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Now What? Post Election Economy and Beyond NACM Webinar

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Analysis of the Forces Affecting Business

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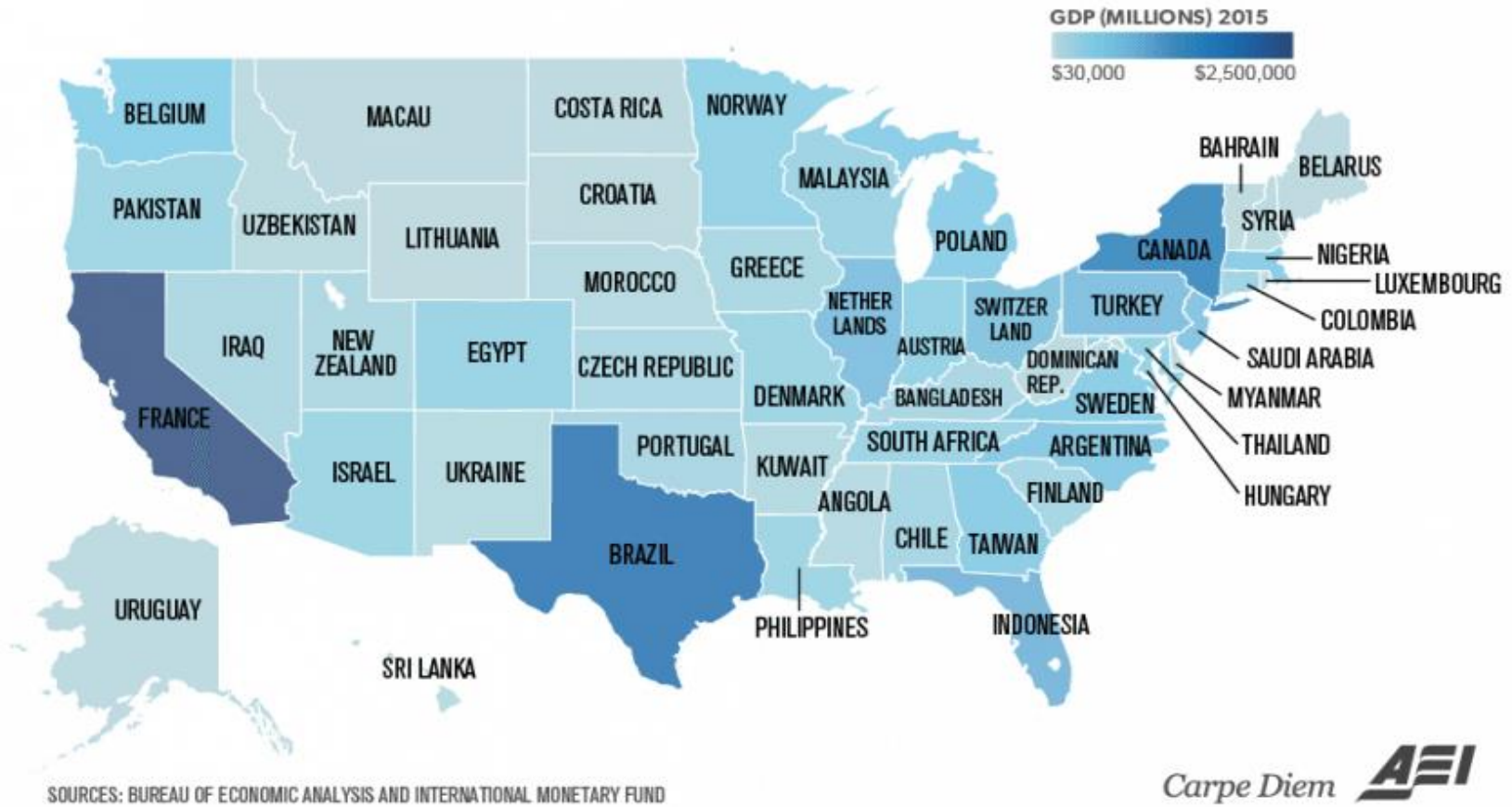
November 19, 2018

The Virtuous Cycle



We ARE a Big Country

US States Renamed for Countries with Similar GDPs, 2015



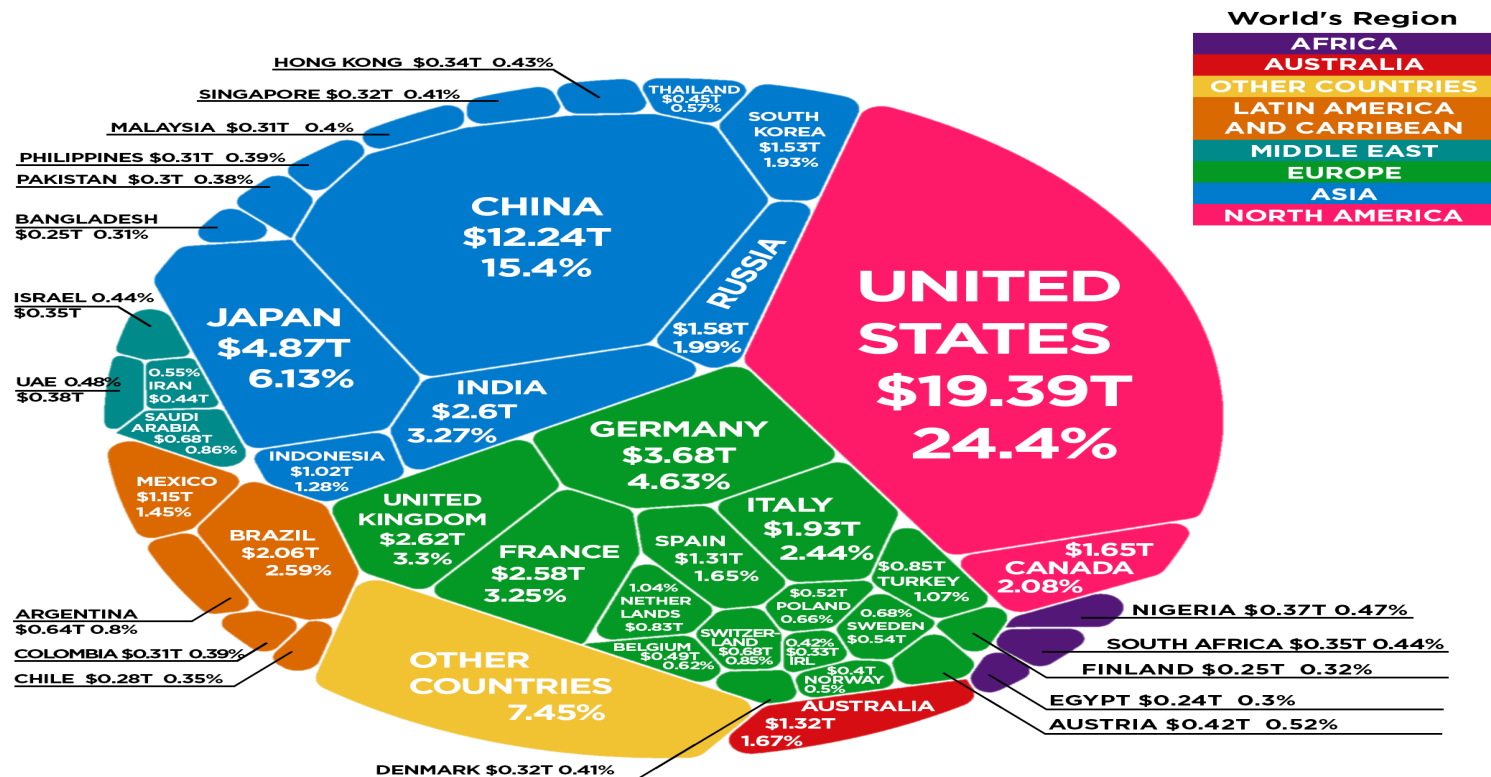
Whew! That's Over for a Few Days

- **Hello gridlock – polls suggest that many in business may actually welcome this. On the other hand many important issues will now stall.**
- **Most likely changes**
 - **Strange alliance between populist right and left over issues of trade**
 - **Democrats will oppose deregulation in many areas**
 - **Health care will dominate House agenda**
 - **Positioning against GOP and Trump will start right away**
- **Areas that likely will not change**
 - **Still no interest in dealing with debt and deficit**
 - **No real movement on infrastructure development**
 - **No reduction in political acrimony**

