

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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January 1, 2025

Just January!

A New Year begins. Now is a perfect time to check our magnetic compass and reset our bearings for what's to come, at least in January. Better act fast, though. The first major domestic rumpus of 2025 is just days away.

On January 15th the contract expires between the International Longshoremen's Union (ILA) and port operators, represented by the US Maritime Alliance (USMX). That means dockworkers can resume their strike as early as the 16th. Once they do, it won't take long for the economic fallout to be felt. This work stoppage will affect nearly all East and Gulf Coast ports, facilities that handle about 60% of the nation's container traffic. Factories would soon be forced to wind down production, lay off workers and bid up the price of scarce goods. Estimates are such a strike would cost the economy at least \$1 billion a day. (...OK! Back to the bar!)

A little background first. After a three-day strike last October, the ILA union reached a tentative deal with the Maritime Alliance on wage increases for longshoremen. Their pay would jump to a maximum of \$63 an hour by the end of a new 6-year contract, compared to \$39 per hour today.

By resolving at least that issue, the ILA agreed to suspend the strike so as not to get drawn into the noisy politics of a Presidential campaign --- but only until mid-January! It's game on after that. Left on the table remains a far knottier issue than pay, which is future job security for longshoremen, especially now that port operators are relying more on automation. These companies firmly view technology and robotics as a way to move goods more efficiently and cheaply, and claim they have a right to modernize as does any business.

But dockworkers fear such investments in automation pose a threat to future employment, and they are demanding guarantees against layoffs.

This clash even comes with some slapstick political intrigue. Members of the next Trump Administration appear split on which side should cave. Cheering on the port operators is billionaire Vivek Ramaswamy, one of the leaders of the embryonic Department of Government Efficiency (DOGE). He lashed out at the ILA in an October post on X at their chutzpah to block progress and blasted workers for going on strike. His words: "Union bosses' efforts to coddle workers by limiting innovation leaves the whole country worse off as a result."

But Vivek may need to clear his throat and mumble "never mind." That's because President-elect Trump, who sees blue collar workers as part of his political base, has given his blessing to union leaders and voiced approval of their work stoppage. "I've studied automation and know just about everything there is to know about it," Trump wrote on Truth Social last month. "The amount of money saved is nowhere near the distress, hurt and harm it causes for American Workers, in this case, Longshoremen."

Round one is certain to go Trump.

Still, I think it is fair to say that even he has no desire for this work stoppage to linger. Inactivity on the docks not only hampers the operations of US importers, but also US exporters who need to transport their products to customers overseas. Failure to satisfy purchase orders from foreign clients in a timely manner could force the latter to look elsewhere for suppliers. Furthermore, as the strike continues, goods quickly pile up on US docks. American producers and retailers then have to contend with additional warehousing or demurrage fees. The resulting bottlenecks are sure to disrupt supply chains, hamper factory output and put upward pressure on inflation.

What's the next stage? Should the ILA proceed with a strike on the 16th, it will occur four days before Trump's inauguration and thus gift the new Administration with its first crisis. Upon taking office, the President will rush to lasso both parties back to the negotiating table. If that fails to bring results, Trump has two options. He could invoke the 1947 Taft-Hartley Act, a law that would force dockworkers back to their jobs as part of an 80-day cooling off period. But that won't go over well with his blue-collar supporters. The more likely strategy, I believe, is that Trump will strong arm the Maritime Alliance to finally end the strike by resolving labor's concerns. Such muscle is not uncommon in this industry, and quite successful.

What about the second half of January? The spot light next shifts to the Federal Reserve. Just days after the Presidential inauguration, the Fed meets to vote on interest rates. Policymakers will have to ponder the economic and inflationary implications of both the aftermath of a port strike and the potential (or actual) deployment of new tariffs.

With respect to the strike, it's a foregone conclusion that no matter what deal is reached between the Maritime Alliance and the longshoremen's union, the cost to load and unload freight will now climb. After all, if port operators agree to boost union wages, plus provide new job guarantees AND shelve some plans to automate, it is bound to increase their operating expenses and erode profits. And I should not have to point out who ultimately pays for that. Yeah, you!

Now, if one adds to this scenario a cascade of new tariffs on all US imports, then, much to the frustration of the Fed, there is no realistic chance it will succeed in quieting inflation this year to 2% --- short of a recession. While we do not yet know what configuration these duties will take, or when they will be applied, the President has the authority to impose them at will --- and we already know of his past fling with tariffs. You can be sure more are coming and soon!

Into this already vertiginous mix comes the most bizarre spiel of all. Trump recently asserted that the only way for the US to achieve true national security bliss is by subsuming Canada, the Panama Canal and Greenland into the American empire. It's a comment so zany, so dissonant to the ear that one wonders whether they missed the first lines of a joke. But not everyone dismissed it as such. Those words by Trump already set off nervous huddles among foreign allies and adversaries to determine whether that remark is a tease, or some vaporous rant --- or a real threat to international order. Regardless, this annexation scheme should be deprived of even a flickering pulse.

Lastly--and thanks for your patience -- we hope the new Administration will begin this month to help end the horrific wars in Europe and the Middle East. That alone would be a great New Year's gift to the world and a positive start to Trump 2.0.

Welcome to 2025!

Cheers!!