



\$1.5T tax cut will make 2018 a monster year for trucking

John Paul Hampstead

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Today House Republicans rushed through a second vote approving their sweeping tax reform package, 224-201, after making last minute changes to comply with Senate budgetary rules. Yesterday the tax bill passed the Senate 51-48. The tax cut is the most significant legislative victory scored by the GOP since taking control of both chambers in January 2015, when they assumed majority control of the Senate. The bill is expected to have broad effects on the economy, carving deep and permanent cuts into corporate tax rates as well as lowering individual income taxes for five years.

An emotional Speaker Paul Ryan (R-WI) on the floor of the House, exclaimed, “Today, we are giving the people of this country their money back.” The plan cuts the corporate tax rate from 35% to 21%, overhauls the tax brackets for personal income, including lowering the top rate from 39.6% to 37%, and doubles the size of inheritances exempt from estate taxes to \$22M for married couples. This afternoon President Trump tweeted, “We are delivering HISTORIC TAX RELIEF for the American people! #TaxCutsandJobsAct”.

President Trump and Congressional Republicans held a festive, celebratory event Wednesday afternoon. As President Trump approached the podium set up in front of the White House’s South Lawn, the Marine Corps band played “Hail to the Chief.” Trump touted the hard work of the Republican legislators standing behind him, and then announced that he had just received word that AT&T pledged to increase capital spending by \$1B in 2018 and give \$1,000 bonuses to more than 200,000 workers on the basis of the tax cut’s passage. It’s fair to say that President Trump was jubilant over his much-needed political win, giving shout-outs to lawmakers in a casual, jovial manner. “Orrin did a great job—he’s a really special person,” said Trump of Sen. Orrin Hatch (R-UT), Chairman of the Senate Finance Committee. Referring to Rep. Steve Scalise (R-LA), the House Majority Whip who was shot during a softball practice in June, Trump joked, “What a hell of a way to lose weight. We love you Steve!”

But what effects will the tax reform bill have on American freight markets? Corporations will see certainly see a windfall of cash, but it matters how they spend it. Over the past year, many corporations have spent cash reserves on stock buybacks and dividends—they’ve been trying to boost stock prices to keep investors happy without really ploughing the money back into the companies. Mark Zandi, chief economist at Moody’s Analytics, said he expects the tax cut to boost business investment growth from about 4% to 6% over the next couple of years. This would be great for trucking: flatbeds would be hauling more heavy industrial machinery, and the pick-up in manufacturing production would increase in demand for dry van capacity all over the country. Consumers will have more money to spend: Sen. Tim Scott (R-SC) said that the average

working single mother will see her tax bill cut by 70%, freeing up cash for her to buy goods—goods that will be shipped by trucks.

Zandi worries, though, that the cost of the plan could bloat the deficit so much that interest rates could go up, ultimately discouraging business borrowing and investment. Other commentators, like Ryan Bourne from the libertarian [Cato Institute](#), believe that the tax reform “will attract substantial capital to the US corporate sector, by increasing the after-tax return on investment, encouraging profit repatriation and more headquartering in the US, and shifting capital from less productive sectors.”

Valuations of truckload carriers have been rising for the past month—the Dow Jones U.S. Trucking Index has gone up 10% in the past month. We will find in the next few weeks whether the anticipated windfalls from slashing corporate taxes have already been priced in to those stocks, or whether carriers’ values will be boosted again.