

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Trade War: Acts of Folly That Have Become Increasingly Dangerous

The raging testosterone-fueled trade war between Presidents Trump and Xi Jinping just heated up again and the fallout promises to bring more economic destruction for everyone.

Both leaders have so miserably blundered into this minefield of tariffs, retaliation and counter-retaliation, that neither cares much about the damage they are wreaking on their respective economies, much less the rest of the world. As a result, the risk of recession keeps escalating for the US as well as for China, which we define for that nation as growth below 5%.

What is undeniable is that the 20-month old trade dispute has now gone completely off the rails. If both countries thought they cleverly use game theory to outsmart the other and win a "great deal," then it's clear that plan has been a disaster. There is not a scintilla of light suggesting we are anywhere even close to the end of this conflict.

In fact both Trump and Xi feel pressure to demonstrate nothing but toughness in front of their constituents. As China celebrates the 70th anniversary of its founding in October, Xi is determined to show his country will never again be bullied by the West. Trump, on the other hands, fumes at how the US has for decades been economically burglarized by China and sees himself as the anointed one who will finally put an end to that theft.

Should the US economy begin to falter in the process, then flog the other main culprit -- the Federal Reserve--- says Trump. The President has harangued Fed chief Jerome Powell for not slashing interest rates the way Europe and Japan have done. But this argument is devoid of economic logic, since all that monetary easing has done virtually nothing to revive growth in those regions.

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Secondly, cutting short-term rates in the US will hardly move the growth needle. The cost of borrowing is already among the lowest in years! If Trump is calling for lower rates to undermine the dollar's strength, then that too would be a futile exercise because there's no way the US can push back against a \$5 trillion a day FX market. The problem here is quite clear. There's one massive foot squeezing the neck of the US economy right now, which is the ruinous trade war and the collateral damage it has caused to economies and supply chains around the world.

The question that now looms large is how many more blows can an aging business cycle take?

Let's be clear. There is no doubt that China is a bad actor in the arena of international trade. Beijing has long quietly sanctioned the theft of intellectual property, forced foreign firms in China into joint ventures, exported counterfeit goods and engaged in cyber warfare against the US. Taking action against China is fully justified. That was the one of the principal goals of the Trans-Pacific Partnership, a group of 12 major trading nations in the Asia-Pacific region, which included the US -- *but not China!* It was dedicated to creating the world's largest free trade pact. Given the combined economic leverage of those dozen countries, they could have put unprecedented pressure on China to end its illegal trade practices and comply with international law.

Unfortunately, Trump quickly withdrew from the TPP once in the White House and chose to go up against China alone, mano a mano! That strategy has proven to be a dismal failure. And so each side keeps raising the stakes, thinking the other will soon cave. No need for any off ramp. Don't bother looking for face-saving options.

And so I'm afraid matters will only get worse.

Trump will keep raising tariffs. China can respond by fully weaponizing the RMB to offset those tariffs. Trump may prohibit all hi-tech trade with China. Xi can respond by slashing tariffs on imported goods--- but only with countries that compete with the US. Trump, frustrated by the lack of progress and facing election pressures, could needle Xi further by sending an armada of US Naval forces into the South China Sea. Xi could counter and establish a formal military alliance with Russia to patrol and dominate the western Pacific. It all sounds ominous, yet that's where we're heading given the current geopolitical climate.

As one CEO of a major supply chain company confided in me after two beers: "You can't plan for crazy, and this is getting crazy." He wasn't commenting on the psychological mindset of anyone, just expressing exasperation at the erratic and bizarre way trade policy is being conducted.

The two largest economies on the planet continue to be fully engaged in a fierce face-to face battle that could only end in a pyrrhic victory for both. In the meantime, the leaders of the G-7 countries meet this weekend and most will wonder when again they might see superpowers led by people with normal political chromosomes

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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
Real Gross Domestic Product (GDP):																
%	2.2	4.2	3.4	2.2	3.1	2.1	1.9	2.0	1.3	2.0	1.8	2.0	2.2	2.4	2.5	2.5
Personal Consumption Expenditures:																
PCE %	0.5	3.8	3.5	1.4	1.1	4.3	1.3	1.9	1.2	1.9	1.7	2.0	2.2	3.8	3.0	4.1
Inflation, end of period, year-over-year:																
CPI %	2.4	2.9	2.3	1.9	1.9	1.6	2.1	2.3	2.2	2.0	2.0	2.2	2.5	2.7	2.7	3.7
Unemployment Rate (end of period):																
%	4.1	4.0	3.7	3.9	3.8	3.7	3.6	3.5	3.8	3.9	4.0	4.1	4.1	3.9	3.9	3.7
Non-farm Payrolls, monthly avg. thousand:																
	228	243	189	233	174	171	165	155	125	115	105	135	145	160	155	165
Treasury 10-yr Note Yield % (end of period):																
	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
Federal funds rate % (end of period):																
	1.63	1.88	2.13	2.38	2.38	2.38	2.13	1.88	1.88	1.88	1.88	1.88	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	2.2	2.9	2.2	1.8	2.4
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	0.8	1.0	1.8
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.4	1.0	0.8	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.9	0.8	0.9	0.6	1.7
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	1.9	1.3	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	6.3	7.3
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.2	5.8	6.4
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	1.1	0.7	1.0	1.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	0.4	0.0	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	1.3	2.2
World	4.2	3.0	2.6	2.9	3.0	2.8	2.6	3.3	3.2	3.0	2.6	3.3