



Week In Review

May 31, 2019

China

The Chinese manufacturing PMI slipped below 50 indicating a contraction in activity. The move in the PMI was driven by new orders and new export orders. The Chinese government took over Baosheng Bank due to concerns about solvency driven by loan and securities losses. China also stated that it will establish an “Unreliable Entity” list of firms that harm its key domestic firms.

Our Take: The trade conflict and the unsustainable growth in credit are starting to catch up with the Chinese economy. However, both sides appear ready to draw out and even broaden the conflict. The Chinese government’s establishment of a “blacklist” further increases the likelihood of pushing supply chains and economies to align with either China or the U.S.

North American Trade

President Trump tweeted that the U.S. will impose escalating tariffs on goods imported from Mexico in response to a perceived lack of action by the Mexican government to reduce illegal immigration into the U.S. The Mexican government called for dialog and has thus far not acted to retaliate.

Our Take: If the president follows through with this plan it will be extremely disruptive to North American manufacturing supply chains, especially those for autos and trucks. This action would also put the renegotiated NAFTA deal (USMCA) at risk.

Income and Consumption

Personal income rose 0.5% in April, while consumption increased 0.3%.

Our Take: April income and consumption numbers were better than earlier in the year. Higher incomes could lead to increased spending in the months ahead. However, current trade tensions may lead to reduced growth, which could put a damper on future income and consumption.

Municipals

The Illinois House approved a measure that will put a graduated tax proposal on the November 2020 ballot. The House voted 73-44 on Monday to allow voters to decide on a constitutional amendment that removes the state’s flat tax and places higher tax rates on higher earners. The Illinois Senate had already approved the measure.

Our Take: Governor Pritzker estimates that changes to the tax could lead to \$3 billion in additional revenue. However, Election Day in November 2020 is relatively far into the future. Lawmakers should continue to actively explore other options to decrease spending, increase revenue, and close the budget gap, as there is no guarantee that the voters will approve the measure next year.

—There is no additional Week In Review detail for this page.—

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