

NATIONAL AND INTERNATIONAL NEWS AFFECTING LOCAL BUSINESS

Short Items of Interest – US Economy

- **Consumer Sentiment Slips Again** – This is not yet a crisis as consumer confidence was very high before it started to come down. It was almost inevitable that these high levels would have to fade but this marks the third month in a row that they have fallen and this is a pattern that nobody wanted to see. There is also some concern that the tax cuts did not spur more confidence. During the debate it was noted that a majority of the population opposed the deal as they thought it was giving far too much to the wealthy and the corporate community and not enough to the middle class. That attitude has not changed and it has affected consumer enthusiasm. The actual arrival of more money in the paycheck has not started for most and that could boost enthusiasm but perhaps not as many people will see rather meager gains.
- **US Overtakes Saudi Arabia as Oil Producer** – This is not the first time this has happened and the reason the US has now taken pride of place is similar to the reason it happened before. The Saudi position in OPEC has been to reduce oil output as a means by which to get the price per barrel back up and that has taken place to a degree as the per barrel price has been at or slightly below \$70. The fact that these prices are up has encouraged US oil producers to step up their efforts and that propels the US back into first place. The US has the ability to come rapidly in and out of production and that allows very rapid response to prices – boosting output when they are high and pulling back when they are low.
- **Economic Drivers** - The point to be remembered is that the key drivers for the economy are not generally political. These decisions by Congress and the White House can accelerate or slow down what is otherwise taking place. The Federal Reserve is the only government entity with the power to set policy directions that really direct the economy. The drivers last year were the global economic rebound that allowed US companies to export more successfully and the recovery of the consumer and their willingness to spend more as they once did. These will likely play a big role in this year's economic growth.

Short Items of Interest – Global Economy

- **The Value of the Yen** - The Japanese are of mixed emotion when it comes to the value of their currency at this point. While it has been good for the export community and apparently for tourism as well, there is the small issue of what this has done to the consumer. There has been more growth in Japan in the last year than in the past decade and a good bit of this is down to the consumer in Japan. This is not often the way that it works in Japan as the consumer is inherently cautious and would rather save than spend. It is not that the consumer is suddenly profligate but the retail community has had some pretty solid quarters. This would all be in jeopardy if the consumer is suddenly hit with high prices on all imported goods and services. The Japanese are not necessarily big buyers of imported goods but the country as a whole buys oil and many other commodities and if the yen doesn't buy as much today as it once did these higher prices work their way through the entire economy. The yen has even weakened against Asian currencies and that has affected consumer habits in Japan. It is a balancing act for Prime Minister Shinzo Abe and his policy of "Abenomics" as it is predicated on the ability of the Japanese consumer to stay engaged and low valued currency makes that harder.
- **Putin Has a Challenger** - Grudinin speaks the language of the rural Russian and the older population that believes that all the changes since the fall of the USSR have been detrimental. He is the inheritor of the old Communist Party but is not as dogmatic and unwilling to change as was Gennady Zyuganov. He is an old school socialist but also pro-business as long as it is small business and Russian. He is against the foreign operations that play a large role today and he has opposed the oligarchs that surround Putin. He also favors Russia regaining control of the land that once was part of the USSR. Putin will not lose to Grudinin but he now has a rival for the hearts and minds of the Russian countryside.

MOCPA Career Center



Post your
jobs on the
Missouri-
CPA centric
online career
center!



mocpa.org/careers


Missouri Society of
Certified Public Accountants

Can China Keep This Up?

For that matter can the US and Europe and several other nations keep up the pace of growth that started to emerge in the last several months? This is a critical question and it always is. Growth is fragile – it requires a lot of factors coming together at the opportune moment and sustaining that growth is always harder than it looks. China has undergone a significant rebound and is now back to growth of around 7.0%. Granted, this is not the double-digit expansion that China sported only a few years ago but there have been some years of late when the country was bumping along at a little over 5.0% and when China is under 6.0% growth that is recession. They have to grow fast enough to create close to 1.3 million jobs a month and at less than 6.0% that is not possible. There are some aspects of the current growth period that seem fragile.

