California Apparel News

Bumps Along the Way Don't Deter U.S. Economy

By Deborah Belgum | Thursday, April 19, 2018

Lately, the apparel and retail world has been centered around three Ts: taxes, tariffs and trade.

Tax cuts are part of the positive in this equation. They not only benefited U.S. businesses whose tax rate dropped from 35 percent to 20 percent but also deposited more money into consumers' pocketbooks now that their paychecks are filled with more dollars.

Tariffs are the bad part of the equation, making people wonder whether they will be paying more for food, clothing and cars down the road if President Trump holds true on a threat to add another $150 billion to the already $150 billion in new tariffs being floated.

Trade is another question mark as the Trump administration wibble wobbles on whether the United States might join the Trans-Pacific Partnership, the free-trade agreement that has already been signed by 11 of the 12 countries that originally negotiated the pact. As soon as Trump took office, he said we were out. Now that the other members have signed the accord, he wants back in.

Despite all these uncertainties, consumers keep spending, jobs are being created and the economy marches along.

"Sixty-one percent of families told us last month that since Jan. 1 they are making more money through lower taxes or they got a pay raise or they went from a part-time to a full-time job," said Britt Beemer, a retail analyst and founder of America's Research Group, which polls 1,200 consumers a week to take the pulse of their retail-spending habits and attitudes. "Those numbers were never more than 11 percent under Obama."

Spending got off to a slower start this year because tax refunds didn't appear in mailboxes until Feb. 20, Beemer said, because the Internal Revenue Service was figuring out the tax tables under the new tax cut. Last year, refunds started dribbling in on Feb. 7.

Beemer said consumers spent their tax refunds on various items. "In past years, something would jump out. This year, it was doing home improvements, buying furniture and buying used cars. The tax refunds did not drive new car sales. I think new-car prices have priced themselves out for a lot of consumers," he said.

Despite the roller-coaster ride experienced in the stock markets, retail sales had a good March. The National Retail Federation reported that sales were up 5 percent in March compared with last year. Clothing and clothing-accessories stores saw a 6.1 percent uptick year over year, and general-merchandise stores did a little bit better with a 6.3 percent increase for the same period. “Consumers continue to show resiliency in spending, and these numbers reflect how the economy is performing with a strong job market, gains in wages, improvements in confidence, rising home values and judicious use of credit,” said Jack Kleinhenz, the NRF’s chief economist. “The biggest risk to spending is in market fluctuations that could affect confidence, but we expect these basic improvements in economic fundamentals to continue.”

But Ron Friedman, a partner and co-leader of retail services with accounting firm Marcum LLP in Los Angeles, points out that the Dow Jones Industrial Average is still up 33 percent since President Trump took office more than a year ago. “I ask my clients and they say business is pretty good out there right now,” he said. “I have a men’s suit business client who has been in business for 60 years. He said that all of a sudden slim suits are in and business is up with younger customers. Mark Wertz, who owns American Rag, said business is up.”

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No one sees job growth decreasing. Unemployment rates around the country continue to hit all-time lows. In California, the state’s 4.3 percent unemployment rate is the lowest it has been since 1976. Los Angeles County’s unemployment rate is at 4.5 percent, which hasn’t happened for 25 years.

“The good news for the first quarter of this year is that we have actually seen some acceleration in job creation nationally and state- wise, which was a bit unexpected,” said Robert Kleinhenz, the executive director of research at Beacon Economics in Los Angeles, whose brother is Jack Kleinhenz at the National Retail Federation. “There is no shortage of job openings.”

Job expansion is still on the horizon, with home healthcare, electronic shipping, and mail order and service-industry positions seeing the strongest growth. Department-store employment is expected to decline by about 2 percent in the next six years, and apparel manufacturing jobs will decrease by about 20 percent by 2024, according to estimates from the state Employment Development Department.

The nation’s gross domestic product—which measures all goods and services in the country—will be egged on by the recent tax cut. It is predicted to grow at 2.8 percent compared to 2.3 percent last year.

Inflation is not expected to be a major issue this year either, economists said. Rising oil prices often are predictors of inflation, but oil is at about $70 a barrel and is not expected to go above that because the United States is now a bigger oil producer with domestic drilling filling in the gap. Ten years ago, oil was selling at nearly $100 a barrel.

However, talk of tariffs could disrupt trade, affecting the ports of Los Angeles and Long Beach—the largest port complex in the United States. About one-third of all the cargo-container traffic arriving in the country goes through those two ports.

Last year, the two ports had banner years. The Port of Los Angeles set a record with 9.3 million 20-foot cargo containers crossing its docks, which was a 5.5 percent increase from 2016. Next door at the Port of Long Beach, another record was set with 7.5 million containers being loaded and unloaded, an 11 percent jump over the previous year.

“The U.S. economy is not at risk for a downturn regarding trade, but there is uncertainty in the air from these statements coming out of Washington, D.C.,” Robert Kleinhenz said. “So far, the only tariffs that have gone into effect are aluminum and steel. Everything else is proposed.