

STORM WARNINGS

Vol. 5 Issue 4 – February 2017
The 2016 Perfect Storm Report Card

The 2016 Perfect Storm Report Card



R. Michael Conley
Founder

"We are heading into a perfect storm and don't see it coming," according to R. Michael Conley, Founder of Weathering the Storm, LLC and this website.

The WTS mission is to "Awaken, engage and help others to weather the storm."

The WTS website provides the following on a regular basis:

Storm Warnings: An in-depth quarterly newsletter.

News Flash: Frequent postings on topical perfect storm issues.

Best Practices: Featuring leaders in sustainability practices.

It was a tumultuous year as we moved ever closer to the perfect storm. Sadly, the 2016 presidential election overshadowed many of the perfect storm milestones that should have been highlighted. Our publisher, R. Michael Conley, will report on the perfect storm's progress and offer insights on the Trump Administration's probable impact on its progression.

WTS: We have a number of new subscribers, and it might be helpful if you would first say a little about the perfect storm and measurements you use to assess its trajectory.

Conley: The "*perfect storm*" is a commonly used phrase to describe a collision of powerful forces producing an outcome that could easily exceed the sum of all its parts. We are rapidly approaching such a perfect storm but don't see it coming.

My *perfect storm model* is based on the interplay of four major forces that are feeding off each other and being turbo-charged by aggressive feedback loops that are exponentially growing. The forces include: 1) Energy challenges, 2) Environmental tsunamis, 3) Economic and geopolitical threats and 4) Expectation and behavioral disconnects.

WTS: With that explanation, how would you characterize the growth and development of these perfect storm forces in 2016?

Conley: With a few notable exceptions, we have moved closer to the perfect storm in 2016. The presidential election was ugly: We blew a great opportunity for a national dialogue on energy, climate change, economic and geopolitical issues and other ticking time bombs. Our fixation on personalities and tabloid issues deflected our attention away from these challenging concerns.

WTS: Let's start with "Energy." What happened in this arena in 2016?

Conley: The energy news was mildly positive. Oil inventories remained high, prices stable, and even the oil industry began a gradual comeback following the draconian measures they had taken in previous years to survive and/or protect their share prices. Exploration budgets were chopped to the bone to preserve capital – an action that will dampen future oil production.

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About the Founder:

Mike Conley is the Founder of Weathering the Storm, LLC and Chairman & CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author, lecturer, and public policy activist, Conley has written and spoken on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the U.S. Navy, and later completed a post-grad program at Stanford University. He is active on several boards and advisory groups.

OPEC’s recent commitment to cut production and stabilize prices will, ironically, spur shale oil producers to ramp up production. But the “*Catch-22*” here is that it could also trigger a new supply & demand imbalance that sends prices plummeting. Over time, however, existing oil inventories will shrink, demand for oil will continue to rise, and the impact of current oil exploration cutbacks will diminish future production levels. Oil prices will then rapidly climb and disrupt the economy but should remain somewhat stable in 2017.

A bright spot is the steady migration toward renewable energy and the competitive price points they are starting to achieve. Renewable energy is becoming a major fuel source for new energy production, and the trend will accelerate as climate change concerns, rising fuel costs, and access to raw fuels tighten.

Another plus: Demand reduction, energy efficiency and improved energy storage efforts continued to boost clean energy initiatives in 2016. The “*energy intensity*” level – the amount of energy it takes to produce a unit of GDP – improved, and natural gas surpassed coal in 2016 as the leading fuel stock for electrical energy production in the United States.

Though there were many energy positives in 2016, fossil fuels will still remain a dominant energy source for years to come. Global oil will fester as an *Achilles Heel* until we complete the transition of our transportation systems (now over 90% dependent on oil) to new non-fossil fuel energy systems. We made a little headway toward that goal in 2016.

WTS: That leads to the next topic: *Environmental & Ecological* forces. What happened in 2016?

Conley: There’s good news and bad news, and I’ll start with the latter. The ravages of climate change continue to intensify. Our carbon footprint, as measured by the CO² PPM (parts-per-million) count has climbed to over 400 PPM. By comparison, in the 650,000 years preceding the Industrial Revolution, that number seldom, if ever, exceeded 300 PPM. The endless string of record high temperatures in this century reflect our rising carbon footprint.

Data in 2016 confirmed the build-up of heat, humidity and precipitation levels. Dramatic sea ice and glacial melts combined with increased ocean temperatures to produce rising sea levels that have now grown over the past 20-years at a rate five times higher than that of the previous 80-years. Extreme weather patterns, record storms, widespread droughts, flooding, and wildfires now seem to be our new norm.

