



ARMADA

Finding the Dark Cloud Behind the Silver Lining in the Economy

Kansas Government Finance Officers Association

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Analysis of the Forces Affecting Business

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October 2, 2019

We Told You So



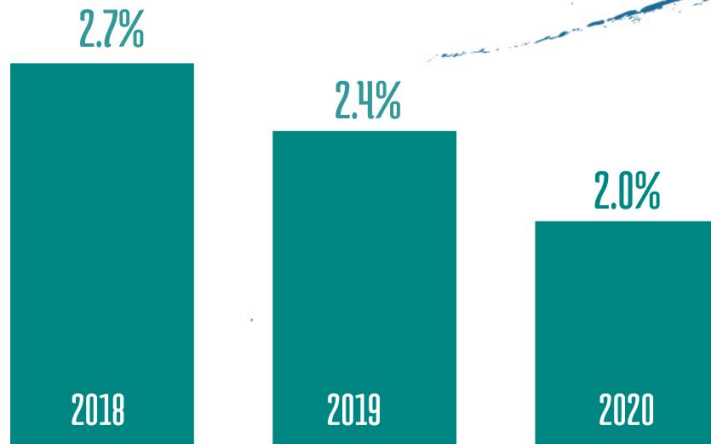
As US Goes – So Goes the World



NORTH AMERICA SLOWS DOWN

#WESP2019
bit.ly/wespreport

Trade tensions are still one of biggest threats to the global economy



* Growth of real GDP as predicted in World Economic Situation and Prospects 2019



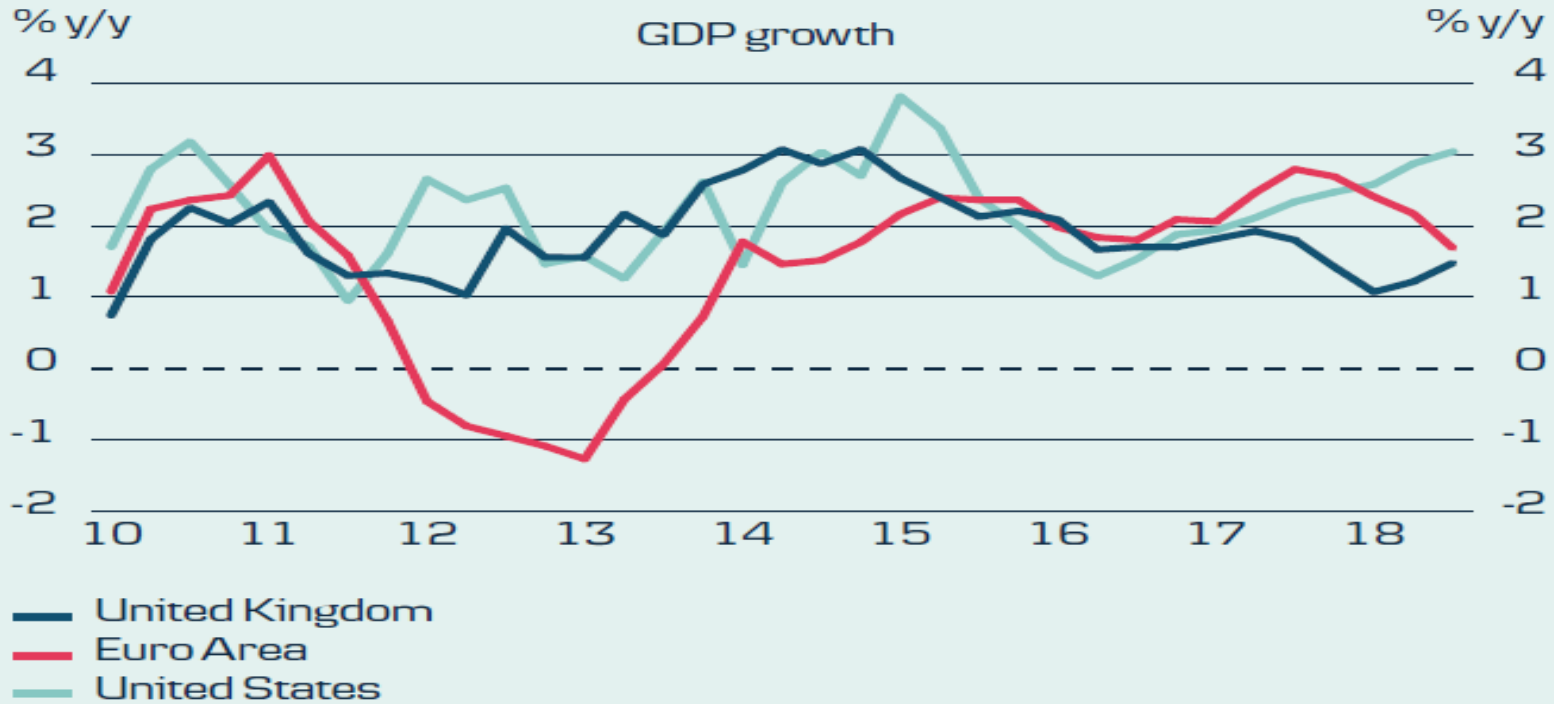
UNITED NATIONS
DEPARTMENT OF ECONOMIC
AND SOCIAL AFFAIRS