Analysis: One of the most challenging aspects of the current growth pattern in China is that there is a strong desire on the part of the government to control some of the long-term threats to Chinese progress. There are efforts underway to get control of debt and to eliminate the high-risk lending that has been taking place in the country's financial community. China has a debt to GDP ratio that is far higher than the one that worries people about the US. The preferred percentage according to most analysts is less than 60% of one's GDP and the US is nearly double that at 110% of GDP. As bad as that is the Chinese are staring at one of 240% of GDP. One key difference between the debt that US (and the Europeans and others) has and what the Chinese have is that China essentially owes itself as the money that has been borrowed came predominantly from state banks and was loaned to state institutions. This highly politicized system is a large part of the problem as much of this money has been chasing very poorly thought out projects. These "white elephant" efforts have wasted a great deal of money but they also drove the economy with all the investment and the jobs that were created to construct buildings that were never occupied and bridges over nothing. The government wants a halt to these efforts but there is also the fact that losing this stimulation will make growing that much harder.

Then there is the expansion of the manufacturing sector – something that was driven in part by the investment in all these projects. The steel sector is a prime example. The Chinese started to build their steel capacity years ago to support the economic expansion of the country and for quite a while the country absorbed that capacity. As the frenzy of development slowed the steel output didn't. Too many communities had become reliant on the jobs provided by that steel sector and few were willing to shut down and used all their political influence to keep the operation open. This soon led to gross overcapacity and the Chinese have been trying to get these operations shut down without precipitating an internal crisis as far as jobs are concerned. If China really does try to do something about all this manufacturing capacity there will be a price to pay in terms of lost jobs and lost income and that flies in the face of the plan to boost the consumer in China. The effort thus far has been very cautious to say the least.

China has been trying to both grow in the traditional way and shift into a different mode based on the strength of its own consumer but this is not an instant transition. It will remain dependent on exports and that is both a good and bad thing. Right at the moment the global growth expectations are high as there has been recovery in the US, Europe, Japan and many of the once vibrant emerging markets. That favors the Chinese but Beijing is well aware that their problems escalated when the global economy slowed after the 2008-2009 recession. If the countries that China sells to are not growing the Chinese can't grow either and Xi Jinping's goal has been to reduce the influence of the global economy on China.

Low Paid Workers See Bigger Pay Hikes

There is a bit of a counterintuitive development as far as the job market is concerned. Overall there has been very little increase in wages (an average of 2.5% annual growth for the last few years). Overall there is a labor shortage but business has been reluctant to pay more to people who lack the skills, education and experience to take the higher paying jobs. Overall the level of joblessness has been less for people who have advanced education and training. But there is an anomaly of sorts. The most rapid wage gains are being seen in the lowest paid jobs – for those who have a high school diploma or less. It is not that they are suddenly earning big bucks but this group is seeing gains when other higher paid workers are seeing some stagnation.

Analysis: It seems that low wage jobs still need to be done and employers are struggling to find people to take these positions and are increasing their pay slightly. Some of this is a reaction to the increase in the minimum wage as this makes every employer compete with higher pay. It also has to do with the options that low paid workers have other than to take a job. They can simply live off some kind of public assistance. They can depend on family for the bulk of their needs. They can work off the books in either licit or illicit business. They can then "work" but not officially. The other issue for employers that generally hire low wage workers is that immigrants are not as available as they once were as migration from Mexico is down by almost 75% in the last few years. The other issue is that higher paid jobs are available and the more ambitious workers who vgnj6ti7fbri once did the low paid work are leaving to take the higher paid positions. Finally there is the fact the young worker is not as prevalent in the workforce as in the past. Just fifteen years ago it was estimated that between 75% and 80% of high school students worked and that percentage is now just around 50%. The point is not that low paid workers are on their way to the middle class but it does show that there is continued job opportunity at the low end.

Global Reaction to US Government Shutdown

There has been mixed reaction to the latest crisis as far as the US government is concerned. On the one hand the world has been watching these episodes over and over and have come to expect a lot of false drama as the two sides use the crisis for some kind of leverage. On the other hand, everything about the way the US has been governing itself lately has been confusing and seems to lead to destruction. It is not that other democracies don't have budget fights and last minute histrionics but few allow these arguments to come close to shutting the whole government down. The concerns of the rest of the world can be captured in three buckets.

Analysis: The first set of concerns is purely practical. The US government owes a lot of money to other countries and in a variety of ways. There are foreign businesses that do work for the US and are not now sure they will be paid. There are many foreign investors that have purchased US treasuries and they worry the US could default on these obligations although at the moment these payments fall in the category of required spending. There are many countries that rely on US aid and assistance for everything from their military to overall development and that is now in doubt. Most expect the impasse to be overcome sooner than later but nothing is certain as far as timing is concerned and most expect nothing more than another continuing resolution and a return to this fabricated crisis in another month or two.