- **Brexit – Will the UK survive this and what will it look like? Implications for the US**
- **New leadership in Latin America – Andres Manuel Lopez Obrador in Mexico, Jair Bolsonaro in Brazil. Do we have a Chavez or Lula in AMLO? Is this the return of the junta in Brazil?**
- **Twilight for Germany's Merkel? Who replaces her as far as Europe is concerned? Rise of populist right throughout Europe.**
- **Saudi Arabia under a global cloud. Will Turkey or Iran take advantage?**
- **India makes move on Chinese market share as tariffs and trade wars alter the playing field**
- **Cutting loose from the US – allies question loyalty**

Clearly Still the Big Dog

The World Economy Gross Domestic Product (GDP) by Country 2017



Article and Sources:

<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

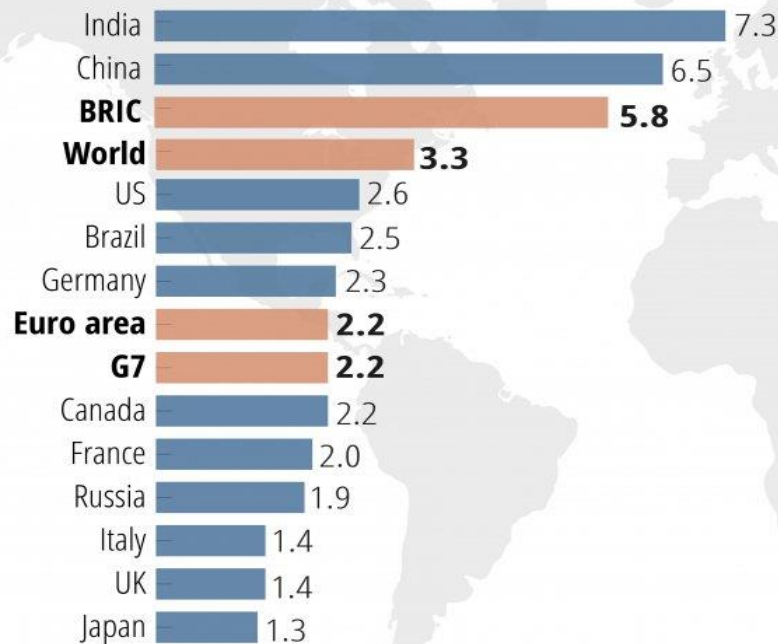
howmuch.net

GLOBAL ECONOMIC OUTLOOK

Analysts are upbeat on global economy thanks to strong fundamentals

2018 GDP Growth Forecasts

Annual Variation in %



- Global growth is expected to remain strong this year, and risks to the economic forecast for 2018 are skewed to the upside.
- Loose monetary conditions are supporting consumer confidence and capital expenditure.
- Solid global economic dynamics are tightening job markets, which is reverberating positively in household spending.

