

CREW Austin, CCIM Central Texas Real Estate Summit on February 13, 2017

Event recap by Anna Demmler.

Speaker: Admiral Bobby Ray Inman, a retired U.S. admiral who held several influential positions on the U.S. Intelligence Community, "Economic Ripples from the 2016 Election"

What are the economic ripples for the U.S. from the new administration?

- The U.S. is moving away from a post World War II era of a multilateral approach to economic affairs. The European Union, once known as The Common Market and before then the European Coal and Steel Community concept, unified countries through trade, causing a strong economic growth over the years. President Trump appears determined to move exclusively to bilateral negotiations. The U.S. has pulled out of the Trans Pacific Partnership and there is uncertainty about NATO. Additionally, the impact of Britain's exit from the EU is unknown.
- Angela Merkel, who Inman says has been the strongest leader in Europe for the last decade, is up for re-election in October. The uncertainty of Merkel's re-election is the most troubling part, because there has been substantial difficulty within Merkel's own party ever since Merkel allowed Syrian refugees into Germany. If Merkel is defeated, her loss would create significant uncertainty for economics around the globe.
- If the U.S. moves toward a bilateral negotiation with Japan to replace the multilateral one that has been negotiated, there will be some economic impact on the U.S. from China and other countries, but the impact will not be as severe as what will happen with NAFTA.
- Mexico is increasingly an attractive place for manufacturing. Things that were once being manufactured in Asia are now being manufactured in Mexico. Additionally, illegal immigration of Mexicans to the U.S. is virtually at zero. Inman suggests that if a wall is to be built, Mexico should build it along their southern border instead of the U.S.-Mexican border, because the majority of illegal immigrants are coming from Central America, South America, and other parts of the world.
- Texas is the second largest exporting state in the country. A very significant part of our economy relies on our exports, and Mexico is one of Texas' largest partners.
- The strength of the U.S. dollar is partially due to foreign countries viewing the U.S. as the safest place to put their money. For instance, Jack Ma, a foreign investor, head of Alibaba, Masayoshi Son, and owner of Sprint, is pledging to create a large number of new jobs in the U.S.
- The underlying weakness with our trade deals has been our displaced workers. We are buying foreign products because they are better quality and cheaper. We didn't pay attention to

training and retraining our U.S. workforce to adapt to a different work environment. We brought in highly skilled foreign workers through E-1B visas – this has paralleled to an overall decline in the quality of U.S. public education and a lack of jobs for locals. There was push back from corporations when asked to hire more U.S. students, because corporations want the brightest graduate students and they weren't coming from the U.S. A lot of these E-1B students were from Asia and wanted to stay here but due to U.S. immigration laws, they had to go back to their country of origin.

- When the U.S. went from a draft system to an all-volunteer military force, we guaranteed a 20 – 30 year pension if you performed well and moved up the ranks. This worked well except for the Air Force and the Navy who, up to that point, had received many bright applicants. To meet their numbers, both the Air Force and the Navy took people who were barely literate, and through short term, computer-aided instructions turned them into first rate aircraft engine mechanics, etc.
- The U.S. has no retraining system in place in the private sector. A rare example is when the Goodyear manufacturing facility near Tyler, TX almost closed 25 years ago. They were persuaded to turn their outdated factory into one of the world's best automated radial tire manufacturing facilities. The city of Tyler and Tyler Junior College committed, at no cost to Goodyear, to retrain the workforce to work in a fully automated facility, and it's still going strong today.

Long Range Economic Impact:

- If the U.S. puts a surcharge on goods from Mexico, consumers will pay significantly more for produce coming from Mexico.
- If interest rates go back to the normal 3 – 3 1/2 %, the cost of serving this massive debt we have built up over the last two decades will be almost equivalent to what U.S. spends on defense annually.
- If more countries, ie, China, who is active in U.S. real estate investments, tighten controls over the flow of money out of their country, it will have a significant impact on U.S. investment.

Inman's Projections

- Inman expects a major overhaul in the tax code, and suggests simplifying the it by closing corporate and individual loopholes, instead of cuttings revenues produced.
- An increased desire in major infrastructure investments is dependent on roads and bridges needing significant improvement.
- Inman sees no global conflict on near-term horizon.