

STORM WARNINGS

Vol. 4, Issue 4

The 2015 Perfect Storm Report Card

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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 pivotal year in the inexorable progression of the *perfect storm*; not because of any one game-changing event but rather a toxic mix of "steroids" injected into the storm's system. In this annual recap, R. Michael Conley, Publisher, summarizes the perfect storm developments in 2015 with links to previous posts describing them. Discover how the storm's ticking time bombs were heavily in play despite misleading signs to the contrary.

WTS: What happened in 2015 to turbocharge the progression of the perfect storm?

Conley: The headline events in 2015 – oil, China and the Middle East – were merely tips of the iceberg; there was so much more. Ironically, the "tip" as a whole painted a rosier picture than the reality roiling below the waterline. Indeed, the mixed signals and uncertainties were widespread and confusing.

Clearly, the perfect storm needle advanced a few notches in 2015, and I'll use my *Perfect Storm Model* – tracking the storm's progression in four major categories – to make my point. For newer readers, I've dubbed them the *4-E forces* and they are in reference to: 1) Economic and Geopolitical forces, 2) Energy forces, 3) Environmental and Ecological forces and 4) Expectation and Behavioral forces. In combination and in collision, they are fueling a chain reaction that will eventually trigger the perfect storm.

WTS: Okay, let's start with the first of your four E's, "Economic and Geopolitical forces." What's changed in this area?

Conley: In the United States, the tip of the iceberg presented a misleading picture. On the surface, we watched Wall Street reach record highs; pump prices were remarkably low – as were interest rates – and "published" unemployment rates in the five percent range were acceptable. Below the waterline, however, the disconnects between Wall Street and Main Street widened, the middle class shrunk, and our GDP growth rate was tepid. Early 2016 results are reflecting these uncertainties and suggest a market that may be ready to unravel.

By contrast, the international picture was brutally transparent. The global economy had quantifiably weakened by almost any measure; the oil market had all but collapsed; ISIS was advancing; the Middle East was unraveling, and China experienced severe growing pains with contagious, worldwide repercussions.

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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.

In this house of cards called a global economy, we are running on fumes. The credit, debt and asset bubbles – building for years like an overinflated balloon – seemed ready to burst. (See: [Bubbles and Backlashes](#)). Despite an all-out effort from the international community to goose their respective economies through deficit spending, fiscal stimulus, and massive central bank interventions to print money, chop interest rates and devalue currencies, the results have been abysmal. Worse, central banks are now low on ammo with little left in the tank to ward off the next global meltdown.

WTS: That’s not a good economic picture; what were some of the more troubling geopolitical events in 2015?

Conley: There were at least four seismic forces in play that made this a more dangerous world: First, a new *cold war* gained traction as Russia and China flexed their muscles in a variety of ways (See [The Chinese Ripple Effect](#)); Second, The growing Shia/Sunni *civil war* – with the growth of ISIS in particular – destabilized the entire Middle East (See: [Keep a Close Eye on Saudi Arabia](#)); Third, the growth of asymmetric threats in the form of cyber-warfare (See: [The Cyber Blitzkrieg](#)), currency wars (See: [Our Dirty Little Secret](#)) and terrorism destabilized the power equation, and efforts to limit nuclear proliferation in Iran and North Korea were and will continue to be problematic. Last, the oil markets, in a state of disequilibrium, were reshaping the world in ways I’ll cover later.

Summary & Prognosis: The economic and geopolitical forces pose, perhaps, the most imminent and ominous perfect storm threats at this time. Bubbles always burst, and we’re now overdue

and ill-prepared for the next collapse. It seems unlikely the sluggish American economy can offset the lagging global economy in 2016, and if China’s economy makes a hard landing we’re all in for a rough time.

WTS: Let’s move on to your next “E-Force” category: Energy. What’s the story here?

Conley: The collapse of the oil market has been *the* energy story over the past eighteen months. It happened at breakneck speed and caught everyone off guard, and we are still trying to digest all of the far-reaching shock waves and implications.