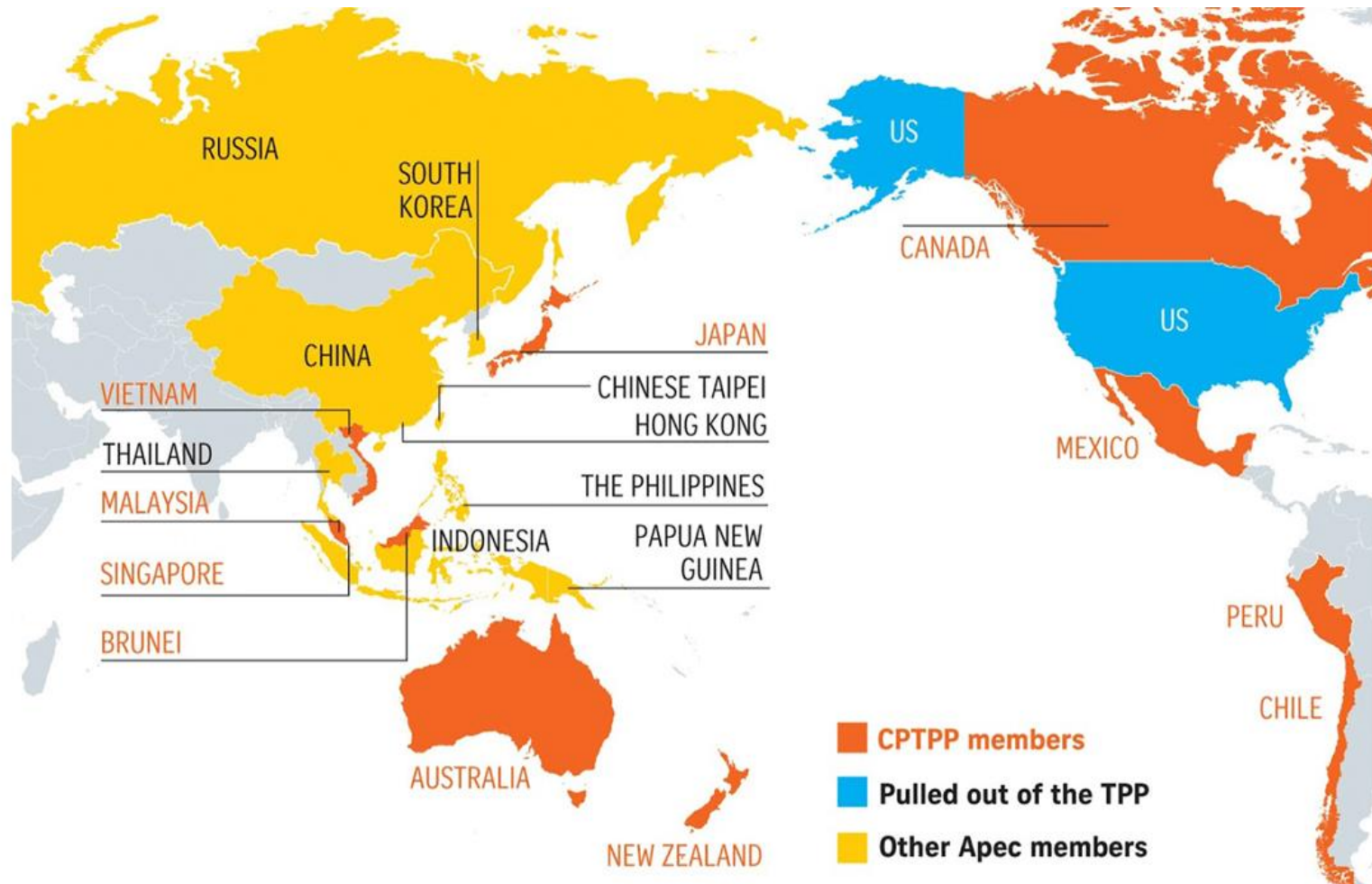
FOCUSECONOMICS

FocusEconomics Consensus Forecast Major Economies - February 2018 edition

New Alliances

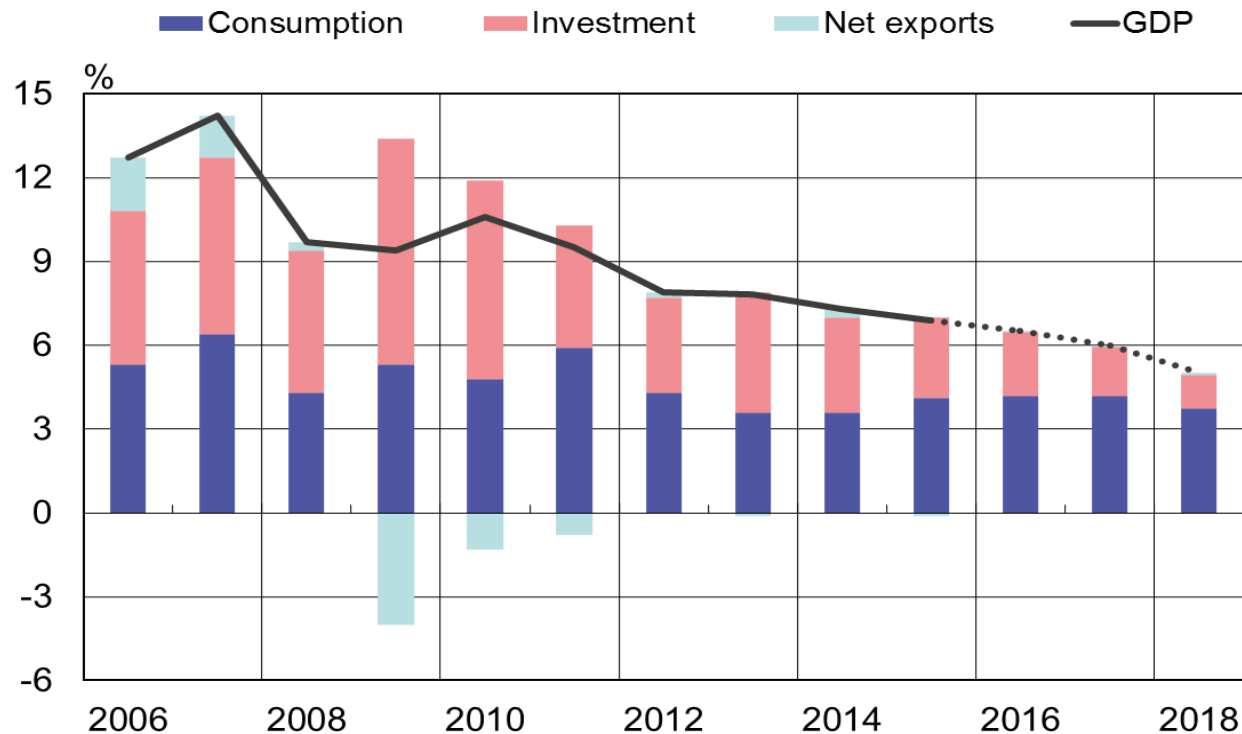


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Root of China's Vulnerability

Chinese GDP growth and its components



Sources: Central Bureau of Statistics of China, CEIC and BOFIT.

28 September 2016
bofbulletin.fi

21180@kesä_2016_kontribuutiot

THREATS TO ECONOMIC GROWTH

Terrorism and cyber threats moved up; uncertain economic growth and exchange rate volatility moved down Figures in (%)

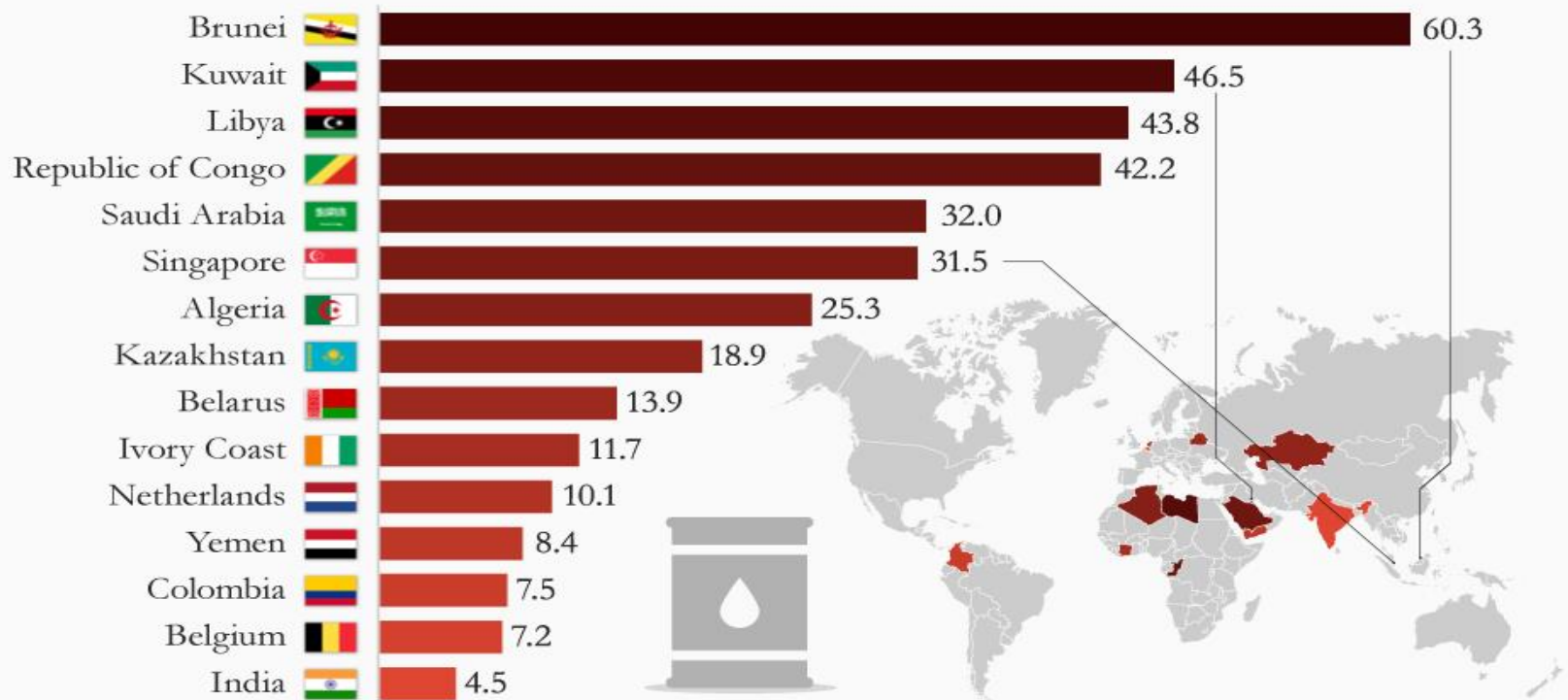


Source: PwC, 21st Annual Global CEO Survey

- **Nafta is Dead – Long Live Nafta**
 - **Replaced by USMCA – try singing to the tune of YMCA**
 - **Now has to be approved and ratified by US Congress, Mexican Congress and Canadian Parliament**
- **Three Sticking Points**
 - **Auto sector – more US domestic content, higher wages demanded in Mexico, more assembly in US**
 - **Dairy Business – reduced Canadian subsidies to dairy and easing of restrictions on imported product from US**
 - **Dispute resolution – arbitrary threats from any against any member rejected – has to go to independent arbitration panel. This may have an impact on steel and aluminum tariffs**