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A “black swan” event like the rapid collapse of the Antarctic Larsen C ice shelf, aggressive methane leaks, or accelerated losses of glacial ice in Greenland could rapidly change the picture. The aggravated loss of our carbon sinks through deforestation, extinction of coral reefs, and other land-based species continue to be real-time threats. Perhaps the scariest is the loss of fresh water and rapid depletion of our aquifer systems. (See: [Worldwide Water Woes](#))

On a brighter note, the world has awakened to the climate change threat and is prepared to do something about it. The aftermath of the 2015 Paris Accords has been favorable. Major polluters, like China, are getting behind the effort. This awakening – before it reaches a game-over tipping point – is certainly something we can build on.

WTS: What is your take on the “Economic and Geopolitical” trajectories taken in 2016?

Conley: This area concerns me the most. Despite massive efforts by governments and central banks to stimulate their respective economies, it was a year of global economic stagnation. With fiscal and monetary policies running on steroids, falling oil prices that should have stimulated economies, and central bank schemes to create “easy” money to spur on growth, results were still negligible.

Think about it: The quest for liquidity through quantitative easing, massive bond buying, money printing, currency devaluations and zero-to-negative interest rates did little but use up the “ammo” central banks will need later to fight off the next economic meltdown. As one measure, the balance sheets of central banks worldwide have increased over 3-fold since 2007 and now stand well above \$22 trillion dollars. Future interest rate hikes could send debt servicing charges soaring and even burst a few “bubbles.” (See: [Bubbles and Backlashes](#))

The trend away from globalization toward protectionist and nationalistic policies gained traction in 2016. The European Union’s struggle to bail out Greece; Great Britain’s “*Brexit*” from the EU, the collapse of the *Trans-Pacific Partnership Agreement* and the deteriorating performance of multinational companies highlighted these trends. The likelihood of rising tariffs or even a trade war is now entirely possible.

In the United States, the stock market finished the year at near-record highs, unemployment rates dipped below 5%, and the market, by any standard, was overvalued. The market’s bet on lower taxes, deregulation, and a global rebound to boost our GDP sounds “iffy” and speculative to me. We’re riding on a lot of bubbles, and I’m concerned that the global economy is far less able to address an economic meltdown such as the one in 2008 that almost did us in.

WTS: What is your take on the geopolitical situation?

Conley: Our progression into a new cold war continues. Unlike the first ideologically-focused cold war, this one is being fought over the control of markets and resources. China’s emergence as a more aggressive superpower, and Russia’s attempt to re-establish a semblance of its former superpower status, is changing the power dynamic. The Sunni/Shiite “civil war” engulfing the entire Middle East;

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ISIS, Syria, the Israeli flashpoints, and Iran's post-nuclear treaty posture will continue to destabilize the region. North Korea's growing ballistic missile capability is quickly becoming an existential threat.

The emergence of asymmetric warfare has become, perhaps, the most pervasive threat. Cyber warfare and the threat it poses to our energy grids, national security systems, and even a presidential election reflect its toxicity. (See: *The Cyber Blitzkrieg*). Nuclear proliferation in the form of "dirty bombs" is a threat, and a miscalculation on the part of North Korea or others exacerbates the risk. A more sophisticated brand of terrorism demonstrates how so much harm can be inflicted on so many by so few; clearly, a sobering new reality of our time.

WTS: This brings us to the last major force; the forces of expectations and behaviors. How does it fit in with respect to the events of 2016 and the perfect storm?

Conley: In many respects, the 2016 election was indicative of the distrust many have for our institutions and leaders and a belief that the system is not working for them.

In a rapidly changing global economy, the gap between the skillsets needed to compete in the new world of artificial intelligence and robotics and the skillsets of the average American worker are widening. Traditional *rust-belt* manufacturing and coal mining industries will be hard to resurrect. The whole nature of our economy is changing, and we're leaving many behind.

In a nation that spends almost 18% of its GDP on healthcare and a national budget now heavily weighted toward funding entitlement programs, the economic prognosis is not good. With a national debt that now exceeds our GDP, the debt servicing charges alone will suck up a growing proportion of the nation's aggregated discretionary income – an economic drag on an economy that is 70% consumer driven.