Since the start of the oil market’s incredible free-fall, crude oil prices have fallen 70% and inflation-adjusted pump prices have approached record lows. While beneficial to consumers and oil-intensive industries like the airlines, it has been devastating to the oil industry and has now erupted into an economic tsunami that is roiling financial markets, destabilizing economies and recalibrating oil

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dynamics around the globe. Russia, OPEC, oil producers everywhere and, of course, the American shale oil industry, are getting clobbered with huge economic ripple effects.

In retrospect, the collapse was triggered by an abrupt trifecta of colliding forces in the form of; 1) an explosion in American shale oil production that overwhelmed the system with a supply surge that could not be absorbed in a timely manner, 2) the demand curve flattened as the global economy sputtered, and 3) the new traction gained by energy conservation, alternative and renewable fuels, and demand reduction efforts took hold.

The simple answer would have been to reduce oil production until demand caught up with supply, but that didn't happen. Instead, Saudi Arabia produced even more oil to protect its market share while putting a hurt on their enemies (Iran) and competitors (shale oil producers). A cash-starved Russia ramped up production to compensate for lost revenues from falling oil prices, and shale oil producers sold their oil at a loss to generate cash flows and remain solvent.

Their collective actions have further distorted the supply/demand curve and created new oil surpluses that will dampen prices for a good part of 2016 – and perhaps beyond. The economic ripple effects extend well beyond the oil industry. Rail and shipping sectors are down; junk bond and default exposure has increased; local oil economies (like North Dakota's) are being shattered; bankruptcies are multiplying, and downsizing and dividend cutbacks have become a new way of life for the oil industry. (See: [Cheap Oil: Issues and Opportunities](#)). In this mix, oil exploration budgets have been slashed to the bone; something we'll pay dearly for when future oil supply tightens – as it surely will.

WTS: Doesn't the current glut of oil, plummeting oil prices and America's new energy independence suggest that our oil problems are over?

Conley: Far from it. Oil is still a global commodity subject to international pressures, and despite our domestic production, we are still a large net importer of oil. And, pitted against low cost producers like Saudi Arabia, our higher-cost shale oil production models – featuring horizontal drilling and fracking – are "unconventional" and costlier than conventionally produced Saudi oil (See: [An Unconventional Truth](#)).

But there's a more serious problem with huge perfect storm implications: Some believe our access to an endless supply of low cost oil is the new norm, but they are dead wrong. It's only a blip. Despite the current glut, the demand for oil is still going up – just not as fast as before. For example, the world will consume a million or so barrels more of oil per day in 2016 than in 2015. Once the excess inventory is used up – as it will be – we'll find ourselves in a worse predicament than before. Why? Because as the production from current fields declines, a new oil supply of sufficient size to replace it won't be there because of the massive cuts in exploration activities taking place today.

Summary & Prognosis: New technologies and a rush to maximize production have created a temporary – but unsustainable – surplus of oil. Over time, surplus inventories will be drained and a badly bruised oil industry will struggle to meet future oil demand. The smart move would be to use this respite to fast track the transition to alternate energy systems, but that doesn't seem to be in the cards.

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WTS: That leads to our next "E-Force." How do things look on the environmental and ecological fronts?

Conley: For openers, 2015 was the warmest year in the history of recorded temperatures with quantifiable evidence of our growing carbon footprint everywhere. Record high temperatures, ice melts, rising sea levels, CO² increases, adverse feedback loops and more all worked in concert to intensify the climate change curve. We could see it manifested in the biblical-sized droughts, floods and severe weather patterns that have now become commonplace. (See: [Climate Change: A Few Myths and Some Hard Realities](#)).

Ecologically, worldwide droughts are wreaking havoc on food chains and living conditions. Famines and fresh water shortages are rampant as a growing population with wasteful water practices ramps up their *infinite* demand for a *finite* resource. Satellite findings are confirming an unhealthy depletion of our water savings accounts – aquifers – and serve as a reminder that the carrying capacity of our planet has finite limits. (See: [Worldwide Water Woes](#)).

