

US Fed sees 'modest' growth despite 'widespread' trade fears

July 17 2019, by Douglas Gillison



Containers at the Port of Los Angeles in June 2019

Fears that President Donald Trump's trade wars will harm the economy are pervasive, but for now, America keeps chugging along with steady job creation and tame inflation, the Federal Reserve reported Wednesday.

Worries about the trade outlook are likely to weigh on the Fed's thinking later this month, when it is overwhelmingly expected to cut interest rates for the first time in a decade.

"Economic activity continued to expand at a modest pace overall from mid-May through early July," the Fed said in its regular survey of business conditions across the country.

While the outlook for the coming months is "generally positive," the survey conducted in advance of the policy meeting found "widespread concerns" about possible harm caused by "trade-related uncertainty."

The United States is now in its 11th year of economic expansion, a record, and the report showed few signs a recession is on the horizon.

But Fed Chair Jerome Powell has cited a weakening [global economy](#) as an important reason some central bankers see a stronger case for easing monetary policy—even with unemployment near 50-year lows and Wall Street hovering at records.

Washington and Beijing have been working this month to jump-start negotiations that stalled in May, but US officials warn progress to end the year-long battle with China is not guaranteed.

Feeling the pain

Flooded-out farms, also battered in the trade war, suffered declining output after unusually heavy rainfall, and oil-and-gas production fell, according to the survey of business activity in the Fed's 12 regions.

"I have been farming for 48 years and this is the worst spring/summer planting season we have experienced," said a contact of the Chicago Federal Reserve Bank.

Meanwhile, vehicle sales and home building were flat, while transportation began to weaken in some areas.

The exceptionally tight supply of workers has continued to drive up wages—with some business contacts forced to resort to "significant increases" for entry-level employees.

And some employers worried about their ability to secure visas for foreign-born employees, which also could hurt job growth.

But companies said they were hard-pressed to pass on the higher costs of labor and inputs because of "brisk competition." As a result, inflation was "stable to down slightly" from a prior report.

Tariffs and trade policy were "major issues" for manufacturers in the Boston region and were holding down business investment in the Philadelphia district, the report said.

Economic growth was flat in the Cleveland and Chicago Fed regions and activity slowed in the New York area. But there were broad gains in tourism, which benefitted the Atlanta and Richmond areas in particular.

The Fed reported earlier this month that the US manufacturing sector had entered a recession after two quarters of declining output, which was reflected in the survey, where manufacturers in several districts reported weakness.

In the report, a manufacturer in the Boston region said it had moved an [assembly line](#) to Germany to manufacture goods made from Chinese-made components because this allowed it to avoid tariffs on Chinese imports.

In the Cleveland region, home to a major US industrial base,

manufacturers told the Fed that "broader economic forces" were causing a slowdown in addition to trade difficulties.

Overbuilt inventories in 2017 and 2018, slowing [global demand](#), bad weather and other factors also weighed on the sector.

Wall Street added to modest losses following the report's release, with the Dow Jones Industrial Average down 0.3 percent toward 1600 GMT.

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Citation: US Fed sees 'modest' growth despite 'widespread' trade fears (2019, July 17) retrieved 2 May 2024 from <https://techxplore.com/news/2019-07-fed-modest-growth-widespread.html>

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