The economies most dependent on oil

Estimated oil exports as a % of GDP in 2018



@StatistaCharts Source: Bloomberg



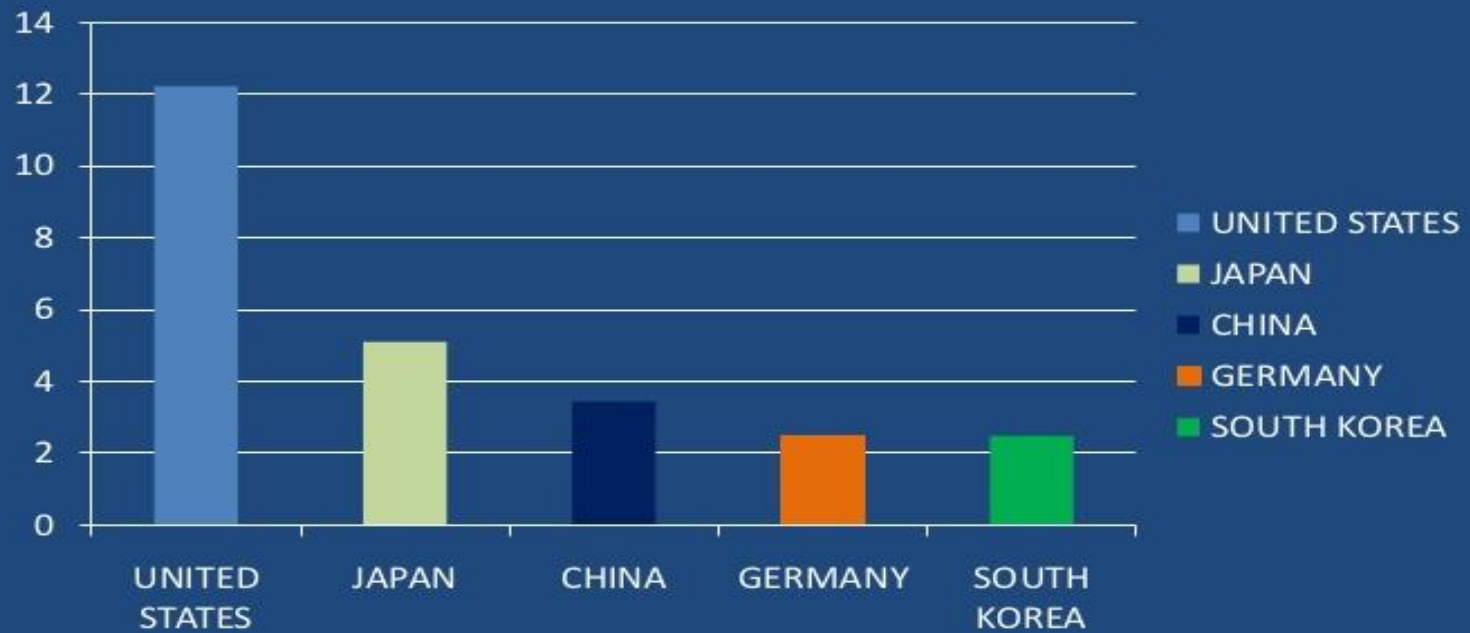
INDEPENDENT

statista

Who Buys?

TOP 5 IMPORTERS OF WORLD

MILLION OF BARRELS PER DAY



Higher Prices



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Tighter times

Brent crude oil price, \$ per barrel



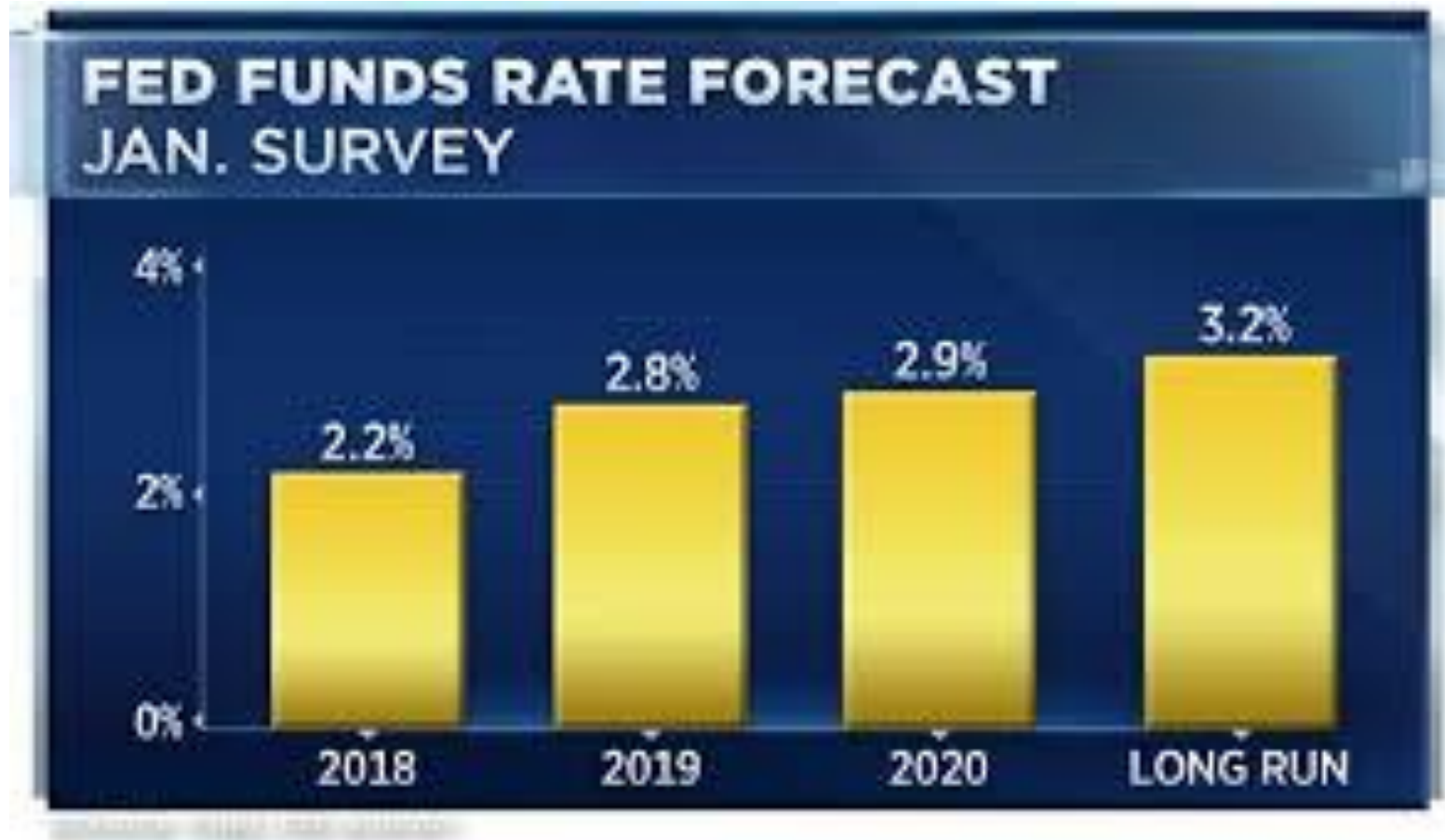
Sources: Thomson Reuters; US Energy Information Administration

