



Trump's impact on the economy: the Good, the Bad, and the Ugly

David Francis

November 9, 2016

Wednesday, hours after Donald Trump scored perhaps the biggest upset in political history, world markets were surprisingly calm. Fears of a global selloff, like the one seen in the aftermath of Britain's decision to leave the European Union, appear to be overblown. But few experts expect the calm to last given lingering uncertainty over Trump's ill-defined economic policies.

"We expect lack of clarity around Trump's policies - from feasibility to prioritization - will likely weigh on sentiment and pressure already muted business investment," Bank of America Merrill Lynch strategist Savita Subramanian wrote Wednesday morning.

As Democrat Hillary Clinton delivered her concession speech Wednesday morning, market watchers around the world warned that uncertainty spells a rocky road ahead for both the U.S. and the global economies. But Trump's pledges to tear up huge chunks of the Obama administration's economic policies also offer plenty of upside for a select group of companies.

Some of the most immediate risk comes from Trump's impact on global trade - which is already reeling and dragging down global economic growth. He has promised to tear up existing trade deals and abandon ones in the works, including the Trans Pacific Partnership, a massive trade deal between the United States and 11 other Pacific nations. If the businessman turned soon-to-be commander in chief keeps his campaign promises, steep tariffs on Chinese and Mexican goods are coming, likely resulting in a trade war as those countries slap similar penalties on American goods.

Unlike many of his grandiose plans, trade policy is firmly in White House hands, meaning he could make good on pledges to tear up trade pacts and walk away from the WTO.

"It seems to me that we're looking at a pretty rocky economic performance for as long as he sticks to that approach," William Cline, an economist at the Peterson Institute for International Economics, told Foreign Policy.

Trump has also taken aim at the independence of the U.S. Federal Reserve, the most important central bank in the world, because it sets interest rates on U.S. loans. This has a knockoff effect on foreign monetary policy, how much other countries charge to lend money and currency trading. Republicans have long backed a bill giving Congress the power to audit the Fed; with firm control of the White House and Congress, its chances of passage have gone up dramatically.

"Ultimately," Alan Levenson, T. Rowe Price's chief US economist, said in a note to clients Tuesday night, Trump's proposals "threaten to undermine global faith in the independence of the Federal Reserve and the geopolitical standing of the United States."

Still, there were plenty of smiles in some places on Wednesday: Financial stocks, healthcare and many energy firms all surged. Trump, who campaigned as the champion of the working man and railed against Clinton's Wall Street ties, has promised to dismantle Dodd-Frank, the set of financial regulations put in place after the Great Recession meant to prevent another financial collapse.

"Dodd-Frank has made it impossible for bankers to function," Trump said in May. "It makes it very hard for bankers to loan money for people to create jobs, for people with businesses to create jobs. And that has to stop."

Also, Trump's pledge to repeal Obamacare has Wall Street bullish on healthcare companies and pharmaceuticals. Stock prices in both sectors jumped at the news of his victory due to the prospect of new business from those who formerly bought care through federal exchanges.

Parts of the energy patch are also cheering Wednesday. Trump's plans to roll back the Obama administration's environmental regulations on coal were a boon for miners like Arch Coal and Consol Energy. Trump has also promised to scrap the Paris climate accords, an agreement that went into effect last week among almost 200 nations meant to help combat climate change. Predictably, clean energy companies got hammered Wednesday.

"In a vacuum, more energy production is a good thing - more jobs, cheaper oil, cheaper gas," Jeff Rottinghaus, manager of T. Rowe Price's U.S. Large-Cap Core Equity Strategy, wrote in a Wednesday note. "Less regulation could help energy investments because it could lower companies' costs to pull resources out of the ground."

The same can be said for defense contractors. The president-elect has promised to eliminate the budget sequester that caps military spending, and to spend more on new ships, planes and troop increases. Shares of defense suppliers Northrop Grumman and Lockheed Martin were up about 5 percent, with Raytheon up 7.6 percent.

Some of Trump's economic plans - like his massive tax cuts for the wealthy - will require cooperation from Congress. But he's hardly made friends on Capitol Hill, accusing House Speaker Paul Ryan of "disloyalty" while he campaigned against Clinton.

"If he wants to get things done, he'll have to come to some kind of modus operandi with Ryan," Gerald O'Driscoll, an economist at the libertarian CATO Institute, told Foreign Policy.

Trump's tax plan in particular raises questions, especially for a party that claims to be concerned about the national debt. He has proposed streamlining current tax brackets, with a top marginal

rate of just 33 percent, down a bit from the current 39.6 percent. The nonpartisan Tax Policy Center found this would reduce federal revenues by \$9.5 trillion over ten years. Without corresponding spending cuts, this would increase the national debt by nearly 80 percent of GDP by 2036.

It's also unclear how feasible some of Trump's other economic proposals actually are. He's promised to add 25 million jobs to the economy over the next decade with 4 percent annual economic growth. Under President Barack Obama, the economy grew about 2 percent each year, and the economy added more than 9 million jobs. Few economists think Trump's plan will work; prior to the election, 370 prominent economists signed a letter calling Trump a "dangerous, destructive choice for the country."

If the president-elect needed a reminder that there are economic forces far beyond his control, he got one Wednesday. General Motors announced it would cut more than 2,000 factory jobs in Michigan and Ohio, two states that voted for the outsider candidate. The layoffs are due to declining car sales.