The second bucket of concerns has to do with understanding US commitments and strategy. It is almost impossible to predict what the US intends these days. Will the "America First" orientation mean the US plans to abandon allies and refrain from engaging with enemies. Will the US withdraw from the parts of the world it was once heavily engaged in? Are the development efforts to be abandoned? Will trade wars replace trade cooperation? Will the US pull away from the global institutions it used to lead? The chaos over the budget seems to other nations to be symptomatic of much deeper conflicts and controversies.

Finally there is the sense that this impasse is just the start of a year of an intense blame game. The campaigns of 2018 are expected to be as nasty as they have ever been with Democrats teeing off on Trump and his low popularity while the GOP tries to tee off on Democrats for attacking Trump and the core values of the GOP as seen by its more conservative members. All too often it has become easy political pickings to blame other nations and it is already clear that attacks on China and Mexico will feature prominently in the GOP races and Russia will be widely referenced by Democrats and both are likely to take shots at the Europeans and the Arab oil states.

Long Term Threat to Chinese Growth? Too Few People

It seems more than a little odd to assert that a country with over a billion and half people would have to worry about having enough of a population but a number of factors have combined to create a crisis that has started to simmer. The Chinese policy of restricting the family to one child has continued to have repercussions even as the policy has been abandoned. The restrictions had been relaxed in practice some years ago but in 2016 it was officially allowed to have two kids. There was an immediate boost in the number of babies but that soon faded as the people who had been waiting for permission acted quickly and others have been less interested. For the first time since the restrictions were lifted the birth rate fell.

Analysis: China has one of the oldest populations in Asia and that is putting a bigger and bigger burden on the workforce as they have to take care of that elderly cohort. The lack of births also reflects two developing trends. The first is related to the one child policy as it has meant that China has a population skewed towards men. Many families did all they could to ensure their only child would be male. In some rural areas and in extreme case there was female infanticide as parents disposed of the girl in hopes of having a male in the future. More often it was a case of aborting the female fetus and trying again. More often the issue was that people had a male and that was enough and there were no further attempts to have kids. Today there are significantly more men than women and they can't find brides with which to start families. Then there is fact that China is a fast developing society where women are interested in pursuing careers as opposed to starting families. The birth rate for educated women in China is very low and getting lower. There is not much societal support for the woman who wants both a family and a career and that forces many to choose or to seriously delay starting that family.

China has never been welcoming as far as immigrants are concerned and that is not a realistic option to deal with the labor shortage although there has been an active attempt to lure overseas Chinese to return home and become part of the Chinese renaissance. Some have been tempted but most have not.

Many CPA's Get Armada's Black Owl Report – To Use with Their Clients

For \$7 a month, CPA's across the country get our premium publication, the Black Owl Report. The Black Owl Report covers deep business analysis, trends, and risk that is (and will) shape the operating environment for corporate executives. It covers both current issues and it "looks around the corner" to see what's coming. With a subscription (\$7/month), many CPA's share it with their clients to start conversations; conversations that lead to more loyal clients...and more business. Get a free, one-month, no-obligation trial here: www.armada-intel.com/trial . You don't have to be a CPA to use the Black Owl Report – this publication has been a valuable tool for many professionals as they keep in touch with their clients and colleagues.

Final Report Before the Knife

Not that I am under the impression my health issues are of that much interest but I started to share this and now feel committed to keeping readers informed – especially as this might affect what you get in your inbox next week. I go in for the throat surgery on Tuesday and all that I know right now is that I will be getting a temporary tracheotomy so that I can breathe while they remove the tumor. Past that I am clueless. The biopsy will tell whether it is indeed cancer and the betting at this stage is that it is. If so I will then start some kind of radiation treatment and how long is an unknown.

My plan is to take advantage of the “week that somebody shut Kuehl up” and write. I expect to have plenty of time to do so as I will not be conversing with anybody. I have been told to expect to be there until Friday or Saturday. If all my expectations are met I will keep up with the BIB but the arrival time for you may vary as I will not be controlling my schedule much. At this point I know very little and that should feel normal to me by now!

The cats have been practicing getting into FedEx boxes as they plan to send themselves to me. I suspect they will be thwarted but it is the thought that counts. I have been amazed at all the good wishes received and I deeply appreciate it. I am confident this will be just a slight bump in the road and I will be back in the arms of the TSA, Southwest and a variety of hotel chains soon enough.

FIRST BANK WISDOM:

**Saving for tomorrow is easier
knowing your money will be there
waiting for you.**

Let's grow together.



FIRST BANK
Member FDIC

1-800-760-BANK
firstbanks.com/wealth-management