World liquid fuels, production and consumption balance
m barrels/day

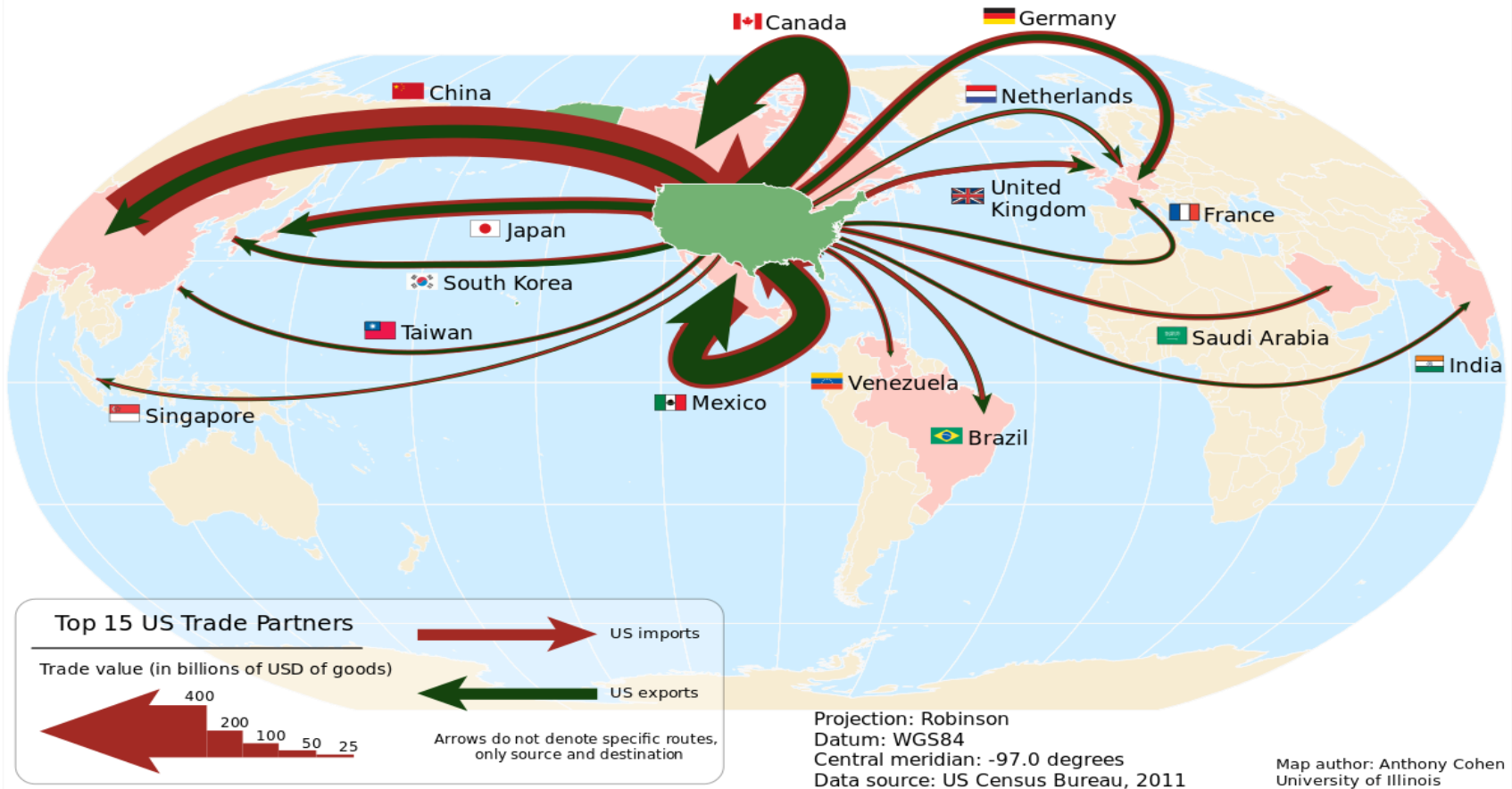


The Economist

Small Hikes



Who Buys and Who Sells

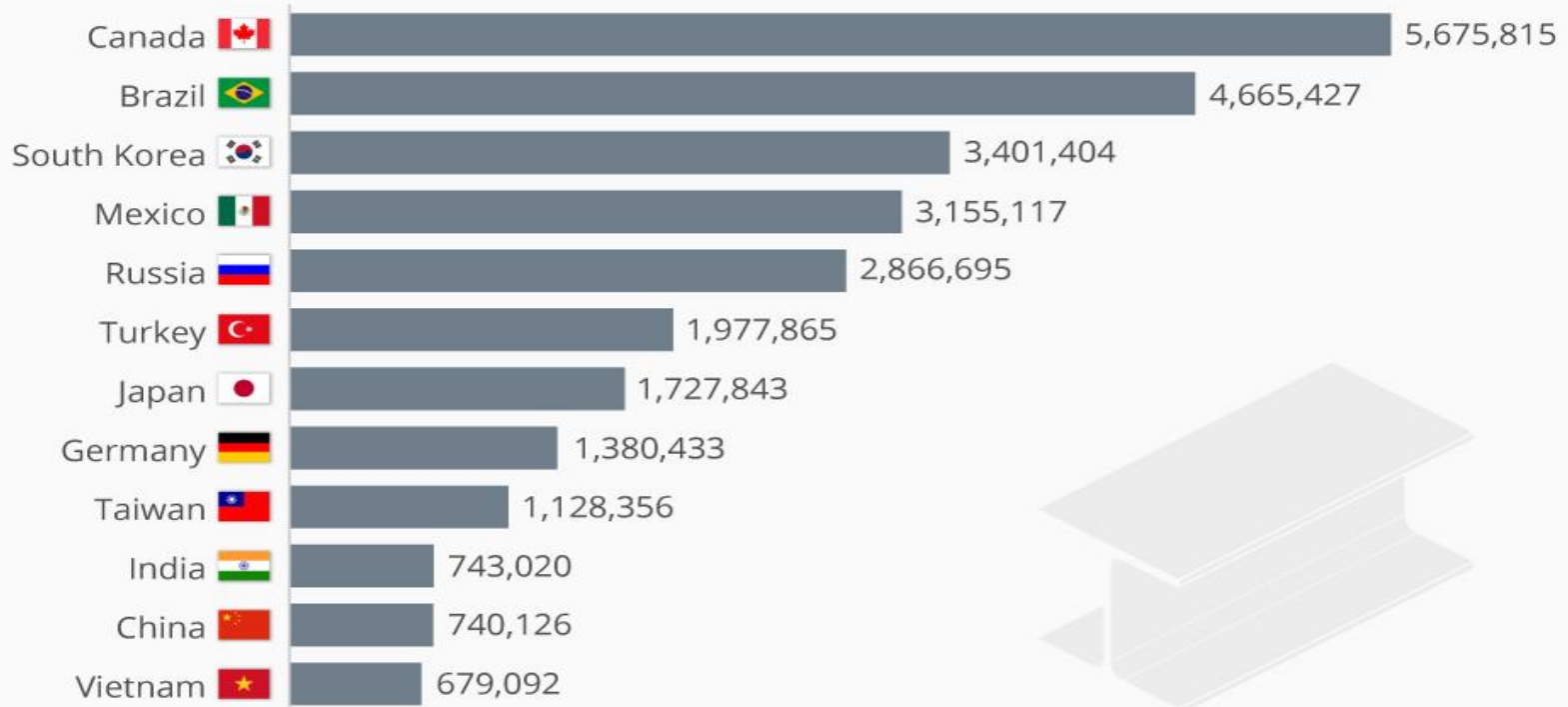


- **Decades of neglect in the steel industry**
- **Original tariff system included everybody – then almost everybody was exempted. Then they were not. Today Brazil, Argentina and South Korea have exemptions. Canada and Mexico likely are next and so is Europe**
- **Steel makers – once bit, twice shy**
- **Manufacturers feeling pinch already unless they could use the 232 exemptions**
- **China is not a factor as far as exporting to US. They sell aggressively to everybody else and that pushes other nations to sell aggressively to the US**

Where Does it Come From?

Where the U.S. Gets its Steel

Countries from which the U.S. imported the most steel mill products in 2017 (in metric tons)