Though disturbing, there were a couple of promising developments in 2015: 1) First, the American public begin to recognize what the rest of the world seemed to know; that climate change was occurring and that we had better act on it, and 2) Second, efforts at the state, local and grassroots level to reduce carbon footprints and adapt better clean energy and consumption practices were on a nice upswing. (See: [Climate change: You Can't Make this Stuff Up](#)).

WTS: Can you comment on the international community's response to climate change?

Conley: 2015 was a breakout year in terms of bringing the world together to address climate change. In an astonishing display of global unity, over 190 nations agreed to the Climate Accords in Paris dubbed COP-21. (See [COP-21: Crunch Time in Paris](#)). At long last, the world came together to develop a workable plan with metrics and processes for tackling the challenges of climate change in a sustainable manner.

But, it's now crunch time as the euphoria of COP-21 is replaced by the harsh reality of translating policy into workable solutions. One such impediment is the U.S. Supreme Court's ruling on February 9, 2016 to put a temporary halt on the EPA's Clean Power Plan. It will test America's resolve to honor its commitment within the spirit of COP-21. Other nations – China and India in particular – will carefully watch our actions. If we're giving only lip service to the accord, their willingness to play ball will falter. If this happens, our last best opportunity to address climate change in a meaningful way will grievously suffer, and the grand losers will be our kids and grandkids. (See: [Progress not Perfection](#)).

Summary & Prognosis: In summary: 2015 was a pivotal year for climate change and our actions in 2016 will set the tone for addressing climate change and other ecological challenges – and their impacts on the perfect storm – for years to come. The 2016 presidential election and the state of the global economy will influence the outcome. Our response remains to be seen.

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WTS: This brings us to your last E-Force factor: "Expectations and Behavioral" forces. What changes are you seeing in this area?

Conley: A central theme of this publication from the start has been that we are now living in the *twilight zone* of a paradigm shift we don't understand; a transitional shift from the American Dream we knew to a changing world that is hurtling toward a perfect storm.

In this transition, the Millennial Generation – those born in 1980-2004 – have become significant players and a good bellwether of changing expectations and behaviors in America – and even the world. At the forefront of an anti-establishment backlash that has spilled over to other generations, their distrust of institutions intensified in 2015 as the disconnects between Wall Street and Main Street widened and the shrinking middle class deepened. I'll focus today on three millennial trends with significant perfect storm implications:

- 1) The Millennials have become the first generation not expecting to live as well as their parents, and their belief in the American Dream has faded. For example, they look upon unfunded entitlement benefits – such as Medicare and Social Security – as a benefit that will not be available to them, at least in its present form. They are concerned about the national debt they are "inheriting;" the environmental health of the planet, and opportunities they won't have as a result of our current "play now – pay later" culture.
- 2) The student loan debt issue is a Millennial flashpoint in which 71% of the 2015 graduating class averaged over \$30,000 in student loans. With an aggregated student loan debt of \$1.3 trillion dollars, it is now the second largest debt category – after mortgage debt – in the nation. Roughly half of the more recent graduates are either unemployed or underemployed and the loan default rates are climbing. The ripple effect of their cash-strapped positions on the housing and auto markets, and on marriage and future birth rates will have staggering social and economic implications going forward.
- 3.) And last, the Millennials will match and soon surpass the baby boomers share of the electorate. Look for major shifts in attitudes, voting patterns, and policy issues that candidates will need to address. The early primaries in 2016 are providing a wake-up call to both major parties as they struggle to find the right messages and candidates. Talk about a paradigm shift...

Summary & Prognosis: The IOUs from the past are coming due as the Millennial Generation – and those following them – get stuck with the tab. The backlash is starting to occur and will build and shape the future for years to come.

In conclusion: By any standard, 2015 was a watershed year in reshaping the future. Running on fumes, the tip of the iceberg looked far more promising than the undercurrents roiling below the waterline. Look for 2016 to be a pivotal year on several fronts, and don't be surprised to see a few bursting bubbles trigger a global tsunami. For more information on what you can do, please visit our website at:

www.WeatheringtheStorm.net