

Can U.S. Economy Weather Trade Wars?

By Harlan Green / Special to VOICE

WHY IS MANUFACTURING DOING SO WELL IN THE FACE OF RISING TARIFFS—in January when mid-winter business activity tends to slow? Consumers flush with cash from rising wages and full employment are powering higher domestic demand. Exports, on the other hand, have declined because of the rising costs of materials and parts, causing buyers to switch to exports from other countries that aren't affected by the trade wars. Manufacturing exports had the slowest growth in two years.

The Institute of Supply Management reported that its January manufacturing index "registered 56.6 percent, an increase of 2.3 percentage points from the December reading of 54.3 percent. The New Orders Index registered 58.2 percent, an increase of 6.9 percentage points from the December reading of 51.3 percent. The Production Index registered 60.5 percent, 6.4-percentage point increase compared to the December reading of 54.1 percent. The Employment Index registered 55.5 percent, a decrease of 0.5 percentage point from the December reading of 56 percent."

Any number over 50 indicates that a majority of managers are reporting expanding business in the various sectors that the ISM Indexes measure. The question then is, "How long can consumers keep this up, while foreign demand for U.S. goods continues to decline?" There is very little optimism that the tariff wars will subside soon, given that the revamped NAFTA Treaty has yet to pass Congress, and Democrats in particular not happy with Trump's cosmetic tweaks that do little to change it.

Brookings' analysis was that, "After a year and a half of negotiations, the three parties are going to end up with a new trade deal that looks remarkably similar to the old NAFTA."

The ISM's Non-manufacturing Index for the service sector is also growing robustly, which means that most of the U.S. economy will continue with steady growth – at least for the first half of this year and maybe longer if interest rates remain at their current lows.



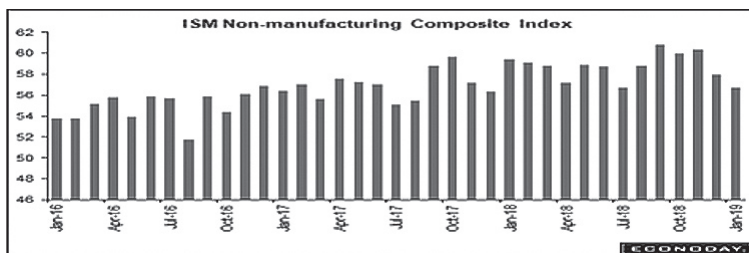
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"The NMI* registered 56.7 percent, which is 1.3 percentage points lower than the December reading of 58 percent. This represents continued growth in the non-manufacturing sector, at a slower rate. The Non-Manufacturing Business Activity Index decreased to 59.7 percent, 1.5 percentage points lower than the December reading of 61.2 percent, reflecting growth for the 114th consecutive month, at a slower rate in January. The New Orders Index registered 57.7 percent, 5 percentage points lower than the reading of 62.7 percent in December. The Employment Index increased 1.2 percentage points in January to 57.8 percent from the December reading of 56.6 percent."

The problem with the Trump administration's bargaining style in levying punitive tariffs on exports from friend and foe, on top of the fact that appearances seem to be more important than substance, is that such bully tactics turn off foreign countries who have lots of choices doing business elsewhere than with the U.S.

This is already showing signs of affecting U.S. growth, since consumers cannot maintain their higher consumption (largely fueled by borrowing) forever. The BEA's Q3 2018 GDP final growth estimate was 3.4 percent, down from Q2's 4.2 percent. Fourth quarter's initial GDP estimate has been held up by the government shutdown.

Why the slowdown? "The deceleration in real GDP growth in the third



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quarter primarily reflected a downturn in exports and decelerations in nonresidential fixed investment and in Personal Consumption Expenditures (i.e., consumer spending)," said the BEA. "Imports increased in the third quarter after decreasing in the second."

That could be a sign of further growth problems, if the trade wars aren't resolved soon.

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Harlan Green has been the 16-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker. To reach Harlan call (805)452-7696 or email editor@populareconomics.com

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'12	114	113	183	170	225	215	217	213	173	218	190	275
'13	141	146	189	197	265	209	217	216	181	178	138	167
'14	142	132	141	186	207	174	196	179	171	160	137	170
'15	142	113	235	202	226	210	207	217	155	149	124	150
'16	126	118	153	166	220	195	174	214	187	161	158	159
'17	142	132	164	149	189	257	193	224	178	173	172	170
'18	101	121	172	179	234	211	165	225	184	171	145	163

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Santa Barbara, CA 93101
(805) 965-6448
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Publishers & Editors
Mark Whitehurst, PhD: Publisher@VoiceSB.com
Kerry Methner, PhD: Editor@VoiceSB.com

Translator
Jeanette Casillas c/o Editor@VoiceSB.com

Writers
Cynthia Anderson: Calendar@VoiceSB.com
Ariana Meyers: Art@VoiceSB.com

Columnists:
Robert Adams: Robert@EarthKnower.com;
Harlan Green: editor@populareconomics.com;
Alex Henteloff: papaalex@verizon.net;
Beverley Jackson c/o editor@voicesb.com;
Richard Jarrette: c/o editor@voicesb.com;
Sigrid Toye: ltssigrid@gmail.com

Bookkeeping: Maureen Flanigan
Circulation: Central Coast Circulation
(805) 636-6845

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