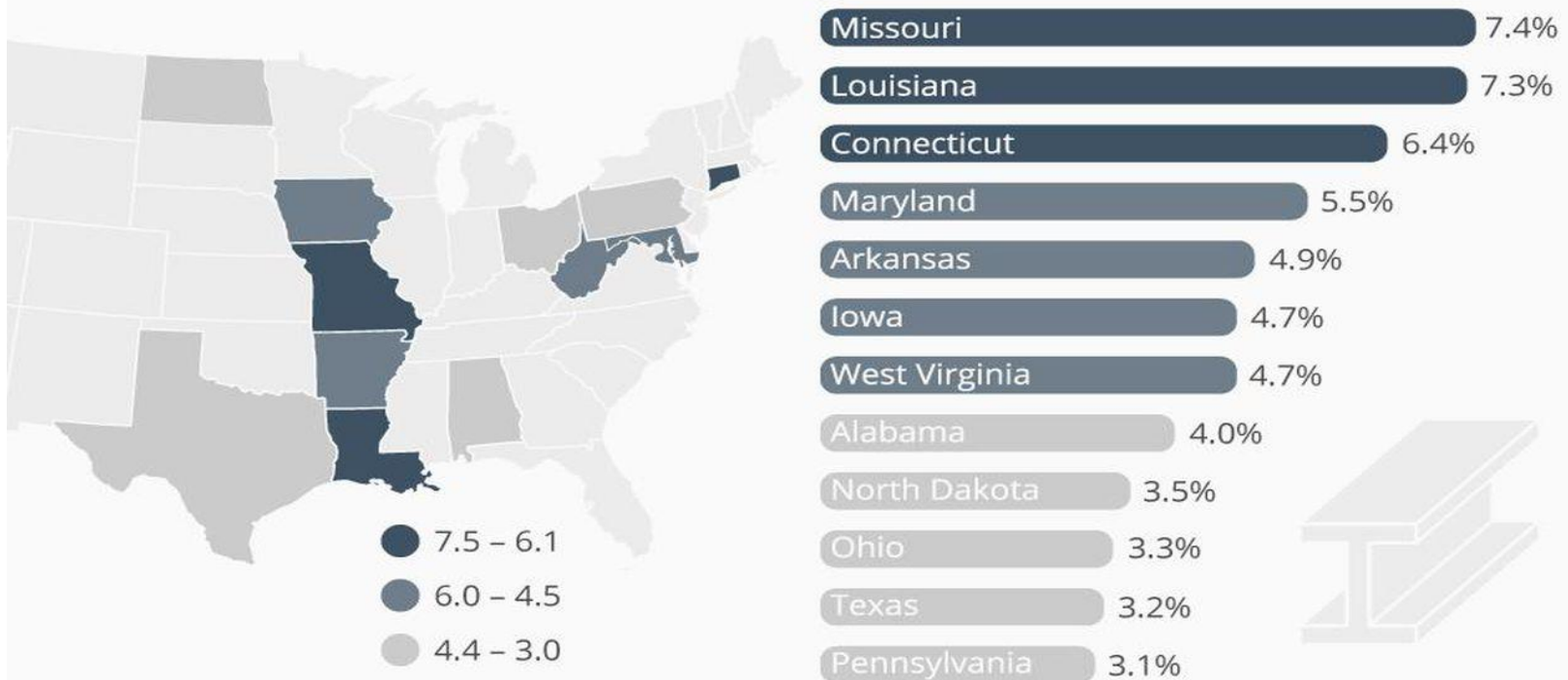
@StatistaCharts

Source: U.S. Department of Commerce, Enforcement & Compliance

statista

The U.S. States Most Reliant On Steel Imports

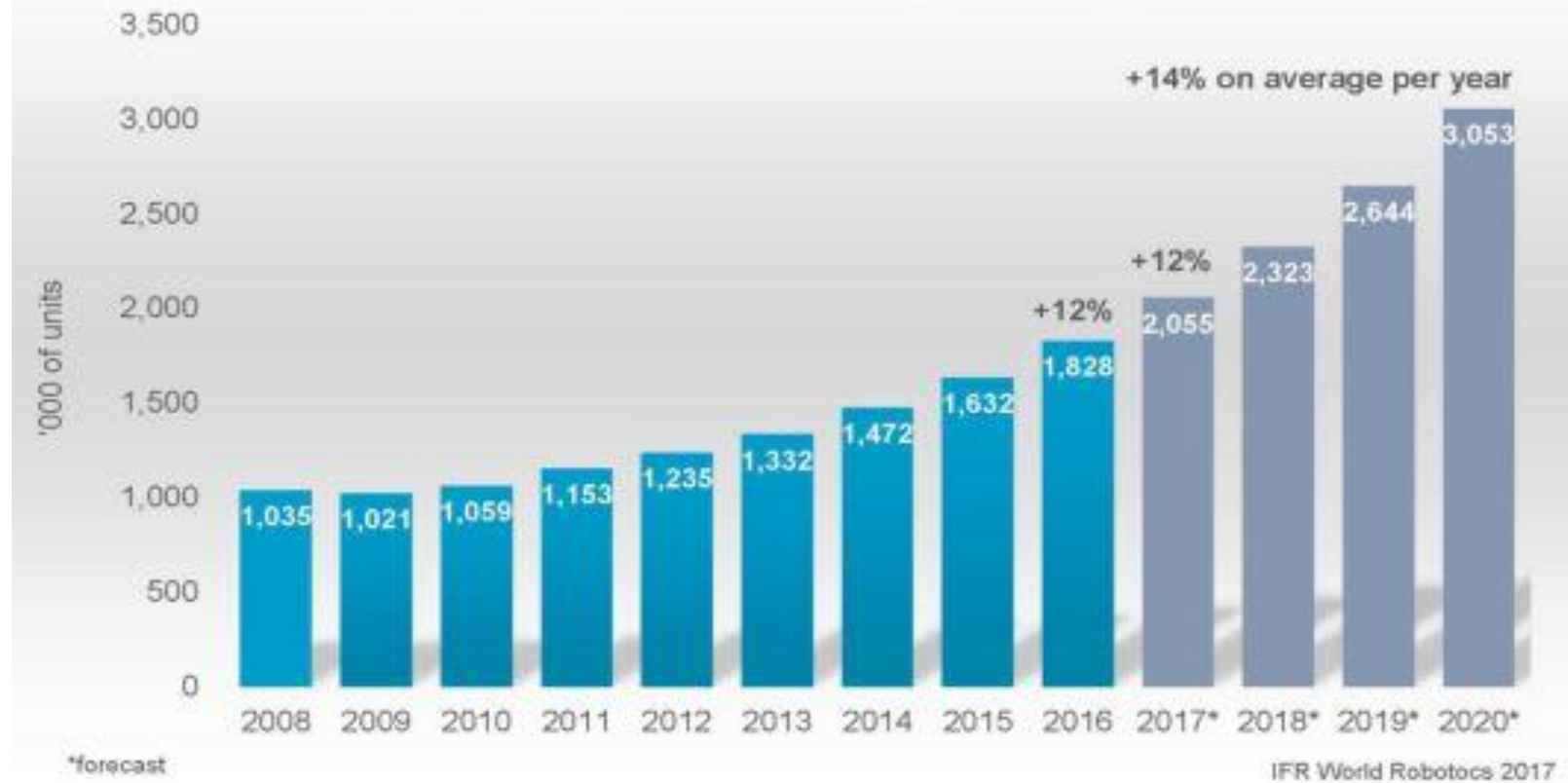
Percentage share of steel and aluminum in state total imports in 2017