World Economic
Situation
and Prospects
2019

Best Performer – At Least For Now

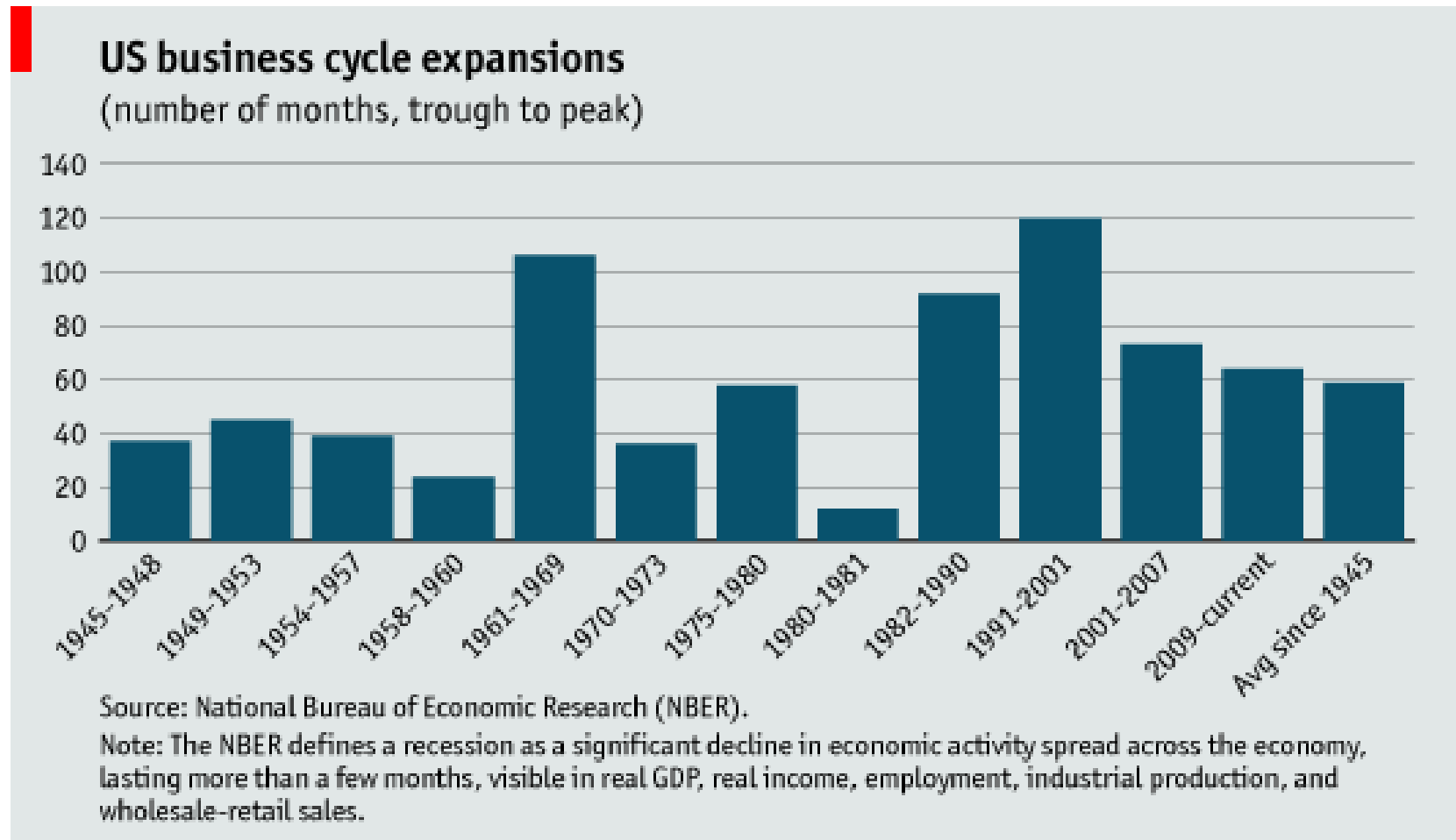


US growth has accelerated while Europe slowed



Source: ONS, BEA, Eurostat, Macrobond Financial

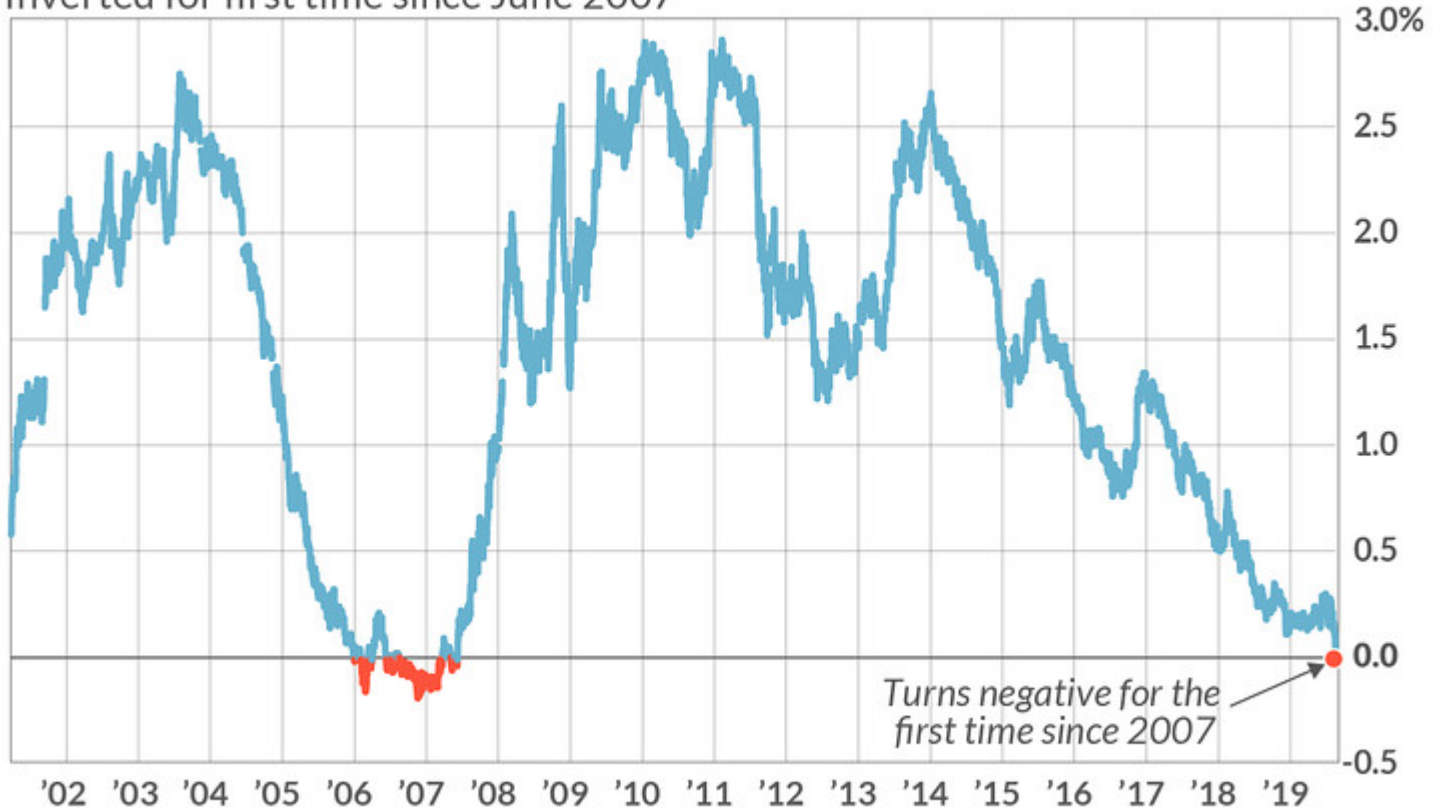
Expansion Ending?



Yield Curve and Recession

Spread between 2-year note and 10-year note

Inverted for first time since June 2007

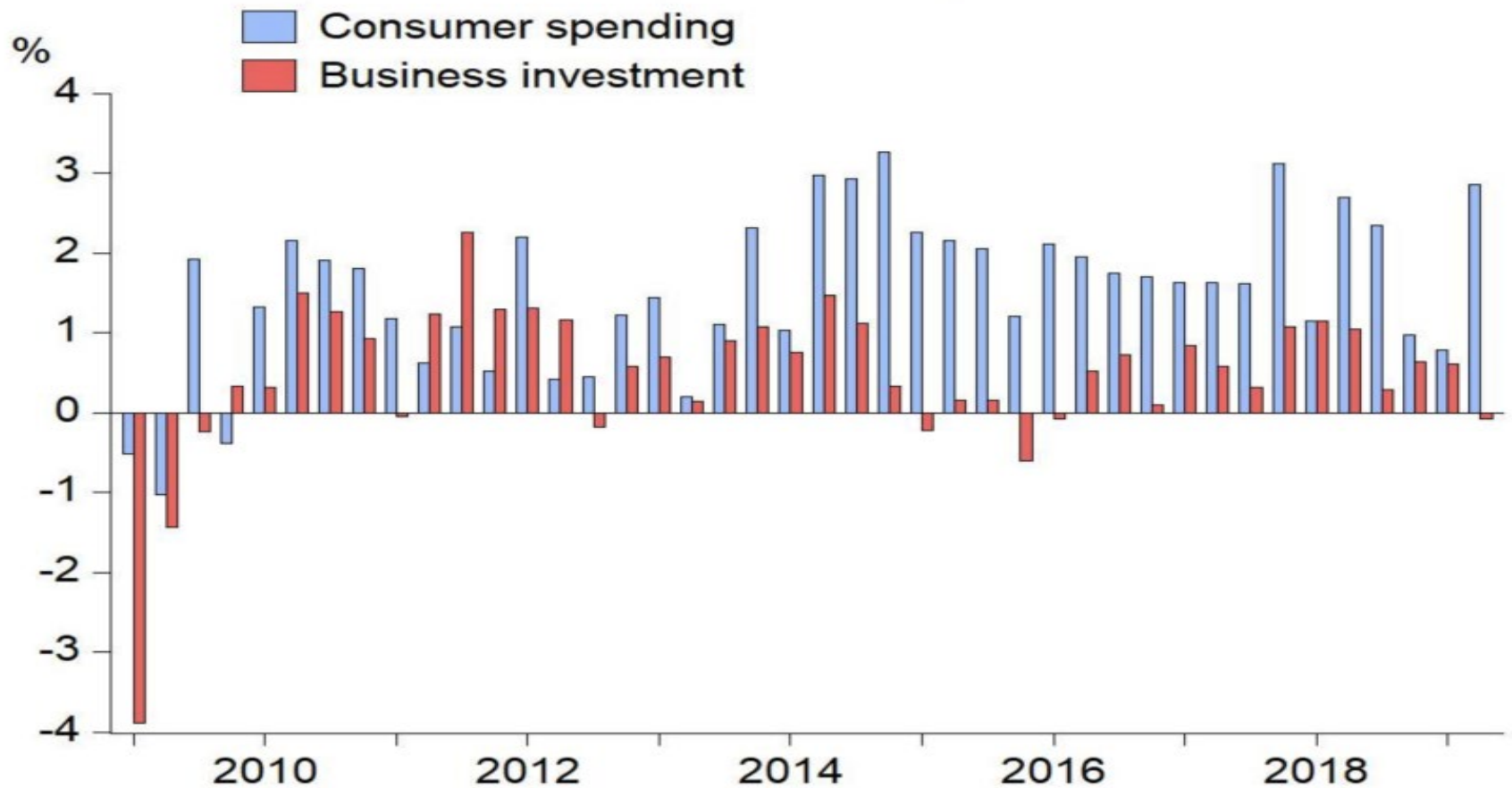


Turns negative for the first time since 2007

Source: Federal Reserve Bank of St. Louis

Who Drives the Economy?

US: Contributions to real GDP growth



Personal consumption expenditures price index

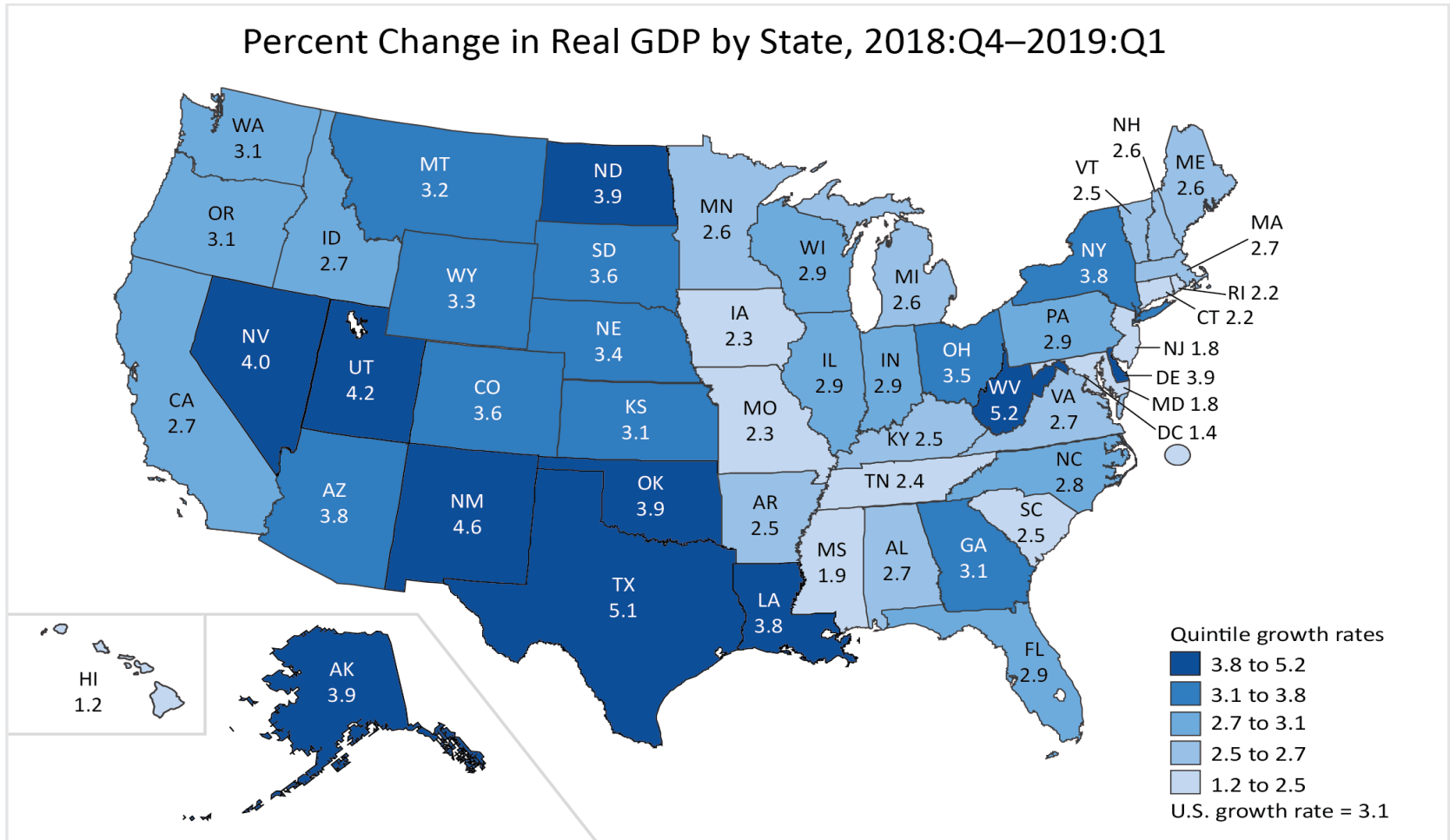
Percentage change from previous year, seasonally adjusted



