# ECONOMIC INSIGHTS
# FOR MANUFACTURERS

MAY 2024

# THE BIG **PICTURE**

Many individuals in large investment banks, hedge funds, and insurance companies are celebrating the potential "soft landing" of the American economy. However, businesses dependent on demand from end consumers and other enterprises are rightfully concerned.

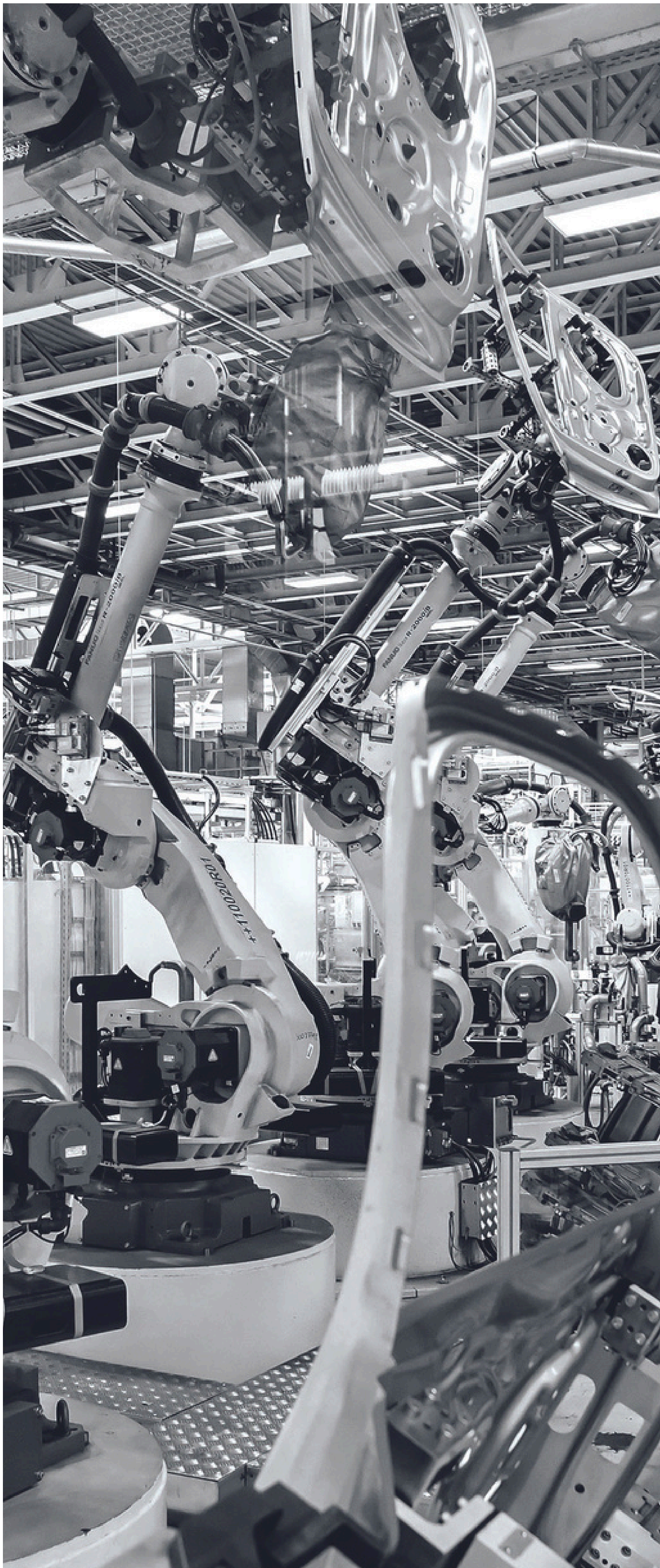
On the one hand, the reduction of inflation has stalled at levels near 4% annually, causing "noise" in the pricing system throughout supply chains. On the other, the policy response from the Federal Reserve is to maintain higher interest rates for longer than expected.

The effects of these factors on the economy are expected to remain negative during Q2. According to data from the Institute for Supply Management, after breaking a 16-month streak of contraction with an expansion in March, the manufacturing sector reverted into contraction in April.

The key question here is how long this situation of inflation and stagnation in the sector can last. Unfortunately, there is a combination of variables that prevents a quick resolution.

- **Interest rates** are expected to be around 4.9% by December this year, higher than expected in the past.
- The global **price of the US dollar is 6% more expensive** than pre-pandemic levels, which reduces external demand.
- **Electoral uncertainty** drives demand lower.

# MARKET **FORCES**



Both the financial asset and the commodities markets have remained in good shape in recent months. In the former case, the market uptick can be attributed to the dissipation of recession expectations across the entire economy for 2024. In the latter, demand from the world's leading importer of raw materials, China, has stagnated due to slower economic growth.

Recent weeks have seen moderation in key manufacturing sector prices, such as energy. Oil prices dipped below $80 per barrel, and natural gas dropped 17% for the year, potentially easing business costs.

Despite these factors implying moderation in international input prices, prices in the United States continue to grow in line with inflation. Leaders in the manufacturing sector should continue to expect increases throughout the supply chain, stemming from the inertia of previous years.

One detail to consider in terms of energy is that, according to data from the Bureau of Labor Statistics, the cost of electricity has been rising above inflation. Therefore, careful management of indirect costs could make a difference in Q2.

# CURRENT EVENTS
# & OPINIONS

As the general election nears, the importance of future policies on trade, taxes, and domestic demand increases. Ongoing processes like the "trade war" and "decoupling" from China since 2017 may see further developments or intensify.

Trade policies have remained largely unchanged in the past two years due to a divided government. Democrats control the Senate and executive branch, while Republicans control the House of Representatives. This dynamic might shift, particularly with the possibility of a Republican trifecta.

Robert Lighthizer, Donald Trump’s former trade chief, recently made the case for more tariffs in an Economist article he authored. According to Lighthizer, “Massive trade deficits drag down American economic growth” and “Countries use massive market distortions to replace foreign production capacity, which explains the collapse of American manufacturing.”

Manufacturing leaders must watch for higher tariffs on imports. Trump's proposed 10% tariff on all imports could raise costs but might also create new opportunities if alternative manufacturing options emerge.

A prudent policy for Q2 entails adopting a conservative approach to inventory management, which means accumulating more inputs. This strategy is prompted by the decrease in commodity prices and the potential for imports to become more expensive in the event of a change in government.

To wrap up, manufacturing faces a complex landscape marked by economic uncertainties and shifting policy dynamics. However, by staying attuned to market forces, embracing flexibility, and implementing prudent strategies concerning primary materials, industry leaders can not only weather the storm but also capitalize on emerging opportunities derived from prospective changes in trade policies.

If you have any questions or would like to continue the conversation, I encourage you to reach out to your dedicated Rehmann advisor. You can also visit our website at rehmann.com for additional resources and insights. Alternatively, feel free to give us a call at 866.799.9580. We’re here to assist you!