Trump, Taxes and Trade: Looking at the Economy Since the Presidential Election

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One year into Donald Trump's presidency, the American economy is in better shape by a number of key measures, although the extent to which those gains in the GDP, employment, and stock market can be attributed to Trump's election isn't nearly as clear.

"By most of the standard measurements the economy is doing well, perhaps a bit better than it had been doing in the previous eight years," said Jeffrey Miron, director of economic studies at the Cato Institute, who said the United States has benefited from a broadly rising global economy that has buoyed both established and emerging markets.

"I would say that the economy and the markets have done well in spite of the presidential turmoil that's been part of the administration, at least to date," said Yung Ma, chief investment strategist for BMO Wealth Management.

Deregulation is a winner

Although the White House and Congress have, thus far, had little legislative success to speak of on economic matters, economists on the right and the left agree that the Trump administration does get credit for growth insofar as it comes from relaxing regulations on everything from oil drillers to big banks, even if they differ on the expected ramifications.

"The perception of the business community and the markets is the amount of new regulation we're going to see over the next four years is much less than we would've seen if we had a Democratic administration," Miron said.

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"I think the regulatory side probably does give polluters and people making dangerous chemicals a feeling that their investments will make future output more profitable," said Gary Burtless, an economist at the Brookings Institution. "They're not going to interfere what's been a very good run in business profitability since about 2010. That shows up in stock market valuations," he said.

Unfortunately, the extent to which ordinary Americans can reap the benefits of those market gains is limited by a vexing lack of wage growth, even as the labor market has rebounded to near-full employment.

“The average American is looking for two things — they want to see higher wages and want to see the market moving higher,” said Terry Simpson, a multi-asset strategist at BlackRock. “We’ve had the benefit of the latter; however, we’re still at the point of where average hourly earnings in the United States are not breaking out and that’s somewhat of an issue,” he said. “If you’re not seeing higher wages, you don’t have more money to put into your 401(k) to reap the benefits of this higher market.”

The rich are doing best of all

The result is that an outsized share of the market’s gains have been accumulated by the very rich. The Federal Reserve’s most recent Survey of Consumer Finances found that the top 1 percent now controls nearly 40 percent of the nation’s wealth.

There are growing indications that Americans, and Trump voters in particular, are still feeling left out of the recovery. According to a new poll of residents in Trump-supporting counties across the U.S. from NBC News and the Wall Street Journal, more than 40 percent say the country is worse off today than before the presidential election, compared to just under one-third who say the situation has improved.

The GOP is pinning its hopes for a major legislative victory — and its success in next year’s midterm elections — on its tax plan, but at this point, companies don’t need the boost, analysts say. They are investing and hiring in response to market fundamentals that have increased demand domestically as well as abroad — a trend likely to continue even without a sharp cut in the corporate tax rate.

“Even if they’re not passed, the economy is on stable and strong footing,” Ma said. “A big factor that’s kicked in over the last three quarters is business spending — it has contributed meaningfully to U.S. growth.”

“It’s not one thing,” Joe Quinlan, head of market and thematic strategy at Merrill Lynch and U.S. Trust, said of the forces propelling the American economy forward. “Consumer confidence is elevated, [and] it’s the corporate sector hiring and investing more, it’s exports picking up because of the weaker dollar.”

Fears of protectionism

But while Trump might not have fired up the economy, he could still throw cold water on it. Economists express concern that the administration’s embrace of protectionist policies on trade and immigration could put a drag on future economic growth.

“If this expansion is going to go beyond this year, we’re going to need more people,” Burtless said. “I’m afraid a lot of the legal barriers are going to be deterring highly skilled people” like engineers and software developers, he said. This would rob the U.S. not only of the taxes those workers would pay on their earnings, but of innovations that could contribute to their employers’ profitability and the additional tax revenue that would generate. A perception that the United States is hostile to immigration would hurt its competitiveness in a global marketplace.

Analysts are also watching carefully for signals from the president's Asia trip for any indications that a shakeup in trade relations is coming.

"If there's a move towards protectionism, that can be a very big detriment and a headwind not only to our economy but to our global peers," Simpson said, adding that it is in the United States' best interest to look out for the economic health of our trading partners to prevent a drop-off in demand for American exports.

"It's not just one country against each other," Ma said. "Trade relationships are very difficult to unwind once they get in place. Supply chains are built around them," he said, and disrupting that can create an economic domino effect.

And if a self-inflicted or outside shock such as a major geopolitical conflict in the Middle East did significantly slow the momentum of economic growth, economists worry that the GOP's debt-heavy tax plan — which multiple analyses have found would deliver the most benefit to the wealthiest taxpayers, including Trump himself — could leave the United States without the tools to stop the slide.

"The benefits look to be front-loaded, and the concern here is if you do get into a recession then you've kind of exhausted some of the monetary policy stimulus but you've also exhausted the fiscal stimulus," Simpson said. "That is a worry."