Source: Commerce Department via FRED

Right in the Middle for Growth

Percent Change in Real GDP by State, 2018:Q4–2019:Q1

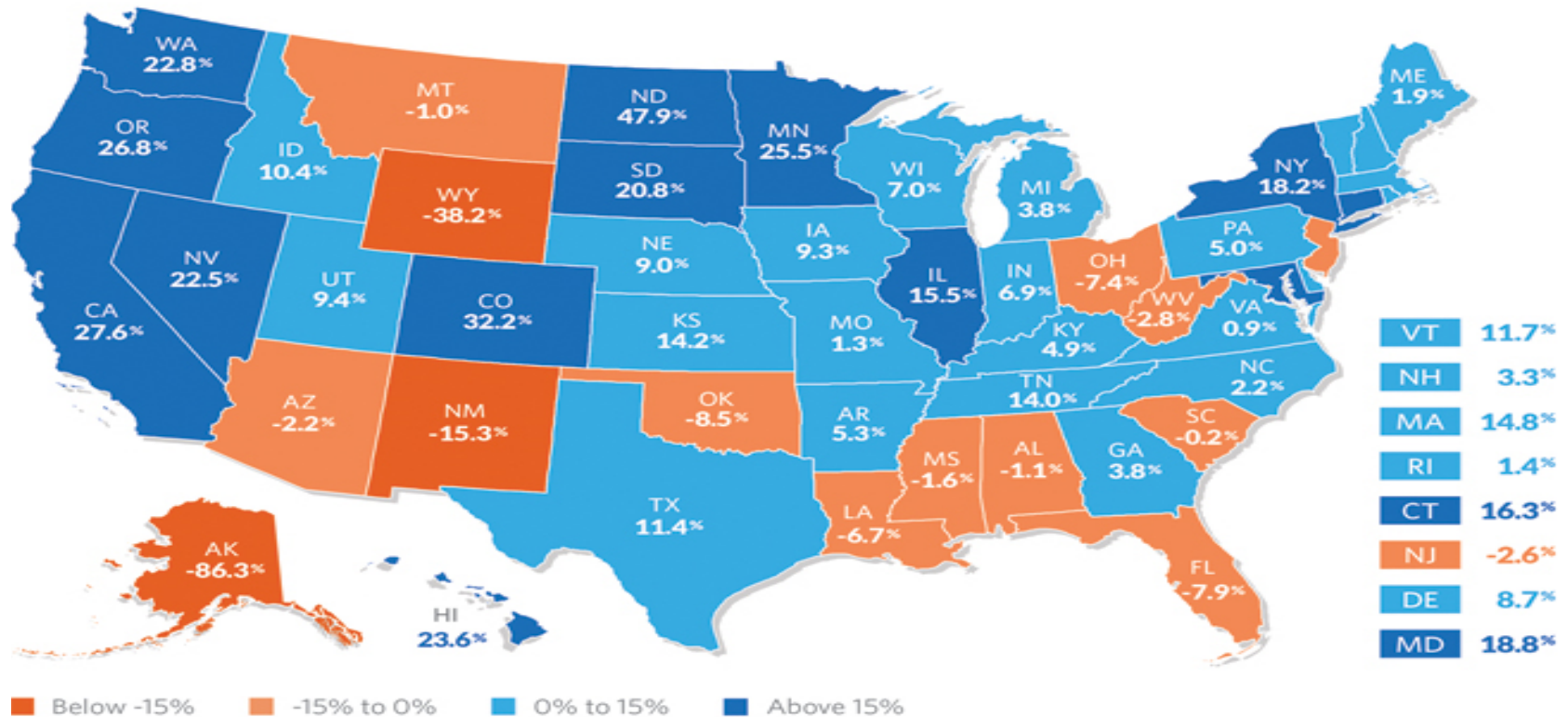


U.S. Bureau of Economic Analysis

Some Recovery

Real Tax Revenue in 36 States Has Recovered From Recession

Tax collections in Q2 2018 compared with each state's peak, adjusted for inflation



Source: Pew analysis of data licensed by the Urban Institute, which adjusts the U.S. Census Bureau's quarterly summary of state and local tax revenue.

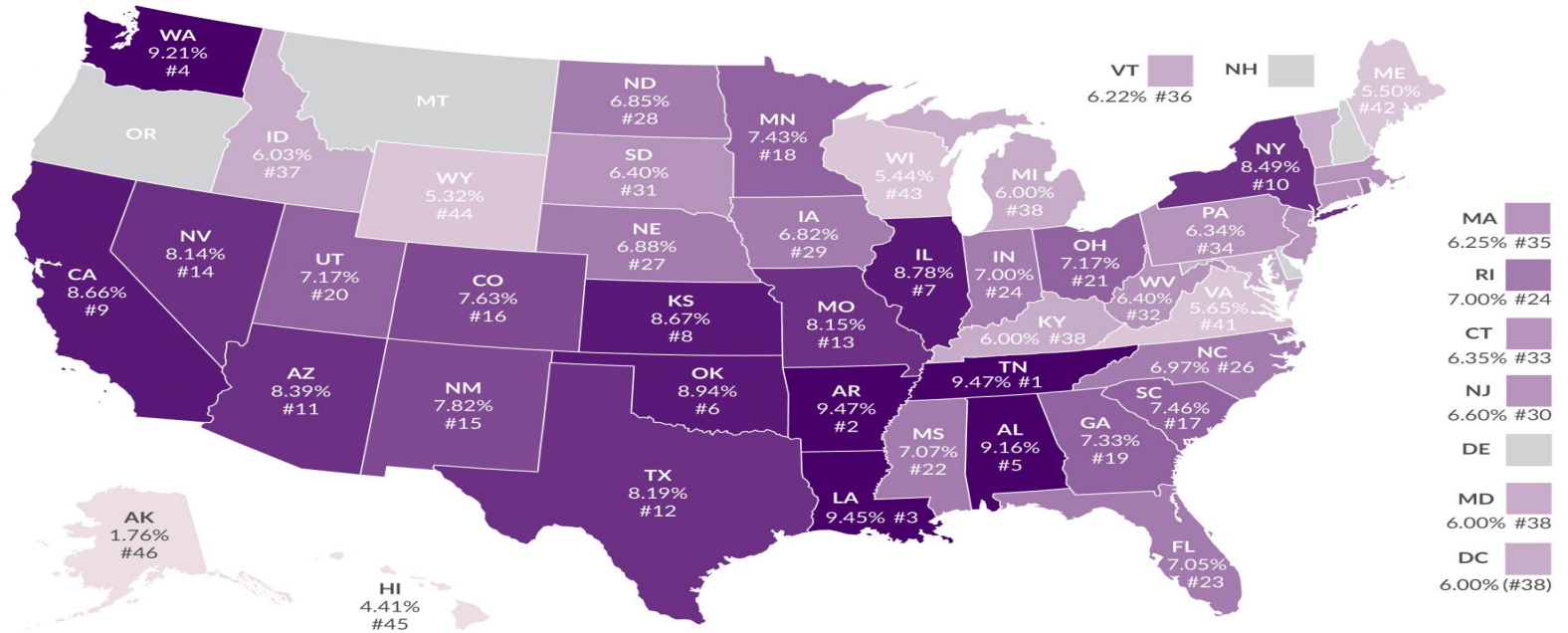
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Kansas is Number 8 in the Nation



How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, July 1 2019



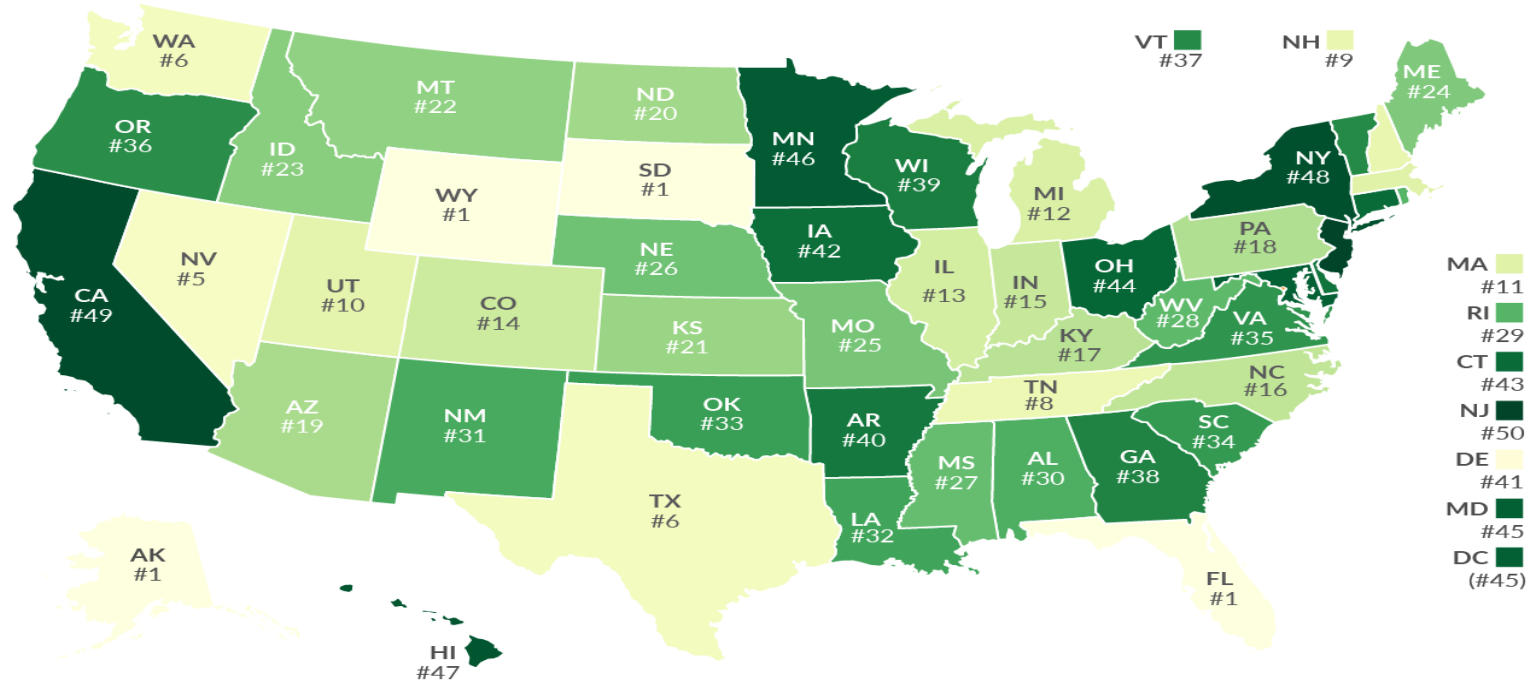
Note: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax. The sales taxes in Hawaii, New Mexico and South Dakota have broad bases that include many business-to-business services. Special taxes in local resort areas are not counted in Montana's rate. Salem County, N.J., is not subject to the statewide sales tax rate and collects a local rate of 3.3125%. New Jersey's local score is represented as a negative. D.C.'s rank does not affect states' ranks, but the figures in parentheses indicate where it would rank if included. Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites



