a minimum wage hike. There will have been employees that were already getting \$15 an hour. They are more experienced and more qualified and suddenly they are going to be getting the same pay as a brand new and less qualified person. They will demand a commensurate pay hike and now that \$15 an hour person may be getting \$20 or \$25 or even \$30 an hour and the labor cost for that business have exploded. There is only one practical way to address the issue and that is to reduce the size of the workforce. The positions most likely to be eliminated are the lowest level ones. The people that are not in a position to command more than minimum wage are now far less likely to find work at all. The expectation is that the most affected group will be those young workers just getting their first jobs and those people with very limited skills and education as well as those that have other inhibitions to work.

Fed Unlikely to Change Course

This is the latest assessment from the majority of economists that have ventured an opinion as to the Fed's interest rate plans. The consensus view now is that the Fed will leave interest rates alone through 2021. To be honest this is a prediction that starts to strain credulity – along the lines of predicting the weather three years out. Lots can happen to an economy in this space of time.

Analysis: There are three assumptions working at this point. The first is that global growth will be slow for the next three years as Europe, China, Japan and others struggle. Growth at just over 3.0% is anemic and provides little opportunity for the US to grow. The second assumption is that inflation will remain at bay in the US. Commodity prices will be down for the foreseeable future and there has been no pressure to hike wages either. The Fed has struggled to even get inflation up to the traditional 2.0% level and there is now serious talk of allowing that rate to climb even higher. The third assumption is that the US economy has settled back to its traditional rate of growth after a burst of 3.0% in the last year. The average annual rate has been 2.6% for the better part of the last two decades and that is where the US is headed again. The inflation hawks remind people that all three of these situations could change very quickly and introduce real inflation worries but for now even the hawks are against hiking rates.

The Populist Agenda

It has taken a while for a real political agenda to develop as far as the populists are concerned. In every nation where this group has become a factor the origins of the movement was as a protest as opposed to a demand for some specific new set of policies. The politics of protest still dominate the majority of these groups but slowly there has been the development of an agenda for change and an expression of what the populists want as an alternative to the status quo. These demands are far from universal across all the variations of populism in Europe and the US but common themes are emerging and will likely be part of the offering presented to voters in these nations. The populists have not been all that focused on economic issues until lately – at least not directly. Now they are starting to put emphasis on economics and the implications for business will be significant. These are also the issues that will start to blur the lines between left leaning and right leaning populism.

Analysis: At the center of the populist message from the beginning has been immigration. This has been the case in the US as well as in Europe and many other nations. The US trigger was the mass movement of people from Central America who were more refugee than migrant and in Europe it has been the waves of people fleeing the violence and warfare that has gripped the Middle East and North Africa. Along with the refugee has come the more traditional economic migrant seeking work and opportunity but this is now the minority as far as the illegal immigrant is concerned. The populist message has been to look at these arrivals as threats in every respect - branding them as terrorists, accusing them of criminal intent, asserting they are taking jobs away and claiming a threat to the dominant culture. This remains the number one issue and motivator.

The second emerging issue is essentially an anti-green reaction with protests against measures that would be seen as forcing cultural change or higher taxes. The massive French protests against the tax on fuel gave new life to the National Front and there have been protests against various attempts to deal with climate change in the UK, Germany, Italy and the US. The sense is that “green initiatives” are concocted by liberals to attack conservative values. The various lies and false accusations that circulate through social media underline the attitude – assertions that “green” advocates will ban air travel, seize pick-up trucks and motorcycles, force people to become vegan and so on.

The third set of reactions are essentially in response to the notion of political correctness. This has manifested in many ways – from outright hostility towards certain minority groups and ethnic groups to objections to cultural movements like Black Lives Matter and Me Too. There has been a dramatic upswing in attacks against Islamic people as well as Jews. There have been more overtly racially motivated clashes and outright resistance to social change. Even those that are not especially motivated by the populist message express anger and frustration at the environment created by political correctness.

Finally, there is the emerging attitude towards big business and the wealthy and here is where there has been convergence between the left and right. The overall notion is that the rich have accumulated too much power and have become too distant from the common man. Businesses are exploitative and engage in ruinous activity. This has fed the anti-trade attitude as the sense is that companies replaced domestic workers so they could make more money exploiting foreign ones. There is deep distrust of the corporate media and distrust of those using their power to influence that media (unless they are perceived to be on your side).

Sudanese Leader Flees Military Coup

Roughly thirty years ago there was a military led coup by Brigadier General Omar al-Bashir and for a brief moment there was some hope that he would usher in a period of modernizing reforms. These hopes faded quickly and since then he has presided over the destruction of an already poor nation. The grinding civil war led to the separation of South Sudan and that meant the end of the nation’s oil reserves. The attacks on the Darfur region made al-Bashir an international pariah and now he has been overthrown the same way that he took power.

