



## 5 ways Donald Trump may already be affecting the economy

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With less than 40 days until President-elect Donald Trump's inauguration, his words and actions are already having a direct impact on the economy in a number of ways.

On Monday morning, Trump tweeted out a complaint about the cost of the F-35 fighter jet. Shares of Lockheed Martin, the maker of the jet, tumbled 5.1 percent in early morning trading. By midday, Lockheed's stock price had mostly recovered, but as with Trump's Twitter attack on Boeing last week, it was clear that the markets do not have the luxury of ignoring his social media activity.

In the month since the election, Trump has been exerting his influence frequently through tweets, press releases, rally appearances, and occasional news interviews.

"We're being stripped of our jobs, our good jobs are really going down, and we've got to stop it," he said on "Fox News Sunday." "And the only way you're going to stop it, the nice way is, we're reducing taxes very substantially for companies so they're not going to have to leave because of taxes. We'll be reducing regulations. Now, those are the nice ways of doing it and everyone loves it and everyone's happy. Businesses, way down. Also middle class, but way down, okay, taxes and regulations."

In many cases, financial markets and business leaders seem to be holding off to see what Trump actually does in office before taking substantive actions. There are some trends emerging already, though, both in Trump's behavior and in the economy's reaction to it.

### 1. Stock market

Twitter-induced fluctuations aside, Trump's election has **led to a relatively sustained stock market rally** in anticipation of policy shifts that many analysts expect will facilitate economic growth.

It is always difficult to attribute market trends to one specific cause, according to Jeffrey Miron, director of economic studies at the Cato Institute, but he sees several reasons why Trump's policy agenda might be encouraging to Wall Street.

"It's a reasonable expectation at this point that the Trump administration, for at least the first couple of years, is not going to add new regulations... It's certainly plausible that the administration and Congress might enact some tax reductions and corporate tax reductions," said Miron, director of undergraduate studies in economics at Harvard University.

Kate Bahn, an economist at the Center for American Progress, believes Trump's anti-regulatory rhetoric is playing a role, but she also noted that the market was healthy before the election. "We already had a pretty strong economy going into the election, so I don't think we should discount that as a factor," she said.

Bahn warned that the bump in the markets may not be sustainable unless Trump pursues policies that encourage long-term growth, and she does not see that in his actions so far.

"What he's shown evidence of actually doing as his economic policy are corporate giveaways."

## 2. Staffing

On Monday, Trump announced the selection of Goldman Sachs President Gary Cohn as assistant to the president for economic policy and director of the National Economic Council. He joins former Goldman banker Steve Mnuchin, Trump's pick for treasury secretary, at the top of the Trump administration's economic policy team.

Miron sees mixed signals for economic policy in Trump's choices for senior staff and Cabinet slots so far. Trump has turned to an odd combination of conventional Republican policy wonks, successful businesspeople, and unpredictable outsiders.

After railing against "elites" and big banks on the campaign trail, Trump has turned to those elites to fill many of his biggest economic jobs, including some who were top fundraisers for his campaign.

Trump's reliance on prominent business leaders is not inherently good or bad, according to Miron, but it does give rise to fears of "crony capitalism." A lot of companies and industries are already heavily favored by the government, and there is an opportunity now to either level the field or skew it further.

According to Bahn, many of Trump's nominees have been "quite extreme," and businesses would rather see moderate, reasonable people in these jobs who they can work with than leaders who in some cases **disagree with the mission of the agency** they are appointed to oversee.

With the frequency of transition staffing announcements and the amount of other developments that impact the economy more immediately, it is difficult to tie market effects to any specific Cabinet pick.

"There's just way too much noise," Miron said.

### **3. Manufacturing**

Citing expectations of pro-business policies from the next president, Carrier announced last month after negotiating with Trump that it would keep a furnace factory in Indianapolis open, saving about 800 jobs that it had been set to ship off to Mexico. However, hundreds of jobs are still being sent south and the company is increasing investment in automation to eliminate more American jobs in the years ahead.

The reaction from the head of the Carrier steelworkers' union after Trump declared victory on the matter reflects the complexity of the challenge the president-elect has created for himself. He accused Trump of lying and misleading workers about the amount of jobs that would be saved. In addition to questioning Trump's honesty about the deal, critics have also argued that the president personally negotiating with companies that are moving jobs out of the U.S. is not a scalable or sustainable approach to policy.

"To attack individuals or to help individuals, that's not really how you do policy," Bahn said. Trump's personal attacks on companies since the election have been unpredictable. It remains unclear exactly what motivated him to target Carrier, Boeing, or Lockheed at the moment he did, and the markets are obviously still working out how to respond when he does take aim at a business.

"My hunch is that it terrifies everybody and it encourages most people to kind of keep their head down and not speak out on anything that he's doing," Miron said.

He said economists find such behavior "truly horrifying," as it exemplifies the powerful working to reward their friends and punish their enemies. The government arbitrarily choosing winners and losers never ends well.

"The Carrier deal was not a good example of thoughtful, neutral adjustments," he said.

### **4. Trade**

Although Trump continues to push the prospect of a 35 percent tariff on foreign goods, his nominees for top economic posts in the administration have downplayed the possibility. Commerce Secretary nominee Wilbur Ross said in an interview with CNBC last month that tariffs would be a last resort, not a first.

Trump has promised to renegotiate trade agreements and get better deals for U.S. consumers, but nobody knows whether he can get more favorable conditions from countries like China and Mexico or what those would be.

According to Bahn, ideas like the 35 percent tariff are so extreme that companies are unlikely to think they will actually stay in effect even if Trump does implement them. As a result, they might be reluctant to change their business models to reflect them.

"My impression is it's a wait-and-see for now," Miron said.

This is another matter where Trump's conflicting staffing choices make predictions difficult. He has a traditional Republican free trade advocate in chief of staff Reince Priebus, but a more protectionist nationalist in strategist Steve Bannon.

Based on what Trump has said and done so far, it is impossible to know which direction the administration will ultimately take, Miron said.

## **5. Immigration**

Like trade, the effect of Trump's immigration policies will depend on how many of his campaign promises he keeps. He has backed down slightly on his insistence that there will be a border wall, saying now that it may be fencing in some areas and it will not stretch across the whole Mexican border.

Fear of Trump's border security may be contributing to a surge in immigration. CNN reported that the **number of people apprehended at the southern border** jumped by 17 percent in October, although there was no consensus that the possibility of a Trump presidency was responsible for those numbers.

"If you talk to them, they all know about President Trump," McAllen, Texas Mayor Jim Darling told CNN. "They all know about a wall. ... The cartels that are encouraging and making money off this travel, they go down and they exploit that."

Data for November and December, especially for the period after Election Day, should demonstrate how big of a role Trump is playing.

Miron doubts Trump will push for restrictions on highly skilled immigration, but if he sticks with plans that would cut back less skilled immigrants and eliminate cheap labor, costs for consumers will rise.

On this and other economic issues, he predicted it will be apparent by mid-2017 whether the Trump administration is following the path of mainstream GOP economic orthodoxy like a Jeb Bush or Marco Rubio would if elected, or if "some of the crazy banana republic show" that has been happening takes hold.

"There seems to me some chance it's going to be a circus, but maybe calmer heads will prevail," Miron said.