Kansas is Number 21

How Does Your State Rank on Individual Taxes?

Individual Tax Component Rankings, 2019 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. DC's score and rank do not affect other states.
 Source: Tax Foundation, 2019 State Business Tax Climate Index.

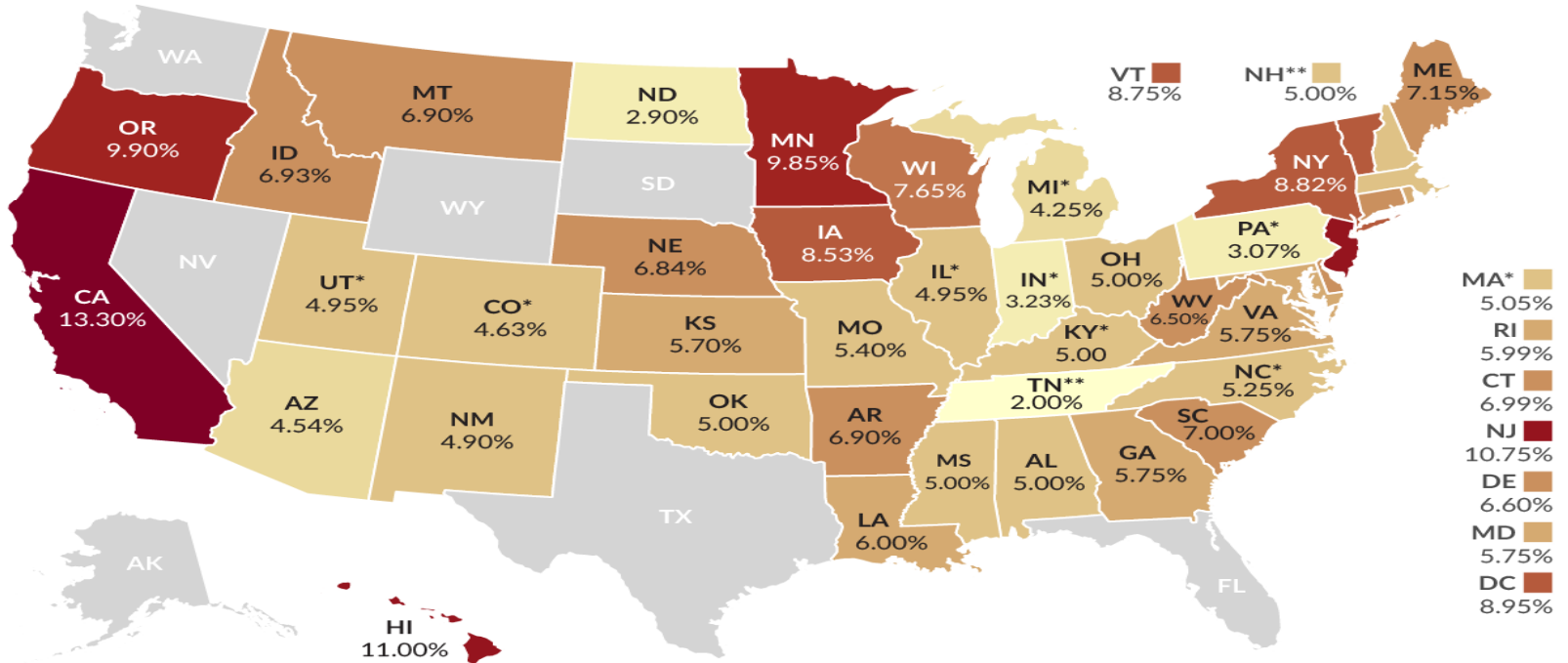


Kansas Income Tax – 5.7%



How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2019



Note: (*) State has a flat income tax. (**) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.



TAX FOUNDATION

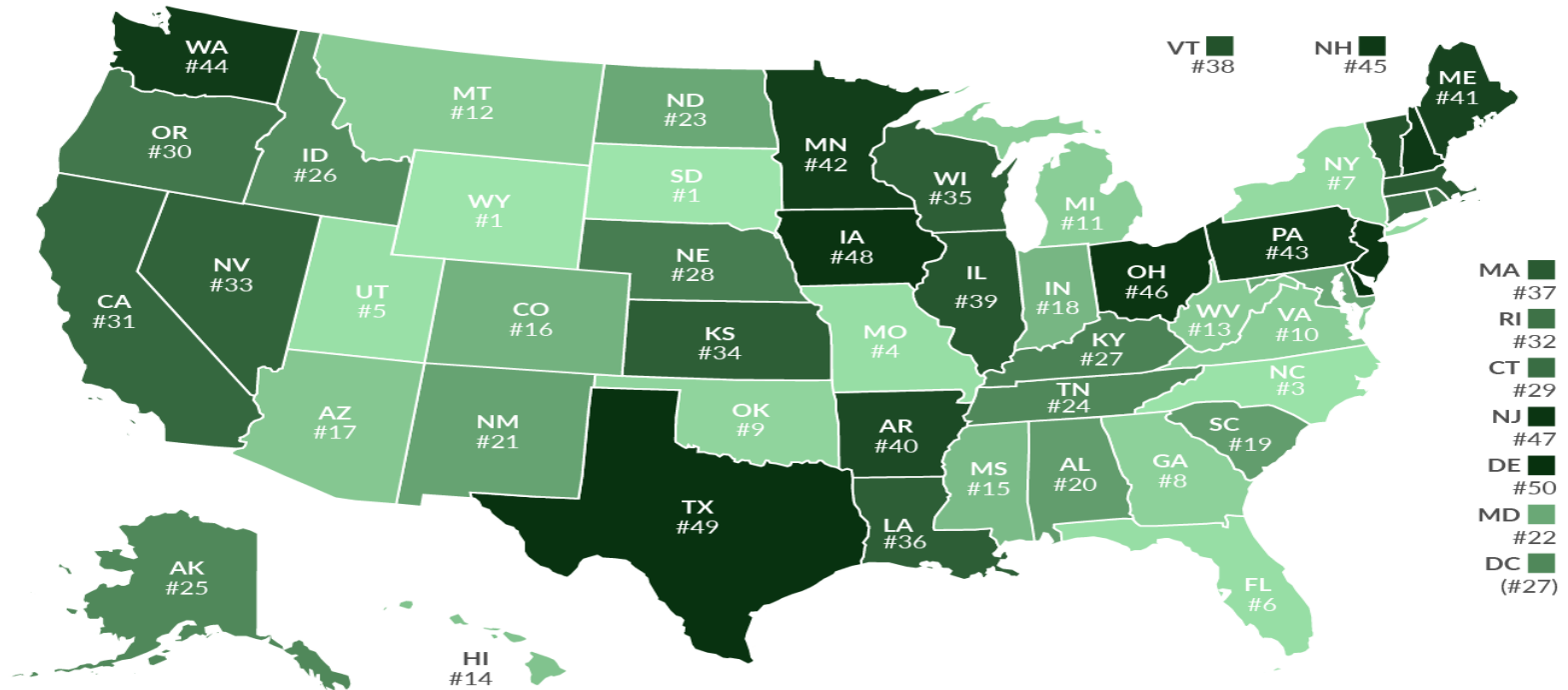
@TaxFoundation

Kansas is Number 34



How Does Your State Rank on Corporate Taxes?