Another example: The student loan crisis is hammering the Millennials and others with a debt that will be hard to repay. Growing in 2016 and now hovering around \$ 1.4 trillion dollars, it is the second highest debt category in the nation – behind home mortgages. The default rates are climbing, and it will put a major hurt on the future housing market and dampen consumer spending for decades to come. Is it any wonder our expectations are rapidly changing?

WTS: How would you summarize 2016 and how it moved us toward the perfect storm?

Conley: Our trajectory toward the perfect storm has been lumpy. Clearly, there were some pluses in the energy arena, and the global awakening on climate change was good, but energy still remains a long-term challenge and the ravages of climate change are actually growing.

The global economy is not in good shape and we are ill-prepared for the next economic meltdown. The changing geopolitical situation, balance of power, and escalating asymmetric threats have destabilized the world order. With a highly polarized political system and dampened expectations, one wonders if we will ever find the political will to do what we must do. Taken collectively, it's hard not to say that we've

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inched closer to the perfect storm in 2016.

WTS: On that note, can you comment on the Trump Administration and how it might impact these perfect storm threats?

Conley: As you know, we try very hard to keep our political opinions out of this publication, and what I offer now is done in the spirit of respect for all positions. Without a doubt, the presidential campaign of 2016 was the most acrimonious one I can ever remember, and the healing process will be daunting.

Every new president has a steep learning curve in which the rhetoric of the candidate collides with the harsh realities of governance – and Donald Trump is no exception. As the CEO and founder of his own privately-held empire, his word was law. As President, he now has a 535-member board (congress); a judiciary with a new-found sense of checks and balances; foreign leaders with their own agendas, special interests, and a nation divided down the middle on a multitude of issues. That’s a lot to sort out and digest in a short period of time.

With respect to foreign policy, this dynamic appears to be sinking in. In only a matter of weeks, he has modified his position on China (to a “one-China policy”); suggested to Israel that maybe new settlements were not a good idea; agreed to abide by the Iranian nuclear deal; made a commitment to Japan and the Pacific Rim nations that we would maintain our presence, and recommitted to NATO. I’ll wait to see how his foreign policy evolves before commenting on how it will impact the perfect storm.

WTS: Domestically, how do you see our policies on healthcare, energy, climate change and other issues evolving?

Conley: Again, political reality is sinking in. Attempts to repeal and replace Obamacare on “day one” did not materialize. Mr. Trump’s executive decrees are mainly statements of intent; the legislative complexities to follow are staggering. The immigration “ban” has been shot down by the judiciary, and we have yet to see any formal policy proposals on tax reform, healthcare, infrastructure rebuilding, and other issues that will require an enormous amount of effort and expenditure of political capital.

Clearly, his cabinet appointments for the department of Energy and EPA do not bid well for non-fossil fuel and climate change proponents, and we don’t, as of yet, know what his position will be on the Paris Accords. China seems ready to leap in and fill any voids we may leave and this, I suspect, might influence his thinking. Dismantling and defunding current initiatives is not an automatic thing. (See: *Climate Change: Traction trumps Truncation*). While his early actions in these arenas have been disappointing, they could end up being a blessing-in-disguise.

WTS: That’s a new one; can you clarify what you mean by “a blessing in disguise?”

Conley: In many respects, our citizenry has been willing to “outsource” its participation and *ownership*

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in climate change and clean energy initiatives to the federal government. But now, as a huge federal retrenchment in these areas becomes more than likely, it is sparking an enormous grassroots effort to take up the slack. We're seeing it everywhere.

As we feel a greater "ownership" in these issues, exercise a resiliency to address them more locally, galvanize our forces, and then take it to the federal level by holding our elected officials accountable, there will be a great counterweight to a diminished federal focus. This broader base of committed support will, in the long run, help in ways not even imagined at this time. That's why I see it as a blessing disguise.

WTS: In closing, how would you summarize the Trump effect on these perfect storm issues?

Conley: President Trump has certainly shocked the system and stunned world leaders. But, as the initial shock wears off and concerned factions regroup and adjust to the new realities, institutional and political counterforces will firm up to bring about a more balanced equilibrium.

The easy part – governance by executive agreement – is about to pass. The hard part, translating the high expectations of his supporters into policy will require legislative actions – the "heavy lifting," if you will. Until we see how this all pans out, and with the caveats I have mentioned, I'm willing to respect and reserve final judgement on how Mr. Trump will impact the perfect storm. About the only thing I'm willing to predict now with any certainty is that Mexico won't pay for that damn wall.

R. Michael Conley, Publisher

For more information, please visit our website at: www.weatheringthestorm.net