@StatistaCharts Source: Brookings analysis of Census Bureau data

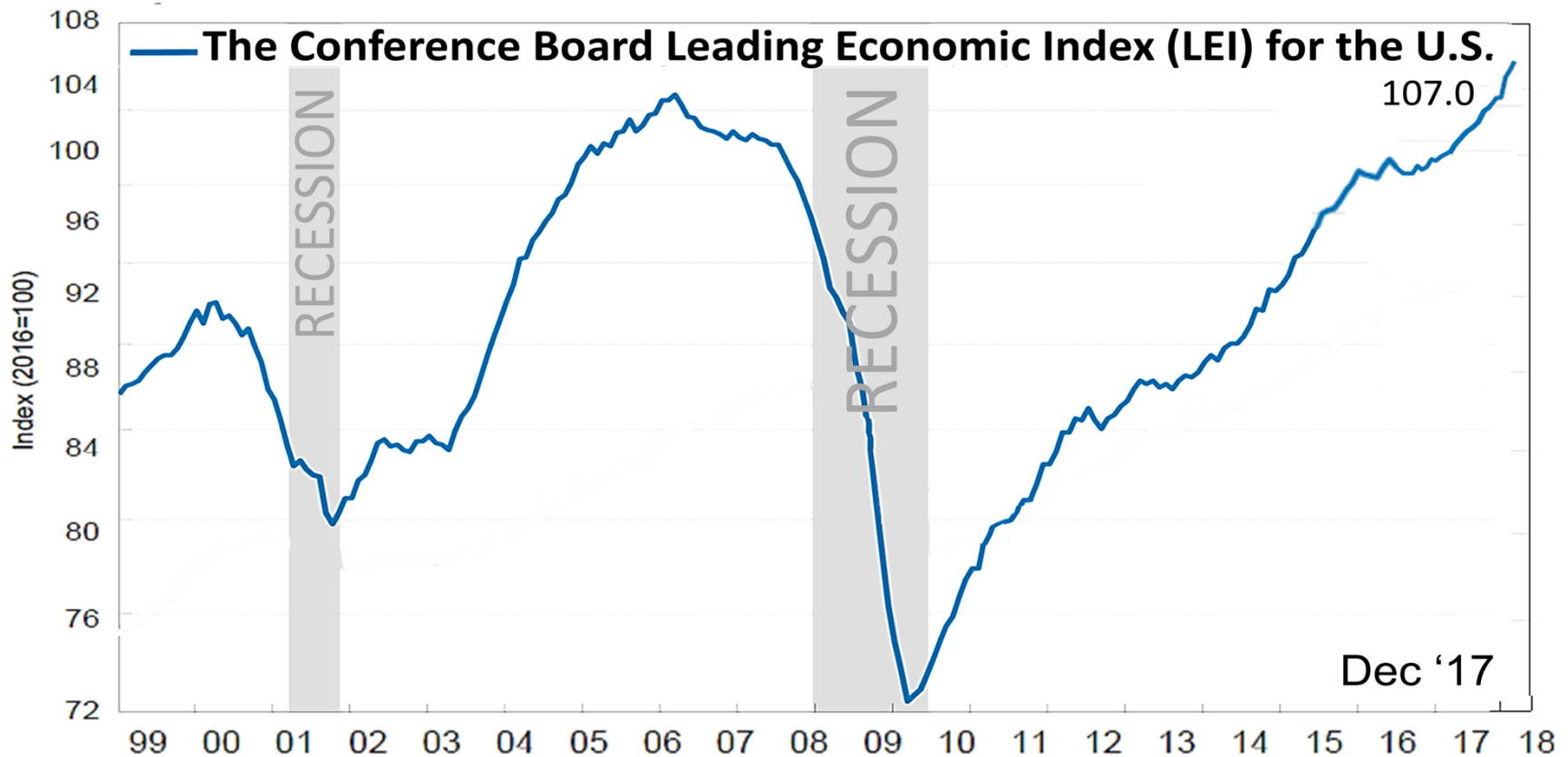
Forbes statista

Estimated worldwide operational stock of industrial robots 2015-2016 and forecast for 2017*-2020*