Corporate Tax Component Rankings, 2019 State Business Tax Climate Index



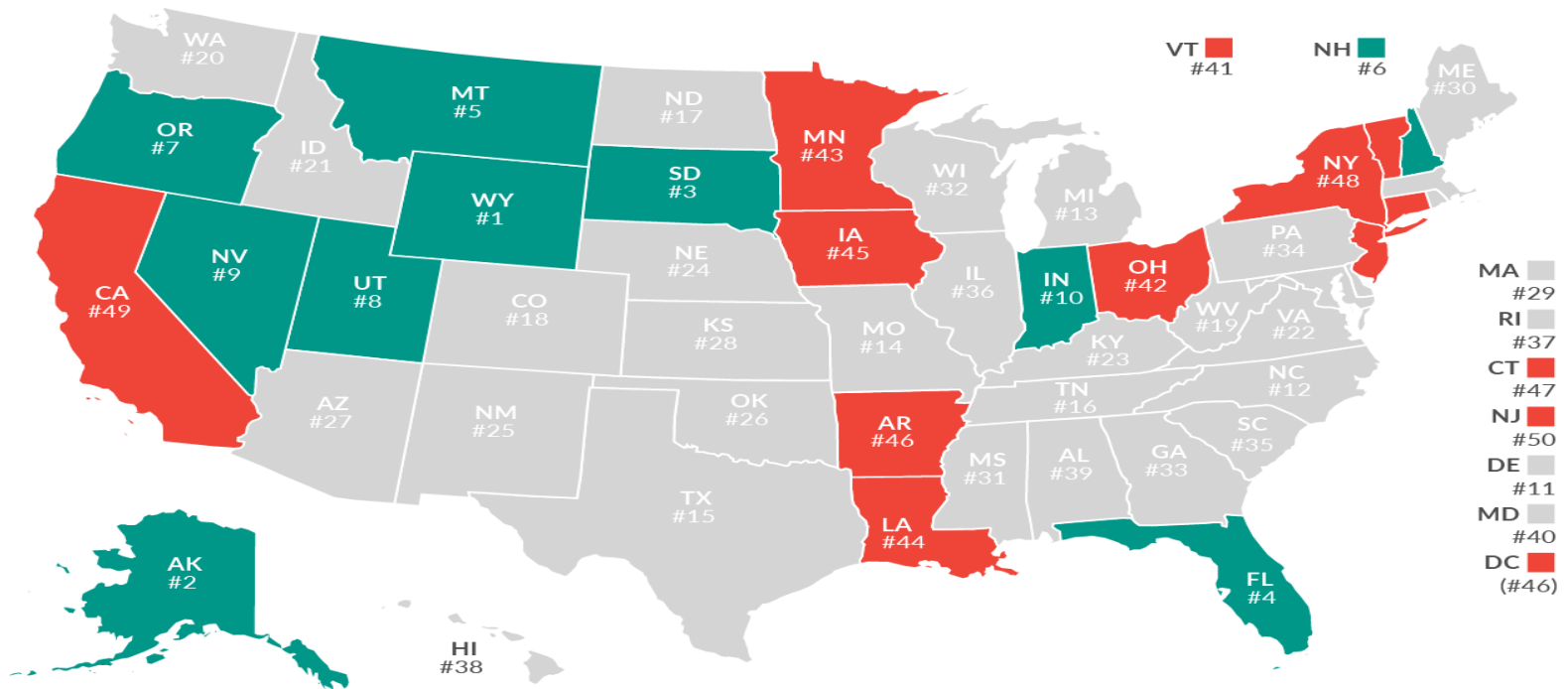
Note: A rank of 1 is best, 50 is worst. DC's score and rank do not affect other states.
 Source: Tax Foundation, 2019 State Business Tax Climate Index.



TAX FOUNDATION @TaxFoundation

Not the Best but Not the Worst - #28

2019 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (the beginning of Fiscal Year 2019).
Source: Tax Foundation.

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates

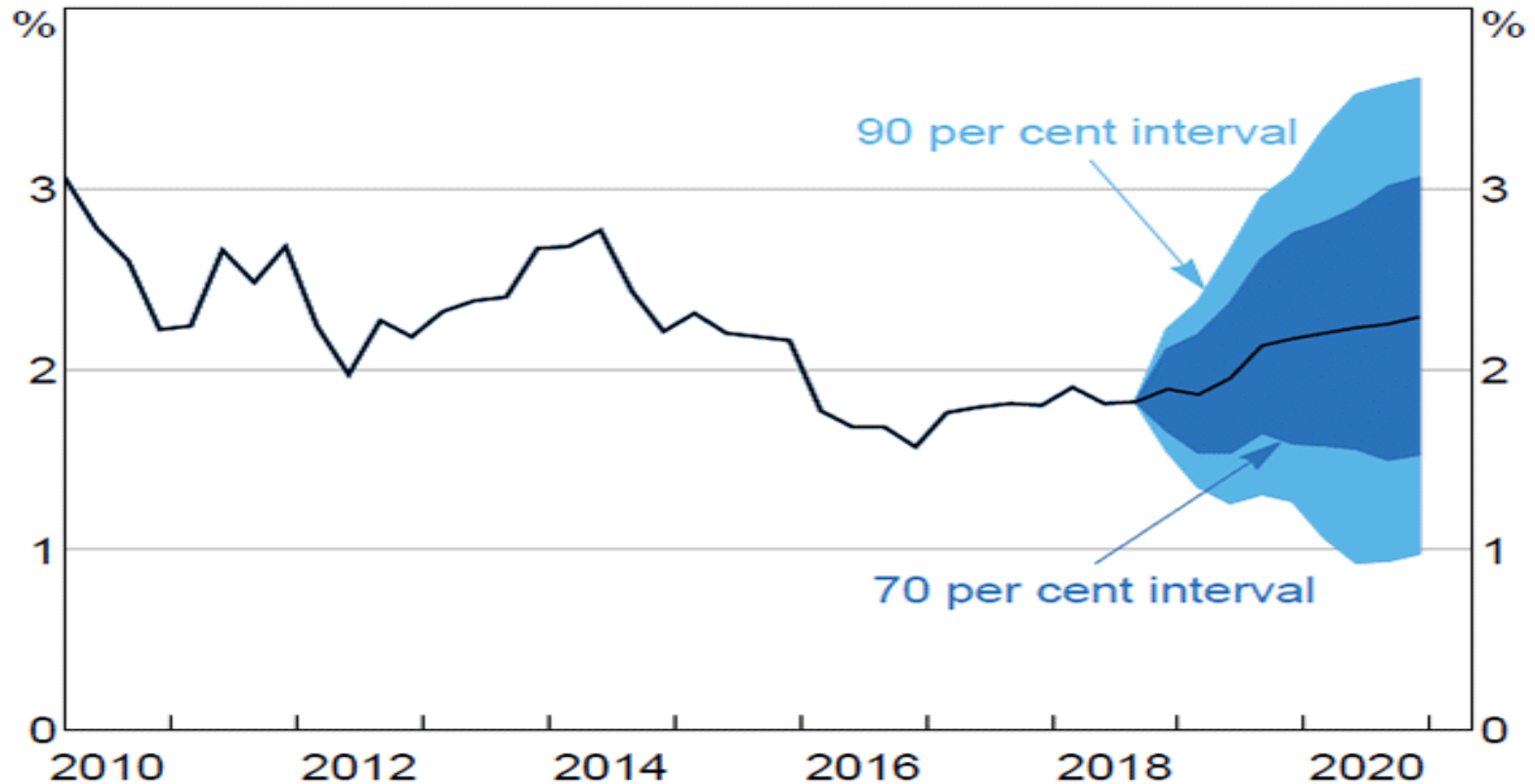
Why Aren't Forecasts Holding

- **What happened to the Phillips Curve?**
 - **Hiring the less than qualified**
 - **Growth of low paid jobs**
- **Why no inflation from tariffs?**
 - **Most have only been threats**
 - **Many companies in China focused on market share**
- **Why is growth still good?**
 - **Confident consumers**
 - **Reduced worry about inflation from commodities**
- **Why No Fallout from US isolationist approach**
 - **Noting the contradictions**
 - **Trying to focus on friends and ignoring provocations**

Five Issues to Worry About

- **Return of Recession or Inflation and Likely Fed Reaction**
 - **Commodities and Labor**
 - **Importance of FOMC personalities**
- **Trade War Impact**
 - **China – tariffs, structural reform and global growth**
 - **Drift away from Europe**
- **Labor Shortage**
 - **Hiring and productivity**
- **Political Stalemate**
 - **Shutdown impact**
 - **Neglecting big issues – coming off “sugar rush”**
- **Consumer Confidence and Retail Shifts**
 - **On-line vs. brick and mortar**

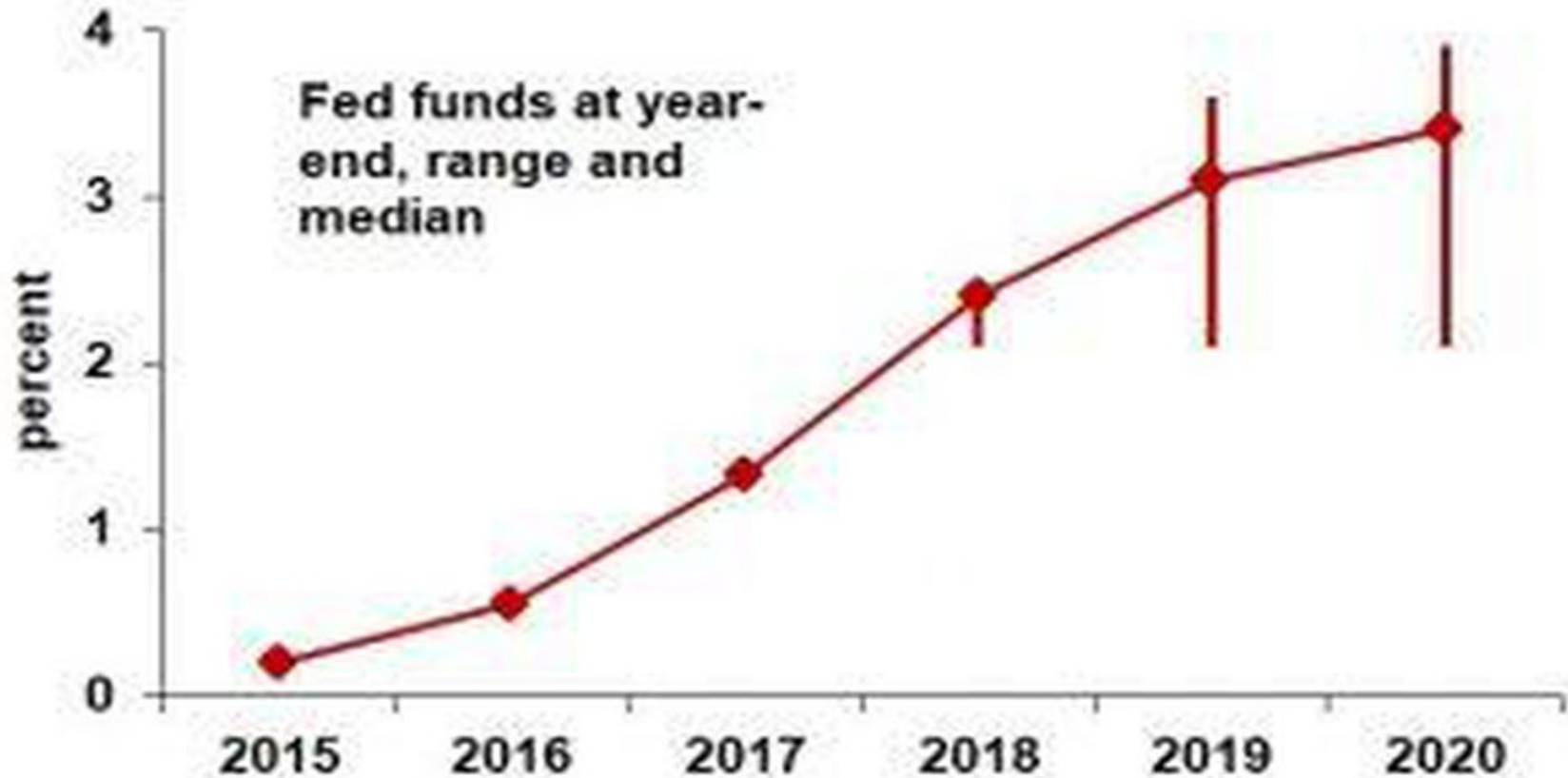
Trimmed Mean Inflation Forecast* Year-ended



