

# ECONOMY

U.S. economy's GDP rose at a YOY rate of 2.1 percent in 3Q19

THINK STRATEGICALLY:

## Du Hamarkada 2020

Manufacturing's Deterioration Had 25 Percent Impact on Labor's Reduction in GDP; Stock Market Ends one of Best Months in 2019

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com

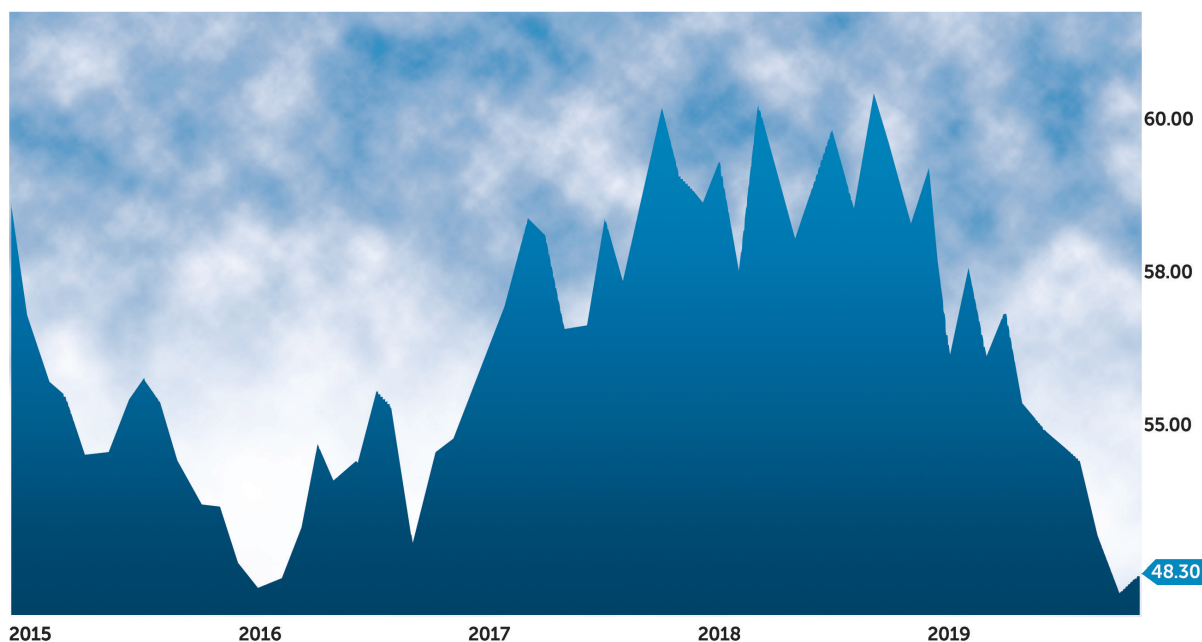


Figure 1: U.S. Manufacturing PMI

### Du Hamarkada: U.S. manufacturing has changed forever

Du Hamarkada for the Basques means the decade. As we begin to review 2019 and start forecasting 2020 to see what surprises the Hamarkada ahead may bring, we must discuss the condition of U.S. Manufacturing, the hottest topic of 'Make America Great Again'. As U.S. manufacturing contracted, its forces are hitting thousands of suppliers, employees, towns, schools and sports leagues. The Manufacturing sector's deterioration has had a 25 percent impact on, if not more, than labor's reduction on the gross domestic product (GDP). The decline has not been in all sectors, while others have seen superb growth in such industries as Aerospace, Pharma, Biotech and Electronics.

The largest U.S. manufacturers have been able to adapt and increase their footprint, even as growing challenges have hit them quite hard, with the ongoing U.S.-China trade war.

However, small- and mid-sized firms have been impacted the hardest.

The next decade will show a restructured manufacturing sector as technological advances continue to impact products, demand increases, and efficiency and productivity enhance the ecosystem. According to the National Association of Manufacturers, the U.S. will be able to expand annual manufacturing from current levels by more than \$525 billion, or 20 percent, by fiscal 2024. Because manufacturing is critical to national security and the broader economy, capturing all opportunities must be a vital national issue.

### U.S. GDP growth revised up, to 2.1 percent in 3Q19

In a positive development, the U.S. economy's GDP rose at a year-over-year rate of 2.1 percent in the third quarter of 2019 (3Q19), according to the U.S. Bureau of Economic Analysis (BEA). The GDP shows an increase from 2.0 percent in the 2Q19 and better than the 1.9 percent GDP estimates expected by most economists. According to the BEA, the current GDP increase for 3Q19 reflects positive contributions to the

economy that include increased federal spending, stronger residential investment, private investments in inventory, exports and, lastly, state and local government investments. Another metric we follow is the gross domestic income, or GDI, which compares favorably with the 0.9 percent increase in 2Q19.