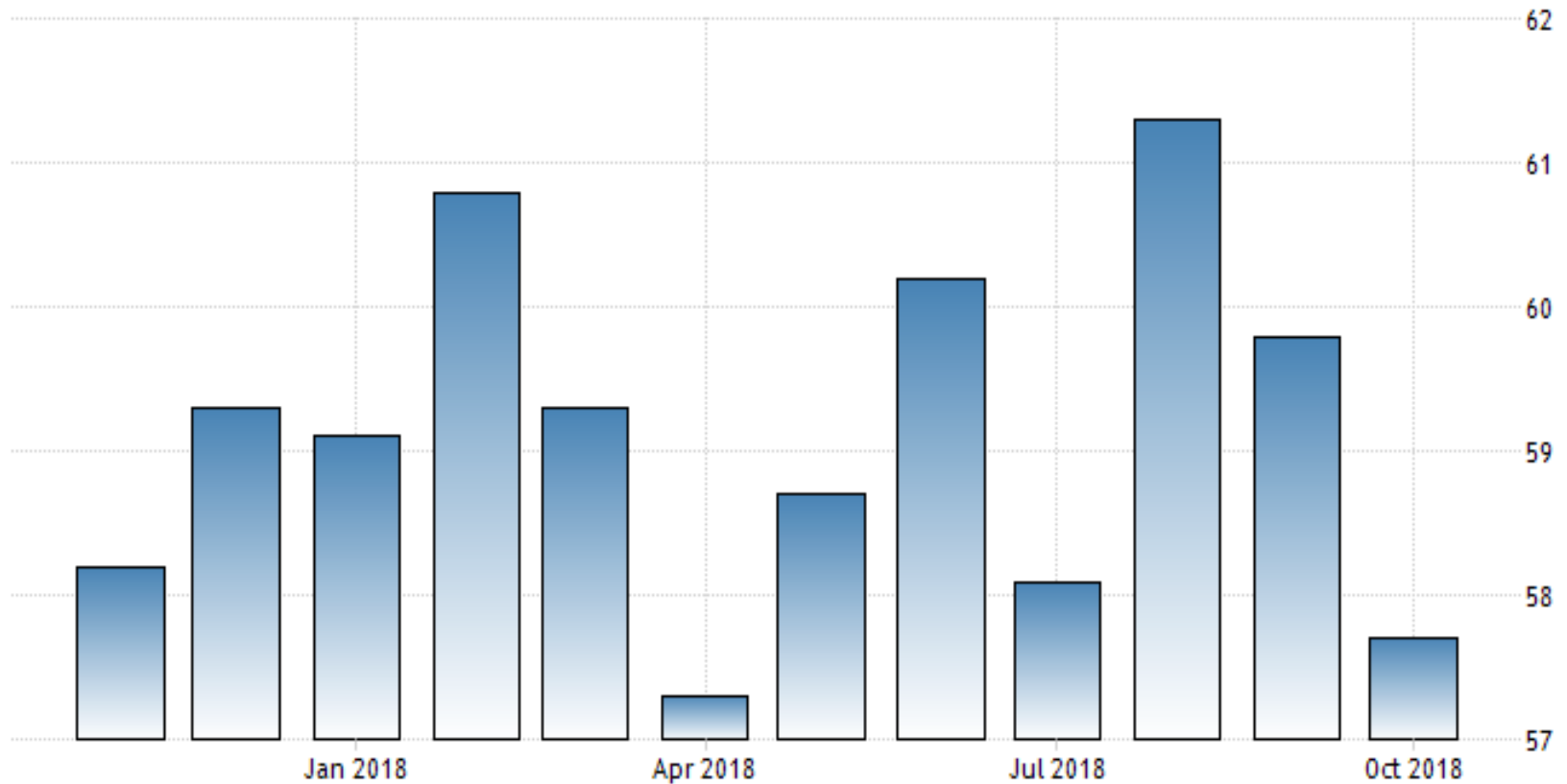
Economic Indicators Strong

U.S. Index Of Leading Economic Indicators Surged In 2017



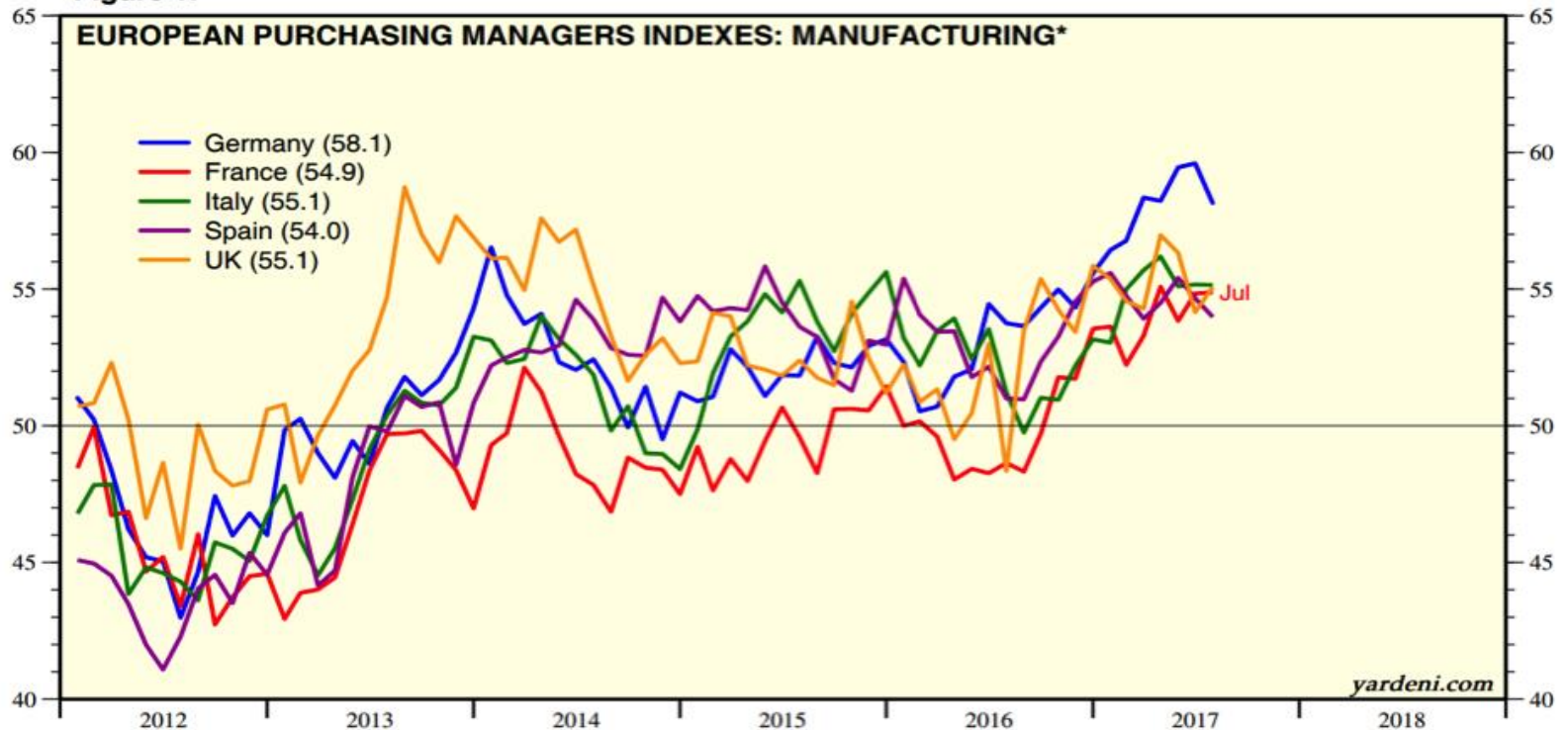
Source: The Conference Board

US PMI Numbers



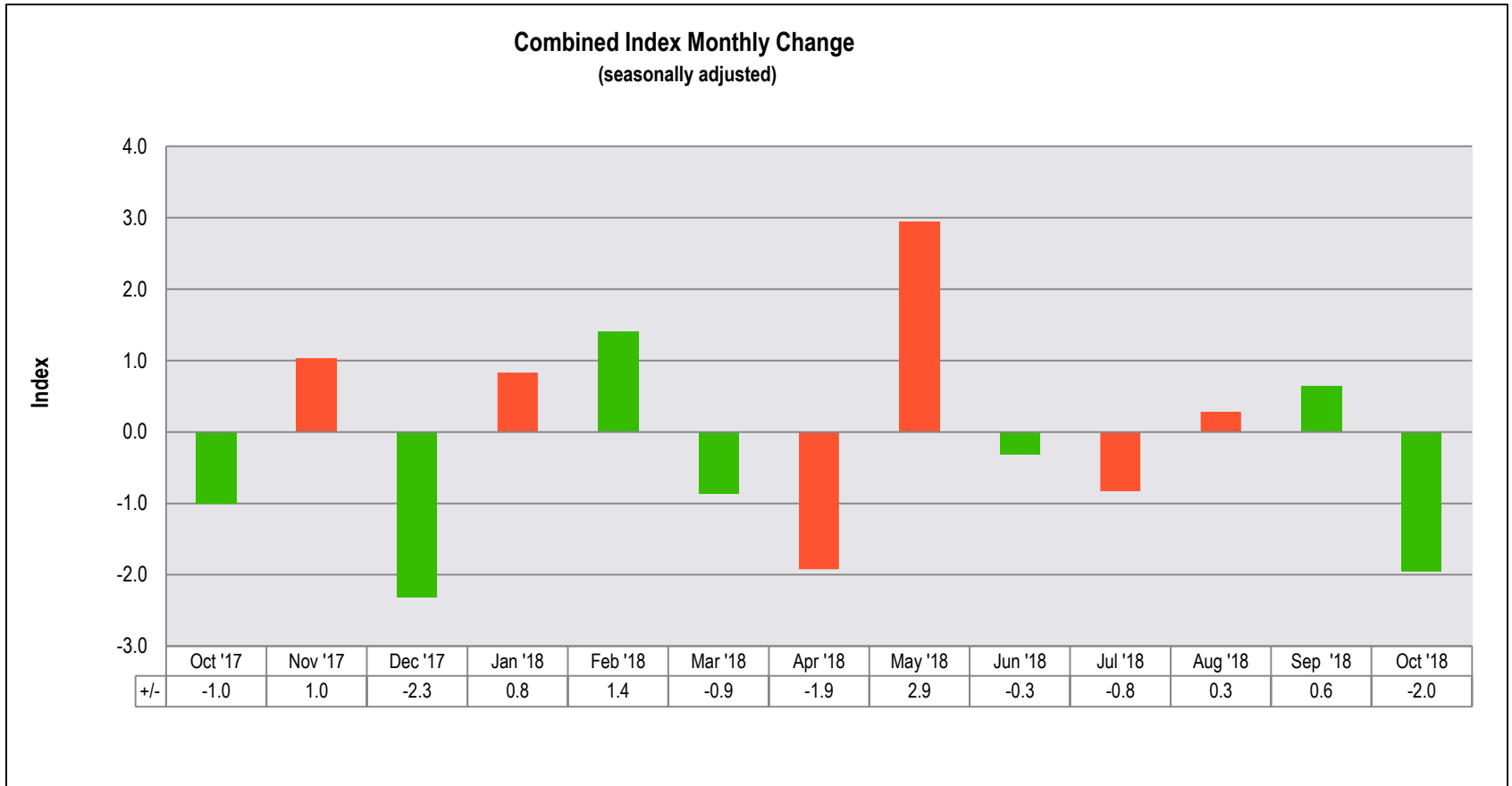
Manufacturing & Nonmanufacturing PMIs

Figure 1.



* An index above 50 indicates an increase in activity. An index below 50 indicates a decrease in activity.
Source: Haver Analytics.

Overall CMI



- **Politics – Election is over but campaigns for 2020 will start almost immediately. Lots of positioning as there will likely be GOP challenges to Trump.**
- **Geopolitics and Geoeconomics – Big elections taking place in Mexico and Italy. Start of crisis in Germany? Chinese consolidation of power and influence.**
- **Innovation – How far does on-line go? Are brick and mortar doomed? What role for robotics? Will autonomous vehicles make a big entry this year? What industry is set for next big shake-up?**
- **Changing of the guard – Boomers giving way to millennials and what the heck happened to the Gen-Xers**

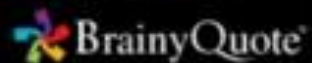
Four Things to Keep You Tossing and Turning – The Predictions

- **Inflation is coming – commodities are rising fast (especially industrial metals and oil). Now wages are rising at 2.9% annual rate. Look for a core rate of around 3.0% and real rate around 5.0%**
- **Labor shortage is getting acute – 10,000 boomers retire every day. Problems in manufacturing, construction, transportation and even health care. Unemployment rates will stay low through 2019 – between 4.0% and 5.0%**
- **Debt and deficit – US now faces a debt that is 110% of GDP and it should not be more than 60%. Deficit is almost 4.5% of GDP and it should never exceed 3.0% This is going to get MUCH worse.**
- **Trade wars – Most will fizzle out – agreements will come with Nafta, Europe and even China.**

A scenic background image showing a sunset over a body of water with mountains in the distance. The sky is filled with orange and pink clouds, and the sun is low on the horizon, creating a bright glow.

If all the economists were laid
end to end, they'd never reach a
conclusion.

George Bernard Shaw



For Those that Can't Get Enough of This



- chris.kuehl@armadaci.com
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