* Confidence intervals reflect RBA forecast errors since 1993
Sources: ABS; RBA

Small Hikes Still Expected by Some

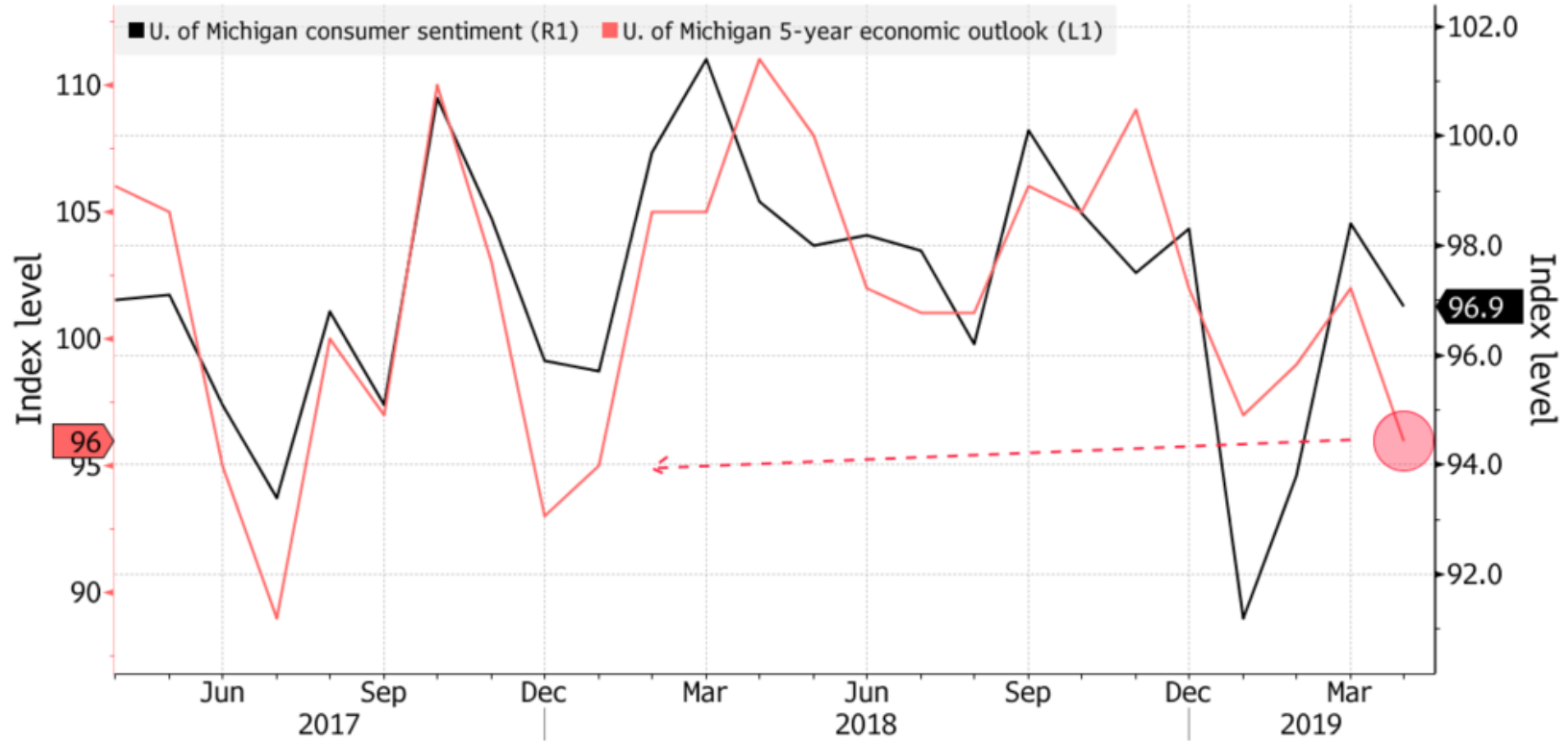
Fed Interest Rate Expectations



Future Looks a Little Dimmer

Fading Outlook

Views of the U.S. economy five years out hit lowest level since January 2018



Source: University of Michigan

Manufacturing Facts

9th
largest economy in the world contributing
\$2.18 trillion
to the U.S. economy in 2016.

 **3,749** firms have more than 500 employees.

 **248,152** firms have less than 500 employees.

Out of those 248,152 firms, **186,114** have less than 20 employees.



80%

of manufacturers reported a moderate or serious shortage for qualified applicants.



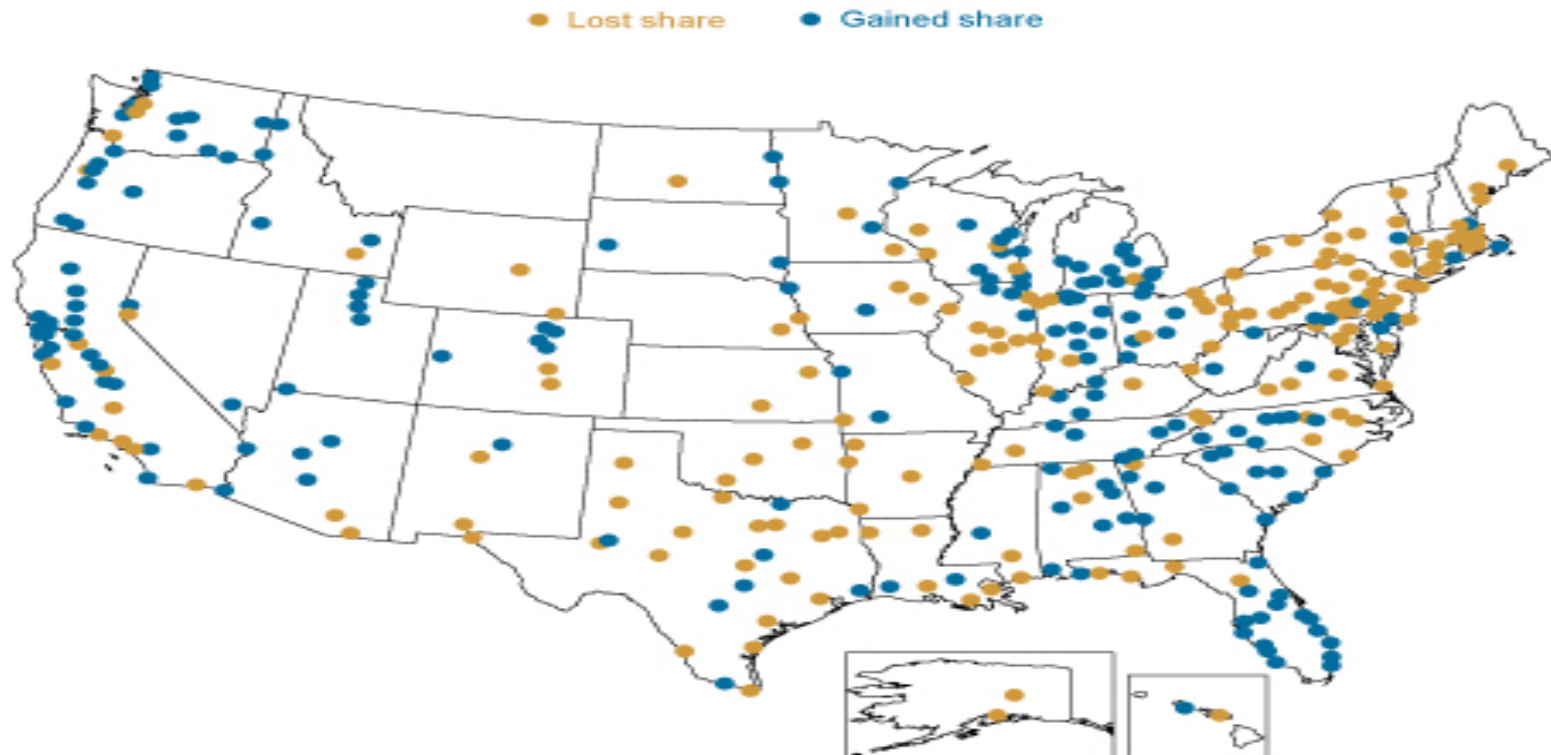
With **3.5 million** manufacturing jobs needed to be filled, **2 million** are expected to stay unfilled due to a skills gap.



