Impact of tariffs on US manufacturing sector

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Global growth & trade flows slowing rapidly

World trade and world trade indicators
% year 3mma (volume)

World: GDP & PMI

Source: Oxford Economics/Nederlander CPB

Source: Oxford Economics/Haver Analytics/Markit
Manufacturing activity has declined average of 0.3% per month since the start of year.

- Manufacturing momentum is -0.2% y/y – the slowest since late 2016 – while industrial production is +0.9% y/y – down notably from the 3.8% y/y pace at the end of 2018.
An unrelenting rise in trade protectionism

US: Average Tariff Rate

% of 2018 import value

Source: Oxford Economics/Haver Analytics
Escalation could mean tariffs on all China imports

US-China: Escalation towards a trade war

- China tariffs on all US imports
- US tariffs on $325bn
- China tariffs on $60bn
- US tariffs on $200bn (10% tariffs, now 25%)
- China tariffs on $16bn
- US tariffs on $16bn
- China tariffs on $34bn
- US tariffs on $34bn

Source: Oxford Economics
Disruptions depend on tariff composition, size & duration.

**US: Imports from China**

Year-over-year, 3-month average

- All imports
- 25% tariff list*
- 10% tariff list*

Source: Oxford Economics/US Census Bureau

* selected sectors
Uneven impact across sectors

China and US: anatomy of trade decline
% point contribution to annual change, 3 months to Feb 2019

Source: Oxford Economics/Haver Analytics
No one wins trade wars... not even the bystanders!

US-China 25% tariffs to weigh on industrial production

Industrial production impact, level, %*

* Dark bars show the impact of prior bilateral tariffs while shaded bars reflect the impact of raising the 10% tariffs on $200 billion to 25% (and China retaliating in kind)

Source: Oxford Economics
Trade war is hurting more than it is helping

- The share of manufacturing employment has stabilized just below 10% since 2010, but secular forces from an ongoing shift toward the service sector remain.

- Manufacturing employment has increased only 4k per month over past 3 months – compares with +22k average in 2018.
The macroeconomic impact of 25% US tariffs on auto imports from the EU along with EU retaliation should be manageable, cutting EU and US GDP by 0.2% and 0.1% by 2021.

The disruption from the auto tariffs to the already-weak automotive sector would be far more severe, with the level of EU and US automotive output 3.6% and 1.2% lower than our baseline forecast by 2021.
Tariffs reversal is historically sluggish

Sluggish tariff reversals

% of tariffs remaining in place on average*

- Subdued growth environment
- Growth close to potential

*Over the period 1988-2017. Average tariff rate rises of between 1ppt and 4ppts. Growth 'subdued' when at least 1ppt below long-run average (in 5 years running up to tariff hike or first 2 years after).

Source: Oxford Economics/World Bank
Financial conditions have tightened modestly

US: Oxford Economics' Financial Conditions Index

0 = Average stress

Jan-18 Apr-18 Jul-18 Oct-18 Jan-19 Apr-19

Dec 21: (Williams) Fed is "listening" to markets
Dec 19: (Powell) Balance sheet on "autopilot"
Jan 4: (Powell) Fed is "flexible"
Jan 30: (FOMC) Fed "patient"
Nov 28: (Powell) "Just below" neutral
Oct 3: (Powell) "Long way" from neutral
Mar 20: (FOMC) No rate hikes in 2019

Source: Oxford Economics
Manufacturing will remain under pressure

- **US economy grew 2.9% in 2018** matching its strongest performance in over a decade. **Growth expected at 2.5% in 2019 & 1.6% in 2020.**

- **Solid labor market conditions and still-elevated private sector confidence** support domestic outlays, but pace is cooling.

- Gradually dissipating fiscal boost along with reduced monetary policy support will limit the upside to growth in 2019-2020.

- Softening global growth, lingering trade tensions, a strong dollar and cooling domestic activity will restrain manufacturing output.

- Trade tensions vis-à-vis China are concerning – confidence channel!

- Fed is done with tightening & next rate move may be a cut
THANK YOU!

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