

Harleys, Bourbon & Denim

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The US doesn't face "secular stagnation" caused by outside or uncontrollable forces, like foreigners (and bad trade deals), technology that steals jobs, or Unions that are too weak. Growth is slow because government has grown too big.

In 2000, non-defense government spending was just 14.7% of GDP. President Bush's "compassionate conservatism" - followed by TARP, which paved the way for President Obama to create the biggest new entitlement program since the 1960s - reversed that course, and non-defense spending is now 17.6% of GDP. After the 2016 election, the pendulum started swinging in a different direction. President Trump deregulated and passed the most far-reaching tax reform since the 1980s.

But spending has moved back in a Big Government direction, first with a "guns and butter" budget agreement, and now with the President's intention to impose across-the-board tariffs of 25% on steel imports and 10% on aluminum.

Politicians and lobbyists had their phones vibrating off the table last week, with calls from industries trying to influence the direction of spending and market interference. The swamp is filling up, not draining.

We are fully aware that some countries either explicitly tax US imports or subsidize their own industries to gain advantage. And we fully understand the US is probably the most free trade country in the world. But that benefits US citizens. If someone is willing to sell us something cheaper than we can make it, why not let them?

We should follow the lead of Ronald Reagan. Back in November 1982, with the unemployment rate at 10.8%, he said, "We're in the same boat with our trading partners. If one partner shoots a hole in the boat, does it make sense for the other one to

shoot another hole in the boat? Some say, yes, and call that getting tough. Well, I call it stupid. We shouldn't be shooting holes; we should be working together to plug them up."

Moreover, the announcement last week provided no exceptions from the tariffs. In other words, with regard to many of these countries, it's the US shooting the first hole in the boat!

Ultimately, tariffs are taxes. They drive a wedge between willing producers and consumers, and do nothing to promote economic growth or jobs. They also offset some of the benefits of the just-passed tax reform by lifting prices for goods that use steel and aluminum.

There are more workers in steel and aluminum "using" industries in the US than there are at steel and aluminum producers. President Bush imposed the same kind of tariffs back in 2002, and then reversed course a year or so later.

What we find most confusing is that President Trump is listening to his Trade Czar Peter Navarro about the supposed benefits of tariffs, rather than just letting his tax cut and deregulation work by themselves. If Reagan could be to be patient with free market policies when unemployment was 10.8%, Trump should be too when unemployment is 4.1% and headed lower.

The tariffs just announced do not fully offset, even remotely, the benefits of the tax cuts already passed. But with the EU threatening tariffs on Harleys, Bourbon, and Levi's, it's possible a trade war begins. Possible...not probable.

We're not giving up on faster growth. Real GDP will likely grow 3%+ this year. But the long-term outlook for faster growth is threatened by spending and tariffs. Stay tuned.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-5 / 9:00 am	ISM Non Mfg Index – Feb	59.0	59.0	59.5	59.9
3-6 / 9:00 am	Factory Orders – Jan	-1.3%	-1.0%		+1.7%
3-7 / 7:30 am	Q4 Non-Farm Productivity	-0.1%	+0.4%		-0.1%
7:30 am	Q4 Unit Labor Costs	+2.1%	+2.5%		+2.0%
7:30 am	Int'l Trade Balance – Jan	-\$55.1 Bil	-\$55.9 Bil		-\$53.1 Bil
2:00 pm	Consumer Credit– Jan	\$18.0 Bil	\$17.8 Bil		\$18.4 Bil
3-8 / 7:30 am	Initial Claims – Mar 3	220K	220K		210K
3-9 / 7:30 am	Non-Farm Payrolls – Feb	200K	222K		200K
7:30 am	Private Payrolls – Feb	196K	216K		196K
7:30 am	Manufacturing Payrolls – Feb	15K	28K		15K
7:30 am	Unemployment Rate – Feb	4.0%	4.1%		4.1%
7:30 am	Average Hourly Earnings – Feb	+0.2%	+0.2%		+0.3%
7:30 am	Average Weekly Hours – Feb	34.4	34.4		34.3