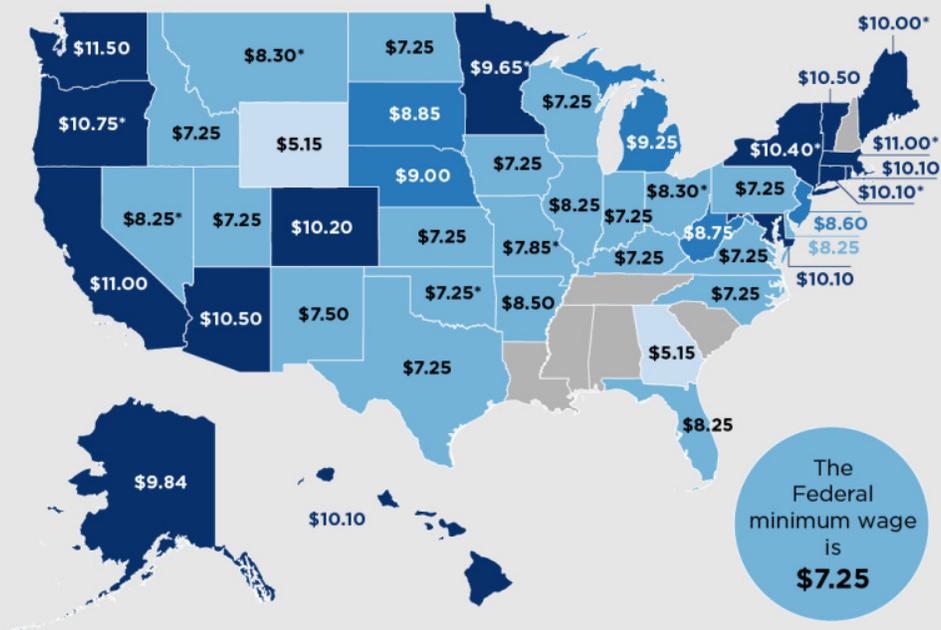
Analysis: The military has formed a junta but it is assumed that a new strongman will emerge soon. The connection between al-Bashir and radical Islam made him extremely unpopular with the US and Europe and many attempts have been made to unseat him but he always managed to cobble together a coalition that kept him in place – until now.

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.

Minimum wage in the US

\$9.50 and above
 \$8.50 to \$9.25
 \$7.25 to \$8.25
 \$5.15
 No minimum wage



*Minimum wage may fluctuate based on state legislation.
SOURCE: US Department of Labor, State websites



There is very little uniformity as far as the minimum wage is concerned. Many states have higher rates and some have lower rates. There are now dozens of cities that have raised their minimum wage to \$15 and more that are moving that direction. To a degree the rate of pay tends to correspond to the politics of that state or community but not in every case.

Speaking this Month

04/17/19	Kansas City	Construction Financial Mgmt. Assoc.	Public
04/18/19	Chicago	NACM	Private
04/24/19	Kansas City	Infinitas Breakfast	Public
04/24/19	Kansas City	NACM	Private
04/25/19	Columbia	Missouri Banker's Association	Public
04/25/19	St. Louis	NACM	Private
05/01/19	Sarasota	Industrial Heating Equipment Association	Private
05/07/19	Dana Point	Mize Hauser	Private
05/09/19	Napa	Service Professional Group	Private
05/14/19	Indianapolis	Indiana Bankers Association	Private
05/16/19	Newport Beach	Riemer Reporting Service	Public

I am Ready for Spring (sort of)

I am certainly glad to see the end of the winter's cold and snow – very ready. It had become more than a little tiresome and my tolerance for cold has been eroding over the years. I was heartened to see those jonquils arriving and watching the fruit trees flower. The lawn was suddenly greenand growing....fast. That was when I was reminded that with the arrival of spring comes the arrival of yard work. Don't get me wrong – I really like the opportunity to be out and enjoying the day but my stamina ain't what it used to be and I gaze at all the projects that await me and start thumbing through those brochures for condominiums. I will get over it once I get back out there but for now, I am a little intimidated.

There are some big projects on the horizon this season but I am not going to have to do the bulk of the work (at least that is the plan). We are installing a garden shed so that we can reclaim some of the garage and it is designed to look like the house. There will be landscaping involved but at least I don't have to build the dang thing. Other than that, I will be doing the usual support work for my Master Gardener and will once again get reacquainted with all those nifty tools that have been accumulated over the years. I have put aside my supply of Ben-Gay so I am as ready as I am going to be.

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.