IN THE SPOTLIGHT

Trade Agreement & Tariff Talks Continue

The Trump administration is working to replace tariffs with new trade deals. As discussed in the November *Hot Wire*, the US came to terms with Mexico and Canada on an agreement: the USMCA. The US has yet to ratify this deal, and split control of Congress may make it challenging to do so, but the economic risks of moving forward without a deal should provide motivation for both Democrats and Republicans.

Tariffs on steel and aluminum imports into the US, which the USMCA does not remove, are one obstacle standing in the way of ratification. This has become a focus of recent negotiations between the US and its neighbors. The US is in favor of replacing tariffs with quotas, which would lower the cost of imported metals; however, restricting the amount of imports would limit the benefit that removing tariffs would provide for US consumers of these metals.

The US is also in discussion with China on a deal that would lessen or remove existing tariffs. In response to perceived progress in trade negotiations, President Trump recently delayed implementing another round of tariffs, which had been scheduled to take effect March 1. While there is still no deal between the world's two largest economies, and President Trump has expressed a willingness to walk away from a potential deal if it is not to his liking, negotiators on both sides appear willing to reduce their own tariffs in exchange for tariff relief. This certainly marks progress from last year. It is too soon for a clear picture of the trade landscape going forward, but the US seems to have reached a turning point and appears to be moving toward freer trade policies, which should provide some optimism for firms doing business with Mexico, Canada, and China.

READERS' FORUM

February seems like it was a rough month for the job market. Should this be a cause for concern?

The Labor Department reported that the economy added just 20,000 jobs in February. The positive news is that this number is low partially due to unemployment being low; the numbers are suggesting that there are fewer unemployed workers who could be added to the workforce. However, this should be a cause for concern for employers. With the labor market tight and expected to tighten further this year, finding qualified new employees will be more and more challenging. During this time, it will be increasingly important to retain your existing employees. Ensure that you have the right monetary and non-monetary benefits to keep your team happy and engaged.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales

- Up 5.0% during 12 months through January
- Retail sales will rise through this year at a slowing pace
- A recession for retail sales is unlikely

Rotary Rig

- Count up 14.7% from one year ago
- Rig count rise is slowing
- Oil rotary rig count (up 16.7%) & US natural gas rotary rig count (up 7.9%) growth is slowing

Wholesale Trade

- Wholesale trade up 7.5% from one year ago
- Wholesale trade of durable goods (up 7.9%) and wholesale trade of nondurable goods (up 7.0%) are both rising at slowing rates
- Wholesale trade unlikely to fall below year-ago level this cycle

Capital Goods

- Nondefense capital goods new orders up 6.1% from the year-ago level
- New orders to rise through first half of the year at slowing pace before declining through remainder of year
- Defense capital goods new orders up 23.5%

Auto Production

- N. America light vehicle production down 0.2% year-over-year
- Production likely to be flat first half of year before declining
- US heavy-duty truck production up 17.5%, but pace of rise slowing

Nonresidential Construction

- Nonresidential Construction up 4.9% from year-ago level
- Nonresidential Construction growing at an accelerating pace
- US warehouse construction and US manufacturing construction will be areas of opportunity this year

Manufacturing

- Total manufacturing production up 2.9% from a year ago
- Production will transition to slowing growth early this year
- US medical equipment and supplies production and US civilian aircraft equipment production will recover and rise this year

Residential construction

- Up 1.5% year over year
- Both single-unit housing starts and multi-unit housing starts currently declining
- Single-unit starts will recover later this year

Brexit Blink: UK's Internal Discord Could Lead to Brexit Extension

What you need to know: *Brexit-related uncertainty is likely to hang on in 2019, which will not help weakening economic trends for the UK or EU.*

At the time of this writing, it appears that United Kingdom Prime Minister Theresa May will be unable to pass her Brexit deal through Parliament before the March 29 deadline for the UK's formal departure from the European Union.

Having twice failed to pass Parliament, the deal was already facing thin prospects for finalization when John Bercow, speaker of the UK House of Commons, essentially barred a last-ditch vote before the final deadline.

This is viewed by many as unfortunate for both the UK and the EU, as the underbellies of both economies are softening, and the weight of Brexit's uncertainty is becoming heavier as both the UK and EU move through the back side of the business cycle.

