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Trump's trade wars start biting GOP ahead of midterms

With fresh U.S. tariffs on Chinese goods taking effect Monday, company reports and prominent sentiment gauges are flashing early warnings for the economy.

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President Donald Trump's trade battles are already triggering economic warnings — and rising danger for Republicans just ahead of the midterm elections.

As fresh U.S. tariffs on \$200 billion in Chinese imports take effect Monday, surveys show consumers growing increasingly worried about higher prices this fall. Giant retailers such as Walmart are warning of price increases for manufactured goods. And smaller businesses in swing states and districts from Washington state, to Iowa, to Tennessee are complaining bitterly about big hits to their exports.

The economic fallout from Trump's skirmishes with China, Canada, Mexico and the European Union risk making an already tough cycle for Republicans even more brutal, giving Democrats a chance to peel away voters linked to influential industries — like Washington state cherry farmers and Tennessee bourbon makers — who have long supported business-friendly Republicans.

“Where you have real-world effects of the trade war, you see people's opinions sour dramatically,” said Scott Lincicome, a trade lawyer and adjunct scholar at the Cato Institute who is studying the links between public opinion and trade. “You look at places like Washington state where people are dependent on exporting cherries and apples, or Rust Belt states that border Canada, or Tennessee with auto and bourbon makers, and you are going to see close races where this is actually a decisive issue.”

The latest impact will begin to hit Monday as new 10 percent tariffs Trump slapped on over \$200 billion in imports from China are scheduled to go into effect. That tariff rate is set to rise to 25 percent on Jan. 1 if the Chinese don't capitulate to White House demands. Trump has also threatened to bump the total up to more than \$500 billion in imports, which would hit nearly every product China exported to the U.S. last year.

Economists expect that to translate into higher prices for consumers across the country and special pain for low- to middle-income voters who make up much of Trump's base — and are least able to absorb increased costs for consumer goods such as air conditioners, clothing and furniture. Republicans are counting on getting Trump supporters to the polls in November to

hold off projected Democratic gains in the House and potentially the Senate. Forcing consumers to pay higher prices could make that harder.

“If you are kind of in the middle- or lower-income groups, you are buying a lot of what economists call tradable goods and you’ll be hit a lot harder,” said Kyle Handley, assistant professor of business economics and public policy at the University of Michigan’s Ross School of Business. “This is basically the Trump voter who is going to see the biggest hit to their total spending.”

Evidence is piling up that consumers and businesses are growing increasingly nervous about Trump’s trade policy.

Consumer sentiment measured by the University of Michigan dropped last month to its lowest point in nearly a year, with the decline centered in lower-income households most sensitive to higher prices. The sentiment index ticked up again in preliminary results for September. But nearly a third of those surveyed cited concern over tariffs when assessing the economy.

A survey of chief financial officers unveiled last week by Deloitte found that 42 percent said business conditions would improve next year, the lowest in two years, with executives “overwhelmingly worried” about trade policy and tariffs.

Walmart recently warned it will need to raise prices on a huge swath of products imported from China. Other large consumer-product companies including Procter & Gamble, Nestle and Coca-Cola announced price increases over the summer, partly because of tariffs, and warned of more to come.

White House officials have said repeatedly they are sensitive to consumers seeing higher prices and have tried to fashion the tariffs to produce the least pain possible.

“If you look at the way we’ve designed these tariffs, one of the things we’ve done is we targeted stuff that you can buy from somebody else. And so, this maximizes the harm to the Chinese producer while minimizing the cost to the American consumers,” White House Council of Economic Advisers Chairman Kevin Hassett said in a recent Fox Business Channel interview. The White House did not respond to a request for additional comment on the impact of trade on the midterms.

While many U.S. consumers may be able to absorb the impact of the 10 percent levies, economists say that if the Chinese tariffs eventually expand beyond \$500 billion and rise to 25 percent, the hit to overall consumer spending and sentiment will be significant.