Source: National Association of Manufacturers

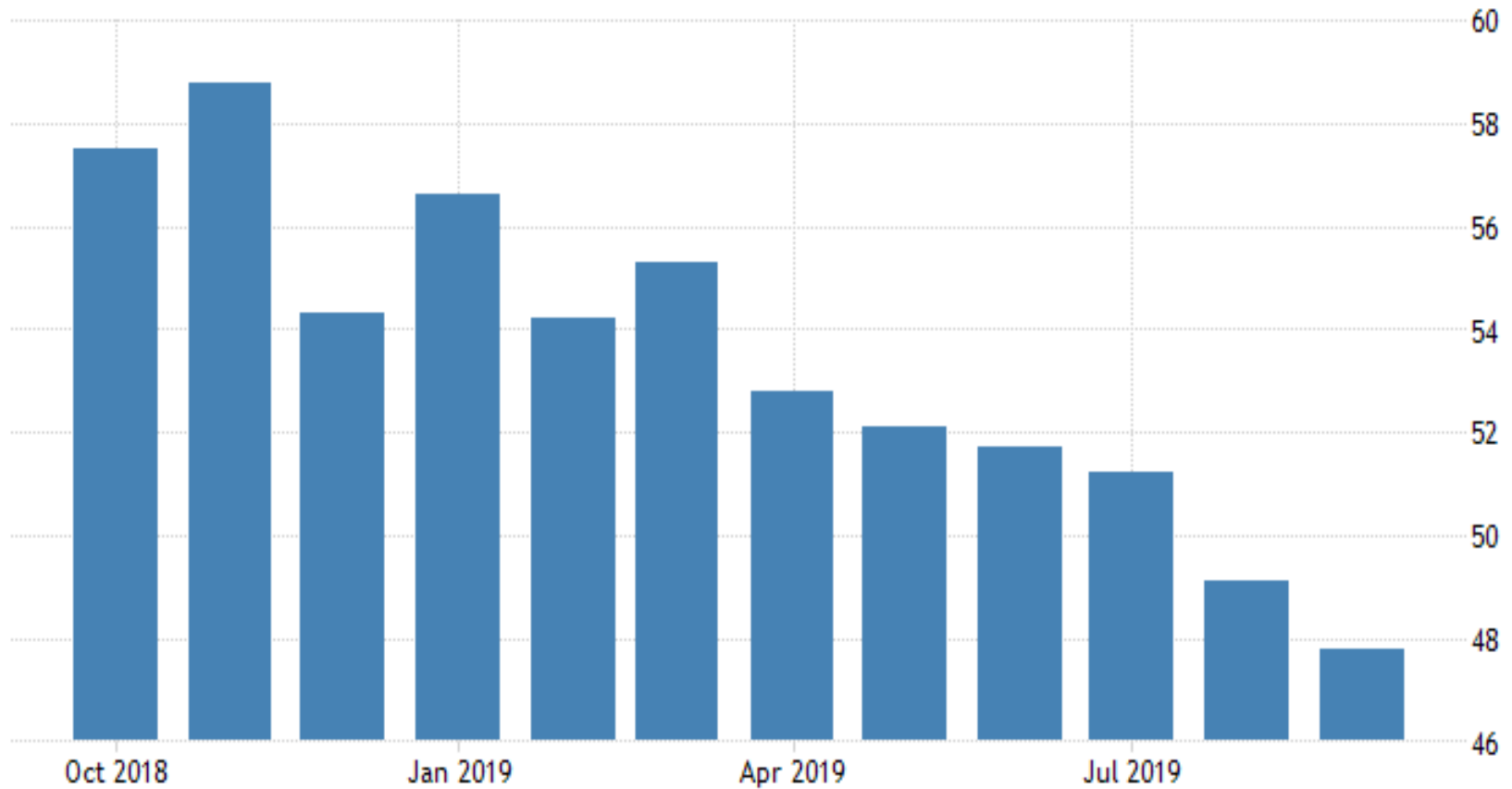
Where is Manufacturing Headed

Change in Share of U.S. Manufacturing Jobs by Metro, 2010 – 2017

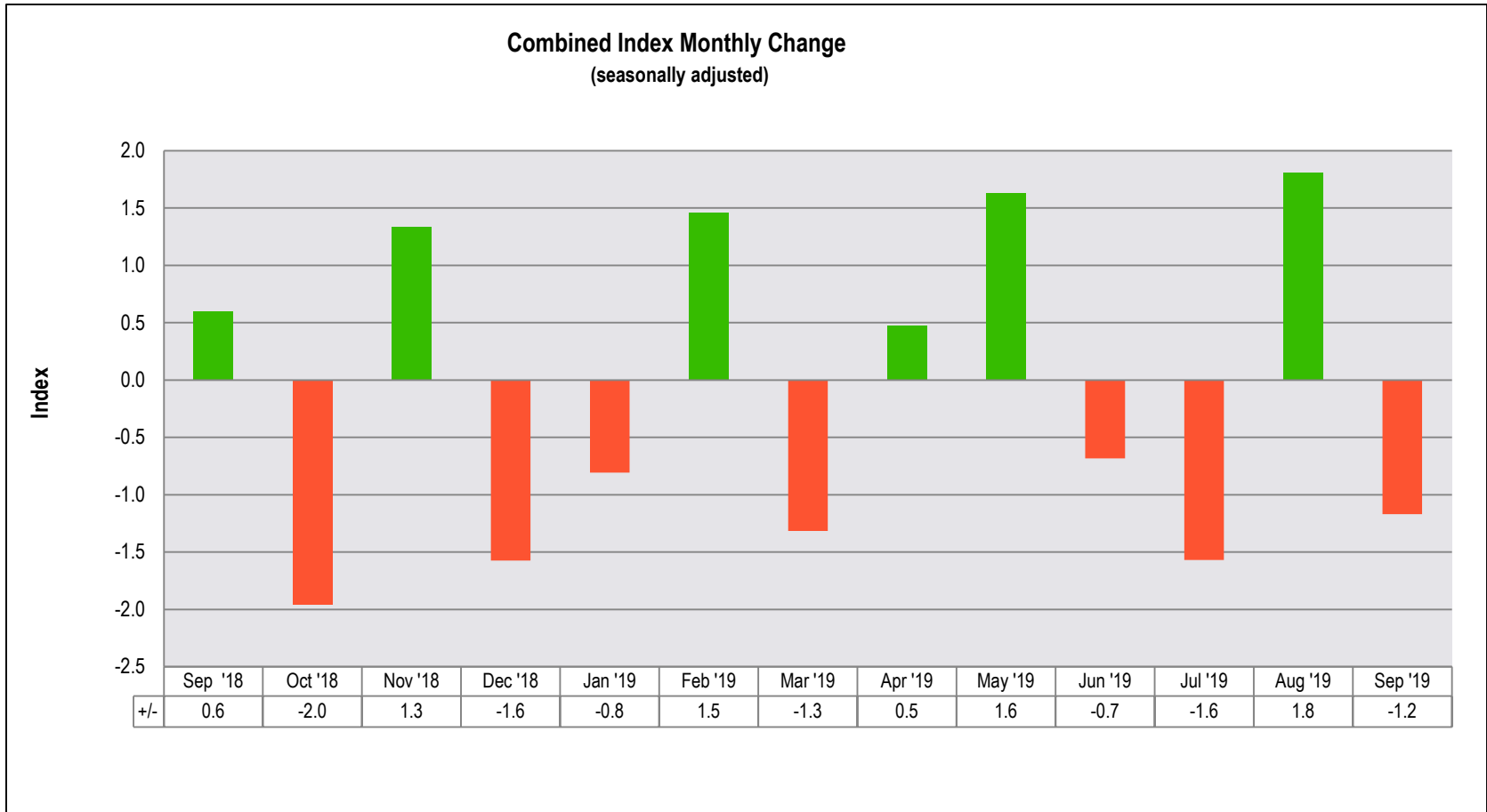


Sources: U.S. Bureau of Labor Statistics; Moody's economy.com.