If a deal is not reached, the UK could pursue an extension to its EU membership, which could last several months or more; May has already asked the EU for an extension through June. The alternative would be a no-deal Brexit, the abruptness of which would create immense confusion regarding the political, regulatory, and trade landscape -- a costly scenario for all involved.

It would be inappropriate to blame the decelerating industrial production trends currently underway in the UK and EU entirely on Brexit, but it is certainly not helping matters. It is often said that uncertainty is the enemy of investment. April was finally supposed to mark the start of a post-Brexit world. Now, European business leaders who were looking forward to a finalized policy and regulatory landscape are likely to be underwhelmed.

The latest breakdown in Brexit talks only adds to the overwhelmingly negative inputs from the latest data and leading indicators. UK industrial production during the 12 months through January is up 0.5% and decelerating. Interestingly, this is the mildest pace of expansion for the UK since July 2016, the month immediately following the June 2016 referendum that started us down this path nearly three years ago. Unfortunately, the leading indicators suggest things will get worse from here. Prominent decline in the UK leading indicator 1/12 rate-of-change, which leads UK industrial production by 13 months, points to a difficult year ahead for the UK.

Things are similarly bleak for the broader EU, with European industrial production during the 12 months through January up 1.0% from the early-2018 level, the slowest annual rate of expansion since mid-2014. Collective deterioration in EU leading indicators, including the Europe Economic Sentiment Index, Europe leading indicator, and Europe Manufacturing Purchasing Managers Index rates-of-change, point to similar headwinds for 2019.

Economists expect things to get worse from here and that both Europe and UK industrial production will enter mild recessions later in 2019. If you are operating within the European market, particularly the UK, expect to experience diminished opportunities this year.

Copper & Aluminum Prices

US copper futures prices during the three months through February averaged $2.79 per pound, down 12.6% from the same period one year ago. Prices generally declined through 2018, but have recovered in the early months of 2019. Slowing growth in the global economy may provide some resistance to the current rising trend; expect any further rise in prices to be mild in the near term.

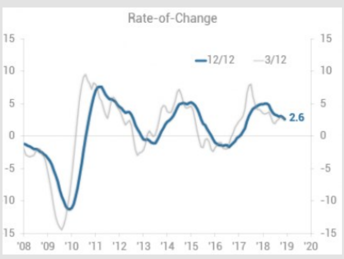
US aluminum futures prices during the three months through February averaged $1.88 per kilogram, down 14.8% from the year-ago level. Prices are generally declining. The US is in discussion with Mexico and Canada to remove aluminum tariffs. While this may lead to lower-cost aluminum entering the US, proposed quotas on imports could mitigate this effect.

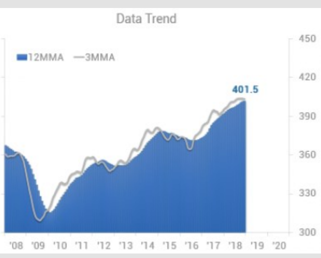
GLOBAL DEEP-DIVE

Canada Industrial Production

Canada industrial production ended 2018 up 2.6% from the 2017 level. Production is rising at a diminishing rate. The Canada leading indicator and Canada Purchasing Managers Index are both signaling further cyclical decline through at least the remainder of this year. The pace of growth for production will slow through the majority of 2019. Production will then enter a mild recession late this year.

Slowing growth in Canada mining and oil and gas extraction production is contributing to the downward trend in the Canadian industrial economy. Canada's manufacturing sector is also in a slowing growth trend. With growth opportunities expected to wane this year, build up your cash reserves. This will better position your company to make the investments during the upcoming recession that will prepare it for the subsequent growth trend.





Global Economic Outlook

	12-month Moving Avg	Chg. Over Prev. 12 Months	2019 YTD	2020 Projected	2021 Projected
Canada Industrial Production		2.6	0.5	0.2	2.8
Mexico Industrial Production Index		0.2	-0.4	2.4	0.6
Brazil Manufacturing and Mining Industrial Production Index		1.1	-1.0	2.8	0.7
Western Europe Industrial Production Index		1.0	-1.3	1.4	1.0
Eastern Europe Industrial Production Index		4.1	-1.3	4.3	3.2
India Industrial Production Index		5.1	3.3	5.5	4.5
China Industrial Production Index		6.2	5.2	6.1	5.9

Note: Forecast color represents market projection at end of year.
Accelerating growth Recovery Slowing growth Recession