“If you look at the tariffs that they put on washing machines, you’ve seen an increase in prices and a decline in consumer demand, and we should expect to see the same from these latest tariffs,” said Simona Mocuta, senior economist at State Street Global Advisors. “I get the sense that even President Trump is not that keen on going up to 25 percent. This is almost like a plea to get people to come to the table and talk.”

Democrats are seizing on the trade issue in close House and Senate races across the country, such as in Tennessee for the Senate seat being vacated by retiring Republican Bob Corker. Democratic nominee Phil Bredesen, that state's former governor, is locked in a tight race with GOP Rep. Marsha Blackburn in what otherwise might be a safe seat for the party. Bredesen has

hammered away at Trump's tariffs, which are hitting the state's large automotive, hog farming and bourbon industries.

Blackburn, a strong Trump supporter, has been critical of the president's trade policies but stopped short of demanding that Congress take away Trump's tariff authority. A newly formed pro-trade effort called Tariffs Hurt the Heartland held a town hall in Nashville last week to highlight what that campaign says is the negative impact of Trump's policies on Tennessee businesses.

Democratic incumbent Sen. Heidi Heitkamp in North Dakota recently ran an ad with soybean farmers talking about the "hundreds of millions" of dollars in lost sales to China. Democrats are also pressing the trade issue especially hard in competitive Senate races in Arizona, Florida, Indiana, Missouri, Montana and even Nebraska, generally viewed as a safe GOP seat, according to the Democratic Senatorial Campaign Committee.

The same holds true in House races in competitive districts that rely heavily on exports. In Washington state's 8th District, which crosses the Cascade mountains, Democratic nominee Dr. Kim Schrier is ripping the tariff impact on the state's apple and cherry farmers in the race to replace retiring GOP Rep. Dave Reichert. Democrats have never won the seat.

"It's just a huge issue here, and we are really feeling this heavily; nearly everything that Washington exports faces a 5 [percent] to 25 percent tariff," said Katie Rodihan, communications director for Schrier. "Kim's point is we really need comprehensive trade agreements and we should never be in this situation where we get spontaneous trade policy via tweet."

The GOP nominee in the district, Dino Rossi, has walked a middle ground typical of pro-trade Republicans across the country, criticizing some specific Trump policies on trade but stopping short of strong rebukes that could alienate the president's fervent supporters. In a statement this summer, Rossi said he has been "very open about my disagreements" with Trump on trade.

Beyond Washington state, the Democratic Congressional Campaign Committee cited competitive House races in California, Illinois, Iowa, Kansas and Kentucky where the party is making Trump's trade policies a central issue. A spokesman for the National Republican Campaign Committee, which promotes GOP House candidates, did not respond to a request for comment on the impact of the trade issue.

Trump's trade policies also are making it difficult for big business groups like the U.S. Chamber of Commerce, the National Association of Manufacturers and the National Retail Federation that generally support pro-business Republicans. The Chamber, for example, is still spending money on ads supportive of GOP candidates like Rossi in Washington state, while strongly opposing Trump's trade policy and issuing charts listing the states most heavily impacted by retaliatory tariffs on American exports.

The Chamber's latest list of states impacted the most include Alabama, Michigan, Pennsylvania, South Carolina, Texas and Wisconsin, where the state's GOP Gov. Scott Walker trails Democratic nominee Tony Evers in recent polling. Retaliatory tariffs threaten a range of products exported from Wisconsin including cheese, whey and paper products, according to the Chamber.

As the new tariffs on Chinese imports begin taking effect Monday, retail groups are warning of the impact on consumers just as the midterms and holiday-spending season approach.

“This is going to be like death by a thousand cuts hitting every consumer product once you broaden the tariffs out,” said Matthew Shay, president of the National Retail Federation. “Taxing American consumers as a way of getting the Chinese to the table just doesn’t seem like the right tactic to us. If all of these tariffs on \$500 billion-plus from China go into effect, prices will increase on everything that gets imported and that’s going to be painful and real and unnecessary.”