

# THE ECONOMIC OUTLOOK GROUP



475 Wall Street  
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300  
[www.economicoutlookgroup.com](http://www.economicoutlookgroup.com)

## ECONOMIC TALKING POINTS

**Bernard Baumohl**  
Chief Global Economist

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### Did China And The US Reach A Substantive Phase One Trade Deal?

Don't be shocked but we're a bit leery about the official announcement that a meaningful phase one trade has been struck between the US and China.

Did the Trump administration really achieve a substantive trade accord --- or was this a political ploy by the White House to distract attention away from the impeachment hearings?

It sounds terribly cynical to ask such a question, but we must. At the very least, caution is warranted. There's still a long way to go before we can assess its substance. For one, the agreement has not even been vetted by lawyers and thus remains unsigned by both parties.

Secondly, there is a natural inclination to be skeptical when the President tweets the accord as a "big deal...amazing...phenomenal" given his propensity to exaggerate. During a morning meeting with the President of Paraguay, Trump told a gaggle of reporters in the Oval Office that China agreed to buy as much as \$50 billion in agricultural products. But Chinese officials refused to confirm that figure when reporters inquired at a separate press conference. It's well known that Chinese negotiators dislike committing such purchases to a specific dollar amount.

Then there is the lingering sense we have seen this movie before. In October President Trump pointed out that talks were nearly complete and he was ready to sign a trade pact with China at an international gathering in Latin America in November. Well, that signing never occurred because the two parties still failed to work out many details.

Finally, history has shown that whenever Trump faces troubling or embarrassing headlines, he has managed to cleverly redirect the public narrative elsewhere by taking action that would put him in a favorable light.

So, cynical or not, we have to ask the question: Is it merely ironic that after two years of lambasting China on trade, Trump proclaimed victory by announcing an interim trade deal on the very day a House committee prepared to impeach him? Of course, we don't want to reach any conclusions until the trade agreement is codified and made public.

Right now all we have are the vague outlines of an *apparent* agreement.

- The tariff that was scheduled to go into effect on \$160 billion of mostly consumer goods has been suspended.
- Other imports from China, amounting to roughly \$120 billion, which were subject to 15% duties, will now drop back to 7.5%.
- Yet the 25% tariff on \$250 billion on Chinese goods entering the US will remain in effect.
- China has also agreed to make structural changes regarding the forced transfer of technology and protection of intellectual property. But we are clueless on what precisely they agreed to.
- Trump may also talk up about how China has been pressured by the US to refrain from currency manipulation. But the fact is they haven't engaged in such practices in recent years.

For these reasons we advise holding off major asset allocation decisions based primarily on this latest announcement until the agreement is signed and made available for viewing in full detail.

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<b>Economic &amp; Geopolitical Risks to Monitor</b>	
Projections are for 2019 and 2020	
<b>PROBABILITY</b>	<b>U.S.</b>
HIGH	US and China reach an interim agreement on paper, but trade tensions will remain high throughout 2020.
HIGH	US economy to lose some momentum as the nation confronts a contentious presidential campaign.
Moderate	After lowering rates three times of 2019, each 25 basis points, Fed to stand pat in 2020.
HIGH	10 Yr. Treasury yield creeps higher in 2020 as investor appetite for US government debt wanes.
HIGH	U.S. firms to revive CAP EX given the China trade deal and better economic data from Europe and Asia.
HIGH	Inflation and short term interest rates to remain low throughout 2020.
<b>FOREIGN</b>	
HIGH	Venezuela's Maduro regime collapses in 2020; new elections are planned.
HIGH	China sends paramilitary into Hong Kong to quash pro-democracy protests.
Moderate	Foreign adversary launches cyber attack that paralyzes parts of US economy.
HIGH	Iran proceeds to enrich uranium past 20%. Risks increase of a military response by US or Israel.
Moderate	India and Pakistan clash over Kashmir. Both nuclear-armed countries edge closer to war.
HIGH	Given Boris Johnson's victory in gaining parliamentary control, UK to leave EU end of January 2020.
Moderate	Rising Tensions in the Persian Gulf pushes WTI oil price higher, even as global demand for crude falters.

- Actual
- Forecast

## United States

	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021
<b>Real Gross Domestic Product (GDP):</b>																
%	2.5	3.5	2.9	1.1	3.1	2.0	2.1	2.2	2.0	2.7	2.1	2.3	2.2	2.7	2.6	2.8
<b>Personal Consumption Expenditures:</b>																
PCE %	1.7	4.0	3.5	1.4	1.1	4.6	2.9	1.8	2.2	3.0	1.9	3.4	2.7	3.8	3.0	4.1
<b>Inflation, end of period, year-over-year:</b>																
CPI %	2.4	2.9	2.3	1.9	1.9	1.6	1.7	1.8	1.9	2.0	2.0	2.2	2.5	2.7	2.7	2.8
<b>Unemployment Rate (end of period):</b>																
%	4.1	4.0	3.7	3.9	3.8	3.7	3.5	3.5	3.8	3.9	4.0	4.1	4.1	3.9	3.9	3.7
<b>Non-farm Payrolls, monthly avg. thousand:</b>																
	228	243	189	233	174	152	188	155	140	140	125	125	135	155	160	165
<b>Treasury 10-yr Note Yield % (end of period):</b>																
	2.74	2.85	3.06	2.76	2.42	2.00	1.65	1.80	1.85	1.70	2.00	2.25	2.70	3.10	3.80	4.10
<b>Federal funds rate % (end of period):</b>																
	1.63	1.88	2.13	2.38	2.38	2.38	1.88	1.63	1.63	1.63	1.63	1.63	2.13	2.38	2.63	2.63

## GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.2	2.3	2.6
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	0.8	1.2	1.8
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.4	1.0	1.3	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.9	0.9	1.7
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	1.5	1.1	2.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	6.5	6.6	7.3
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	5.9	5.7	5.8
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	1.1	0.5	1.3	1.9
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	0.2	1.0	2.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	2.0	1.8	2.6
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.5	1.4	2.2
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.2	3.0	2.6	2.8	3.2

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