Forbes

Trump's Touchdown Celebration Over Manufacturing Growth Is A Dangerous Distraction

David Volodzko January 7, 2019

The American manufacturing sector posted it biggest drop in a decade last month, even as the Trump administration has broken into a touchdown celebration over manufacturing growth.

"Manufacturing best in 20 years," Trump himself tweeted, citing Drudge Report.

"Manufacturing is roaring back," Vice President Mike Pence said in an interview with National Rifle Association (NRA) TV host Dana Loesch.

"The critics said it couldn't be done," Press Secretary Sarah Huckabee Sanders tweeted, "but American manufacturing is back under President Trump."

Yet in the past 35 years, the only two drops steeper than last month's came after the September 11 terrorist attacks of 2001 and the global financial crisis of 2008. So what accounts for the discrepancy?

Manufacturing posted a growth index of 54.1% in December, according to the Institute for Supply Management (ISM), down from 59.3% in November (readings over 50 denote growth).

ISM's report cites growing concern over Trump's trade war with China as a leading factor.

“The ongoing open issues with tariffs between U.S. and China are causing longer-term concerns about costs and sourcing strategies for our manufacturing operations," said one respondent in the machinery sector.

“Customers are hedge buying in December as a result of announced price increases starting in January," said another in the textile mills business.

But the Trump administration has instead chosen to focus on the Labor Department's annual job growth report, which says manufacturing jobs posting a net annual gain of 284,000 for 2018.

This is indeed the best in 20 years, but that's because it's been falling for so long, making the recent rise look like the final lift at the bottom of a ski jump. So when you hear people claim manufacturing is growing 714% faster under Trump than under President Barack Obama, you know why.

Moreover, job growth alone isn't always a sign of good times ahead. It may be a sign that companies are preparing for another blow.

That's because these figures are partly the result of companies hiring workers instead of increasing capital expenditure because they've concluded last year's growth was a “sugar high,” says **Bernard Baumohl, chief global economist for The Economic Outlook Group**.

Baumohl adds that it's therefore better to meet new growth opportunities by hiring workers rather than purchasing costly machines.

“Workers are viewed more like inventory,” he says. “If you need them, you can hire them, and if the economy really turns south, you can let them go.”

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