

ECONOMY

One month later, Gov. Vázquez taking calm approach

THINK STRATEGICALLY:

Can We Agree to Disagree?

Markets on a High Note as U.S., China to Resume Trade Talks; Non-Manufacturing Activity Expands

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Nowcasting the U.S. GDP

As always, there are significant points of argument regarding economic forecasts, predictions and modeling because they are still subject to revisions, personal preferences and sentiments. It is because of these issues that we began to use “nowcasting” to better present economies’ gross domestic product (GDP). Nowcasting is best explained as the discipline of determining the trends or trend reversals objectively in real time. Nowcasting focuses on known and knowable facts, and therefore avoids forecasting. In Birling Capital’s view, nowcasting will become the basis of a more robust decision-making process, helping both the private sector and government to make more accurate economic planning and adjustments. These nowcasts are state-of-the-art econometric models that automatically update all forecasts whenever any significant economic data are released. Birling Capital has been using Now-Casting to revise the GDP numbers of most of the world’s economies. Even though some would not agree with its findings, can we agree to disagree?

Now-Cast’s U.S. GDP

- The GDP stands at 1.5 percent for third-quarter 2019 (3Q19);
- Birling’s forecast for 4Q19 is a downward revision at 1.1 percent; and
- The current GDP forecast is 2.1 percent, which is 0.6 percent more than the Now-Cast numbers.

Week in markets: U.S.-China trade talks drive markets up

For the second week in a row, the U.S. stock markets finished on a high note as the markets positively absorbed the announcement that the U.S. and China stated they would resume trade talks in Washington sometime in October. The statement drove the markets to record significant increases for the week, the Dow Jones Industrial Average (DJIA) has increased 1,114.28 in the past two weeks, and the S&P 500 is shy of the 3,000 mark by 21 points. However, not all was good news because the economic data were mostly mixed as manufacturing fell to its lowest level in three years.

The Dow closed the week at 26,797.46 for a gain of 394.18 points, or 1.49 percent, and a year-to-date (YTD) return

of 14.9 percent. The S&P 500 closed the week at 2,978.71, for a gain of 52.25, or 1.79 percent, and a YTD return of 18.8 percent. The Nasdaq closed the week at 8,103.07 for an increase of 140.19, or 1.76 percent, and a YTD return of 22.1 percent. Meanwhile, the U.S. Treasury’s 10-year note rose during the week, closing at 1.56 percent, or an increase of 4.7 percent, with a YTD return of minus-1.13 percent. The Treasury’s 2-year note rose during the week to 1.54 percent, or 2.67 percent, and closing without the inverted yield curve.

Which are the market’s drivers?

- Manufacturing activity fell to its worst levels in three years.
- Non-manufacturing activity expanded and accelerated compared with July’s pace; this is a crucial development as non-manufacturing is the bulk of the economy.
- The August jobs report showed 130,000 new jobs and unemployment was unchanged at 3.7 percent at a near 50-year low, with strong wage growth.
- The stock market will continue to experience volatility until the U.S.-China trade war is resolved.

Impact on Now-Cast GDP numbers

Date	Release	Period	GDP Now-Cast
9/3/19	Manufacturing: PMI Composite Index	08/19	-1.90
9/4/19	Exports	07/19	0.35
9/4/19	Imports	07/19	-0.77
9/5/19	Non-Farm Payroll Employment	08/19	-0.58
9/5/19	Non-Manufacturing Composite Index	08/19	1.68

Weekly Market Close Comparison	9/6/19	8/30/19	Change	YTD
Dow Jones Industrial Average	26,797.46	26,403.28	1.49%	14.90%
Standard & Poor’s 500	2,978.71	2,926.46	1.79%	18.80%
Nasdaq	8,103.07	7,962.88	1.76%	22.10%
U.S. Treasury 10-Year Note	1.56%	1.49%	4.70%	-1.130%
U.S. Treasury 2-Year Note	1.54%	1.50%	2.67%	-1.040%

The U.S.-China trade war: Can we agree to disagree on trade?

- The world’s markets have shown a decided proclivity to exaggerate both tariff increases or so-called agreements in trade-talk negotiations. So, why is this so important to the world’s markets? Let’s examine the numbers behind all the trade tensions and possible scenarios.
- As a percentage of global GDP, U.S.-China trade represents only less than 1 percent.
- U.S. exports to China comprise less than 1 percent of U.S. GDP.
- U.S.-China trade activity should not and will not affect the overall health and longevity of the U.S. economic expansion.
- The real impact could be the collateral effect of the trade war on business investment, hiring and expansion, which could have an impact on U.S. consumption.

Recent impact on China’s economic engine

Beijing announced its exports unexpectedly fell 1 percent in August as shipments to the United States dramatically slowed; analysts had forecast a 2 percent increase. However, when analyzing the year-on-year numbers, the scenario is much worse because China’s imports have fallen 16 percent and U.S. imports fell 22.4 percent. No economy can sustain a double-digit loss without taking a significant hit.

This translates to a marked weakness in its economy. Additionally, the Chinese government is expected to announce market measures to avert a dramatic economic retraction. It was widely expected when China let its currency fall below the 7 renminbi per dollar level in August, and it did it to

benefit its exports to the United States even as the States labeled China a currency manipulator.

There is more than meets the eye in the U.S.-China trade war as they continue to Agree to Disagree.

The week’s critical economic data

- 9/09 Consumer credit
- 9/10 Small Business Index; job openings
- 9/10 Median Household Income
- 9/11 Producer Price Index; Wholesale Inventories
- 9/12 Consumer Price Index; Core CPI; federal budget; weekly jobless claims; European Central Bank expected to cut rates.
- 9/13 Retail sales; retail sales excluding autos; import prices; Consumer Sentiment Index; and business inventories.

The final word: Gov. Vázquez marks 1 month in office

Sept. 7 marked Gov. Wanda Vázquez’s first month in the Office of the Governor. Since she took the oath, there has been a sense of calm in Puerto Rico, in stark contrast to this past summer, which was full of protests, demonstrations and drama.

Vázquez has taken quite a prudent approach to governing, with well-thought-out decisions and statements. While the governor so far has not made any decision that would engulf her in public differences or arguments with leaders of the Senate, House or mayors, this process has provided the island a much-needed sense of “life-savviness and emotional intelligence” reminiscent of the seven habits of calmness.

Seven habits of calmness

- A calm morning ritual
- Learn to watch your response
- Do not take things personally
- Be grateful
- Create stress-coping habits
- Single task
- Reduce noise

The governor’s focus, style and experience will serve her well when she makes the much-needed visit to Washington, D.C., establishing new opportunities for Puerto Rico. We look forward to the reports on the trip.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.