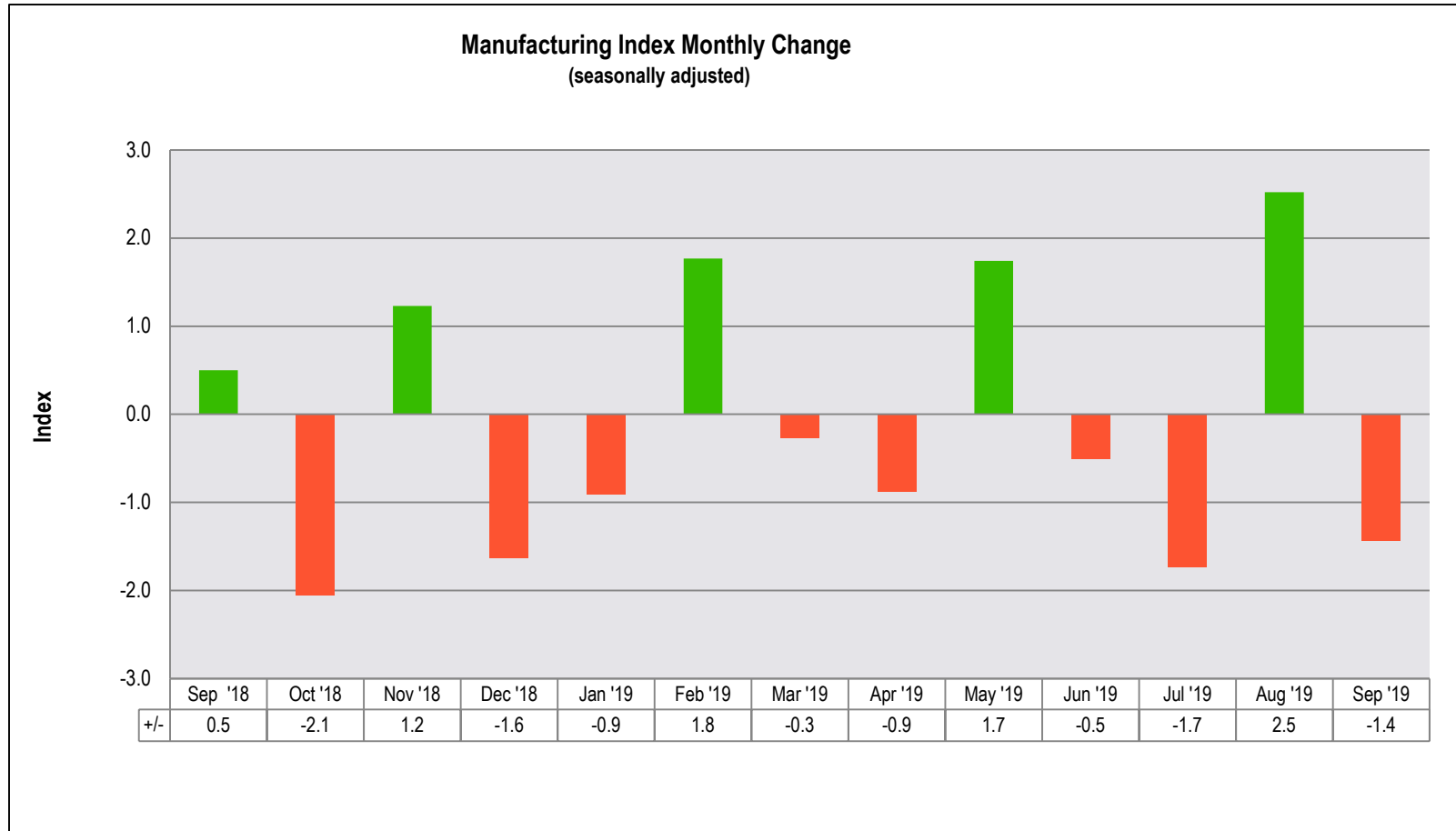
PMI Declines



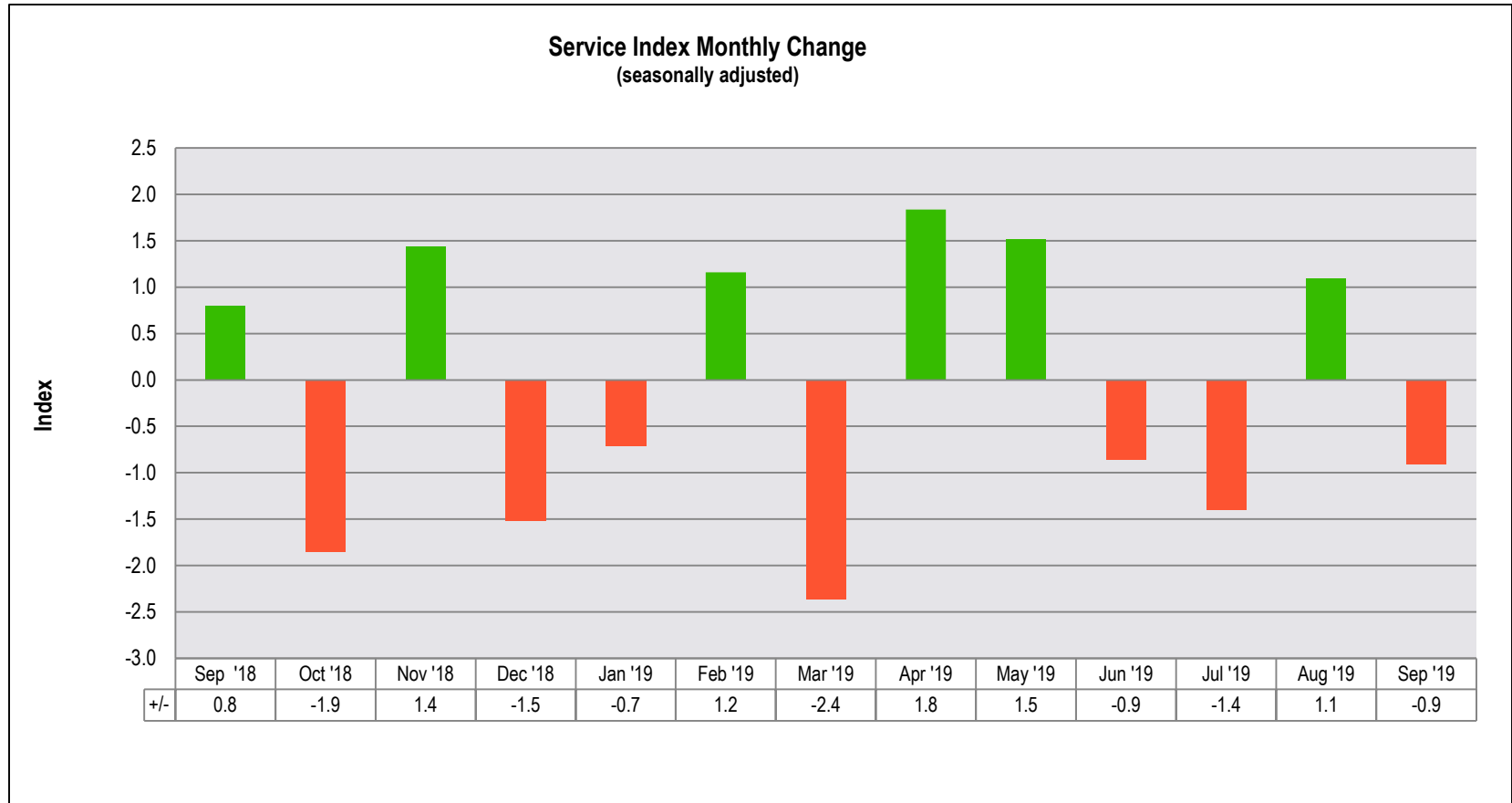
Overall CMI



Manufacturing CMI



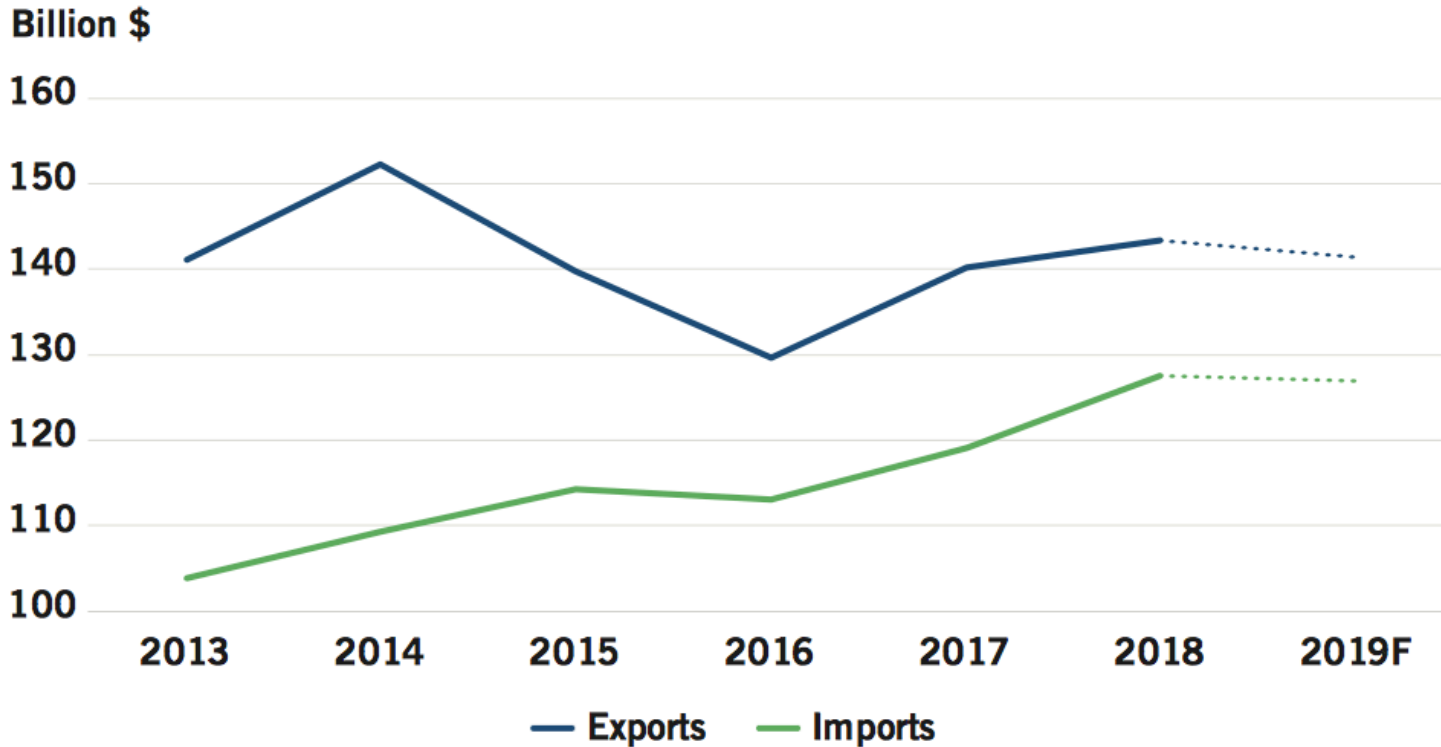
Service CMI



Not Good for a Farm State



EXHIBIT 13: U.S. Agricultural Trade



Source: USDA-ERS, Outlook for U.S. Agricultural Trade

Couldn't Resist

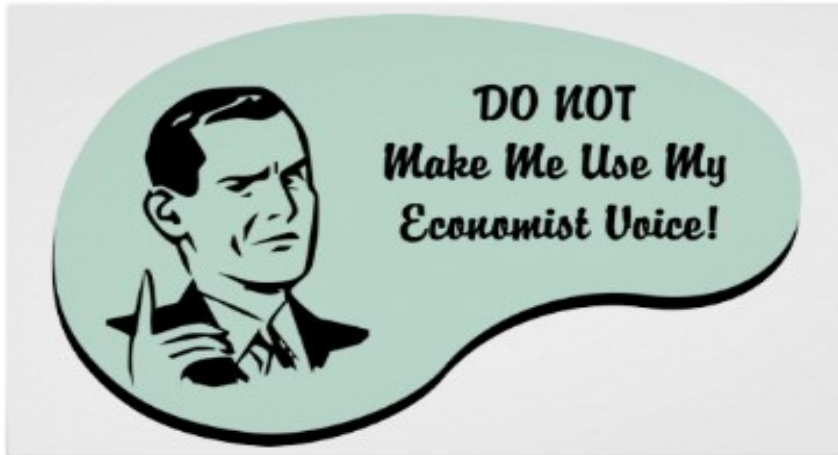


DEBT CEILING

It's up there....somewhere

VERY DEMOTIVATIONAL .com

For Those that Can't Get Enough of This



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