The average real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, increased 2.3 percent in 3Q19, compared with a 1.4 percent increase in 2Q19. Additionally, the current dollar's GDP rose to 3.8 percent, or \$201.8 billion, in 3Q19, to the level of \$21.54 trillion. Lastly, the price index

for gross domestic purchases rose to 1.4 percent in 3Q19, which is less than the 2.2 percent reported in 2Q19. U.S. economic growth is still expected to slow in the near term, which appears to be quite more modest than initially anticipated.

### Week in markets: U.S. stock market at record highs

The U.S. stock market ended one of the best months in 2019 and finished with positive results as the U.S. stock market hit another all-time high last week, with the Dow Jones rising a record 1,004.25 points in November 2019. After weeks of growth, investors may begin to realize gains in their portfolios as some may be thinking that timing is right. While volatility was lower than other instances, investors must be vigilant because so much of the recent stock rally was based on the so-called "Phase One" of the U.S. and China reaching a trade deal. Some experts believe the U.S. and China are not on the same page on relevant issues of the trade deal. For one, China is demanding that any trade deal must remove all punitive tariffs on its products, and according to U.S. Commerce Secretary Wilbur Ross, removing those charges has not been approved by President Trump. As the end of 2019 draws close, we remain cautiously optimistic a trade deal may be signed before the end of the year. On the other hand, many investors have begun realizing gains in the 2019 market rally to secure those gains and prepare their portfolios for 2020; to most investors, double-digit returns are quite significant, and most are aptly realizing those profits.

The Dow Jones Industrial Average (DJIA) closed the week at 28,051.41 for a gain of 175.99 for the week or 0.63 percent, and a year-to-date (YTD) return of 20.25 percent. Besides, the S&P 500 closed the week at 3,140.98, for a gain of 30.69, or 0.99 percent, and a YTD return of 25.30 percent. The Nasdaq closed the week at 8,665.47 for an increase of 146.86, or 1.71 percent, and a YTD return of 30.60 percent. The Birling Capital Puerto Rico Stock Index closed the month at 1,645.05, or

a gain of 51.90, or 3.26 percent over the previous week, and a YTD return of 18.92 percent. Meanwhile, the U.S. Treasury's 10-year note remained flat during the week, closing at 1.77 percent and a YTD return of minus-0.89 percent. The U.S. Treasury's 2-year note lost during the week to 1.60 percent, a loss of -1.23 percent for the week and a YTD return of minus-0.87 percent.

### Final word: Reviewing Birling Capital's 2019 predictions

In our Jan. 10, 2019 column, we discussed five issues we believed to be the critical topics for 2019, and we wanted to review our forecasts and how we did.

#### Issue 1: Will growth slow?

The year 2018 ended with 3.8 percent economic growth; we forecast global economic growth will slow to 3.4 percent in 2019. **Global growth did slow more than we predicted, to 3.0 percent.**

**Issue 2: Is tighter monetary policy the culprit?** The year 2019 will be the first since the great global crisis that the central bank will implement tighter monetary policy and the Federal Reserve Bank's policy tightened. **The Fed did tighten only to lower rates three times.**

#### Issue 3: The role of the U.S. and will President Trump be impeached?

We believe the Robert Muller investigation has discovered a path that may lead directly to the President. We believe President Trump will be impeached. **Yes, the President is facing impeachment.**

#### Issue 4: Should investors expect a recession?

While the current market turmoil may be leading us to believe a recession may be possible, we do not think it is likely to occur. **We got this one right, no recession in sight.**

#### Issue 5: What to expect from the market: Pessimist or optimist views?

The massive selloff following the rate hike this past week was both broad-based and pointed to corporate earnings that have reached their peak. We see increased opportunities for the long-term investor, even with the current market downturn, which presents an attractive buying opportunity for most stocks. **We got this one Spot On.**

**Out of our 5 issues, we got 4 right; be on the lookout for 2020.**

Weekly Market Close Comparison	11/29/19	11/22/19	Change	YTD
Dow Jones Industrial Average	28,051.41	27,875.62	0.63%	20.25%
Standard & Poor's 500	3,140.98	3,110.29	0.99%	25.30%
Nasdaq	8,665.47	8,519.89	1.71%	30.60%
Birling Puerto Rico Stock Index	1,645.05	1,593.16	3.26%	18.92%
U.S. Treasury 10-Year Note	1.77%	1.77%	0.00%	-0.890%
U.S. Treasury 2-Year Note	1.60%	1.62%	-1.23%	-0.870%

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