Signals Behind the Headlines

Idea In Short

Read trend-driven journalism instead of breaking news. One month of The Economist in November 2018 flagged energy transition risk, inequality, platform advertising, open-source consolidation and conglomerate distress. Executives who tracked those signals early positioned their firms ahead of competitors who chased daily headlines.

A Case for Slow News

The Economist remains a distinct product in business journalism. The writing is measured, the worldview is free-market and the analysis centers on trends. Pick up an issue from six months ago and it still reads well. The editors examine key drivers rather than daily swings in public opinion. The publication leans fiscally conservative and socially liberal, a combination many executives find useful.1 Adam Smith had many things right, yet capitalism should not become a philosophy. Markets create wealth, and humans must still address the hurt that markets leave behind. The stories below, drawn from one month of issues, show how much signal a patient reader can extract.

Australia's Long Expansion

Australia had recorded 27 years without a recession by late 2018. Resources helped, yet the country also ran productive industries and disciplined budgets. Public debt stood at 41 percent of gross domestic product [GDP], less than half of Britain's ratio. Japan carried more than 250 percent. Immigration powered the model. Some 29 percent of residents were born abroad, twice the American share, and the country admitted 190,000 immigrants each year. Tourism delivered 6.4 billion dollars and supported 64,000 jobs. The environmental ledger looked far worse, as the magazine noted:

> "Yet Australia still gets more than 60% of its power from coal, the fuel that does the most damage to the climate. It is also the world's biggest exporter of coal. Per

> person, it generates more emissions than any other big economy bar America and Saudi Arabia. And unlike most rich countries, its emissions are growing."

The tension between resource wealth and climate exposure has only sharpened since.

California's Two Economies

California ranked as the fifth-largest economy in the world and still held the largest poor population in the United States. Roughly 19 percent of Californians, about 7.4 million people, lived below the poverty line.2 This was working poverty. Fully 80 percent of poor households included at least one full-time worker. Half of all students had used food stamps or a food bank by age 18. The state economy grew 78 percent over two decades while the poor stood still. In 1963 the top tenth earned 6.5 times the bottom tenth. In 2017 the multiple reached 14. Housing drove much of the pain. More than half of residents under the poverty line spent over half their income on rent. Median rents rose 32 percent between 2013 and 2017, twice the national pace. Structural barriers compounded the problem, from restrictive zoning to the prison system:

> "A staggering 4,800 laws prevent former felons getting public housing, or licences to work as anything from a car mechanic to a nurse."

Hunger Persists in the Sahel

Famine had not disappeared in 2018. Around six million people in the Sahel, the belt south of the Sahara, could not feed themselves. Rainfall was scarce and erratic, with long droughts followed by sudden floods. The desert itself expanded 10 percent between 1920 and 2013. Lake Chad lost 90 percent of its surface area over a century. Irrigation barely existed, covering less than 1 percent of land in Niger. Relief aid helped, yet it functioned as a bandage on a structural wound. Executives in agribusiness and logistics should read such stories as demand signals for irrigation, storage and climate adaptation.

Wealth Stays Concentrated

The global wealth pyramid remained steep. The top 1 percent owned more than half of the world's equity while the bottom half owned less than 1 percent. The threshold surprised many readers:

> "To be a member of the 1%, a person now needs over $870,000 in net assets. Two-fifths of this happy bunch can be found in America."

Concentration of wealth shapes luxury demand, tax policy and political risk. Boards ignore it at their peril.

Armored Cars as Market Signal

Bulletproofing vehicles became a growth business in Latin America. Mexican conversions rose from 2,200 to 3,000 cars per year, with another 15 percent increase expected. The upgrade took a month and cost more than 50,000 dollars. Threat profiles differed by market. Mexican assailants carried AK-47 rifles and paramilitary gear, so vehicles required type IV armor that cost 30 percent more than Brazilian kits. Brazil saw more roadside robbery, and armor doubled as a status symbol. Niche industries like this reveal how security risk translates into consumer spending.

Amazon's Advertising Climb

Amazon was on track for 8 billion dollars in digital advertising revenue in 2018, displacing Microsoft from third place. Some analysts predicted advertising profit could exceed Amazon Web Services [AWS] cloud profit by 2021. The company still held only 4 percent of the digital advertising market against 37 percent for Google and 21 percent for Facebook. The strategic asset was intent data. More than half of Americans started product searches on Amazon, and Prime, Echo and Whole Foods deepened the profile. Retail media became one of the defining advertising stories of the following years.

Open Source Joins the Establishment

International Business Machines [IBM] paid 34 billion dollars for Red Hat, the largest vendor of open-source software.3 IBM had fallen behind AWS and Microsoft Azure in cloud computing and needed a credible platform. The deal confirmed a pattern. Salesforce bought MuleSoft for 6.5 billion dollars and Microsoft bought GitHub for 7.5 billion dollars. The magazine enjoyed the irony:

> "Not bad for a type of code whose pioneers saw themselves as rebels fighting 'evil' proprietary-software makers. Such origins were the inspiration for Red Hat's name, as Bob Young, the company's co-founder, once explained: 18th-century revolutionaries in America and France wore red caps during their uprisings. Now, open-source firms look more like the establishment."

Giants Under Pressure

General Electric illustrated how quickly industrial icons can stumble. The board removed Jeff Immelt's successor after only 13 months. The company reported a 22 billion dollar quarterly loss and wrote down 22 billion dollars in its power division. The dividend fell to one penny after 150 billion dollars in payouts since 2000. Media faced its own reckoning. AT&T purchased Time Warner and inherited HBO just as Netflix surpassed it in subscribers, research spending and Emmy nominations. HBO invested 2.3 billion dollars in programming in 2017 while Netflix planned 12 billion dollars for 2018. Doubling output while protecting quality became HBO's defining challenge.

China Reconsiders GMO Crops

China planted surprisingly few genetically modified organism [GMO] crops. The hesitation reflected a technology gap, suspicion of American intentions and cautious public sentiment. Policy began shifting as Beijing prioritized food self-sufficiency. The change promised new demand for multinational agricultural firms such as Monsanto, Cargill and Archer Daniels Midland. Food security, like energy security, moved from background issue to boardroom agenda.

- 1The Economist
- 2Public Policy Institute Of California

- 3Red Hat

Summary

Slow news rewards patient readers. The stories of November 2018, from Australian coal to Amazon advertising, revealed durable forces. Executives who studied trends rather than headlines saw the next five years coming. Build the habit and revisit old issues to test your judgment.