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Trumponomics 101

Analysts widely expect Trump's espoused policies to have a stimulative effect. But they mostly depend on congressional approval.

By Andrew Soergel | Economy Reporter
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Only a month after President-elect Donald Trump stunned the nation at the ballot box as he and a GOP-controlled Congress rolled to electoral victory, the incoming administration's leadership and economic policies are gradually starting to take shape.

Trump will inherit an economy that's as strong as it's been in years. Though gross domestic product growth was slow in the first half of 2016, U.S. employers have created 14 million new jobs over 74 consecutive months of labor market expansion. Americans' wage gains have begun to accelerate, and unemployment is as low as it's been in the post-recession era.

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> Bernard Baumohl,
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Whereas President Barack Obama inherited an economy submerged in the depths of the Great Recession, Trump will take office in a time of relative prosperity. Not everyone has felt the last few years' economic gains evenly, but the numbers look significantly better in 2016 than they did eight years ago.

"If you look at the length of time we've been creating over 2 million jobs a year, it just blows the boom in the mid-2000s out of the water," says Brad McMillan, chief investment officer at the Commonwealth Financial Network. "It approximates the late-90s boom. It's been really, really strong."

But Trump ran a campaign on the notion that the economy is broken and that he can make it sing like never before. As such, expectations are high for his administration. He's suggested he can help push GDP growth to 4 percent and create millions of additional jobs. For context, the economy expanded at a 3.2 percent clip in the third quarter. But it hasn't hit 4 percent in any year since 2000 and in any individual quarter since 2014.

The problem, though, is that it's hard to predict what Trump will actually do once he moves into the White House, in part because some of his proposals weren't thoroughly fleshed out prior to Nov. 8 and in part because he'd held multiple positions on the same issue, like the need for minimum wage hikes and the issuance of H-1B visas.

And after the president-elect appeared to walk back a handful of promises he'd made on the campaign trail after his Electoral College win – that he'd bring back waterboarding in the military, that he'd seek a special prosecutor to go after Democratic rival Hillary Clinton and her charitable foundation, that he'd strongarm companies into scuttling offshoring efforts with tariffs rather than tax breaks – it's been difficult to separate the policies of Trump the candidate from Trump the soon-to-be commander-in-chief.

A recent Oxford Economics study simultaneously rated Trump's incoming administration as the "single largest risk" and the "key potential source of upside risk to the global economy over the next two years." The report saw Trump as both the largest source of potential disaster and the most promising prospect for economic growth going forward.

Best-case scenario: Trump and his cadre of Republican lawmakers manage to pass fiscally stimulative legislation that helps the economy and labor market boom.

Worst-case scenario: Isolationist policies spark a trade war and chart the U.S. economy on a path toward recession.

"The president-elect still represents the mother of all uncertainties when it comes to domestic and foreign policies," **Bernard Baumohl, chief global economist at The Economic Outlook Group,** wrote in a research note last week. "There is absolutely no record of governing we can count on."

But his choices for cabinet positions say a lot about the direction the domestic economy is likely to go over the next four years. Goldman Sachs alum Steven Mnuchin and billionaire investor Wilbur Ross were recently named heads of the Treasury and Commerce Departments, respectively. Both have repeatedly gone on record supporting personal and corporate tax reform and private-sector deregulation. Both have also highlighted a need for infrastructure investment in the U.S. to fix the country's dilapidated roads, bridges and airports.

"From a business perspective and an economic perspective, it looks like these two guys are folks who will help push through Mr. Trump's agenda and smooth over any potential wrinkles, especially around the debt and the deficit," says John Canally, chief economic strategist at LPL Financial.

Sen. Jeff Sessions, R-Ala., is another telling selection as Attorney General. Sessions is a vocal critic of America's H-1B visa program – which allows companies to sponsor a limited number of skilled workers to come over to the U.S. to fill job openings.

Sessions has claimed that the H-1B visa system depresses wages and exacerbates unemployment, saying at an Indianola, Iowa, Trump campaign event in October that he doesn't think "the republic would collapse if [the H-1B system] was totally eliminated." He also wrote to former Attorney General Eric Holder last year to investigate private-sector H-1B use.

"We bring in too many people from abroad too fast," Sessions said in Iowa. "Americans should have a chance at the job before you bring in a foreign worker to take a job."

Presumably, Sessions will push to clip an H-1B program used prominently by those in the U.S. tech sector to fill vacancies they say most unemployed Americans aren't usually qualified to fill. Opponents of the system like Sessions, however, have suggested employers issue H-1Bs to bring in workers from overseas that will accept lower wages.

But outside of a skilled-immigrant program that is currently capped at 65,000 visas per year, what will the labor market and the economy look like under a Trump presidency?

"The bottom line is actually, I think we're looking at a pretty good year, with the possibility of a very good year," McMillan says, predicting that the economy stands to benefit from some of "the very stimulative effects of some of Trump's policy actions."

That the economy is already plugging along at a strong clip is a good sign, but the GOP's sweep of Congress and the White House on election night has potentially set the table for legislation to move quickly through Capitol Hill. That Trump and GOP lawmakers appear to agree on the need for corporate tax reform, in particular, is a good sign for business prospects, McMillan says.

"From a corporate perspective, you're going to have earnings increase in response to that. You're going to have significant benefits from lower regulation," he says. "You look at tax cuts, and there's nothing but overlap there."

Trump's commitment to infrastructure projects is also expected to provide temporary employment opportunities and business opportunities for builders and materials suppliers. Bill Sandbrook, president and CEO of U.S. Concrete, told U.S. News in an interview last month that he is "optimistic that maybe this time, the rhetoric is actually going to be followed up with funding that translates into ... a reinvestment into the tangible assets of this country."

U.S. Concrete's stock has climbed nearly 30 percent since Election Day, with outfits like Caterpillar seeing a nearly 15 percent equity jump, as of Wednesday's close. Investors have widely indicated they're bullish about the economic opportunities Trump's espoused infrastructure projects will bring to the country.

But McMillan says the single biggest risk to Trump's economy is that Washington will be as divided and slow-moving as it's been in recent years.

"I think a lot of the notion that the materials companies and the construction companies are going to be able to take advantage of this, it's certainly possible, but I think the market has really gotten ahead of itself on that," McMillan says. "If I'm going to go to speaker Ryan and saying, 'OK, I want to run up the deficit to 5 percent of GDP so we can spike spending,' I think that's going to be a tough sell. I think that's going to be a tough sell with his Tea Party cohorts as well."

And if all of the pieces of the puzzle don't line up – if Congress, for whatever reason, derails Trump's infrastructure plans or delays personal or corporate tax reform – the incoming administration's promised benefits start to sag. Trump has repeatedly said he expects the economy to grow 4 percent per year under his watch – effectively double the rate of expansion seen over the course of the last few years.

Economists widely believe he'll need the stars to align to get anywhere close to that 4-percent target.

"What we were talking about last year was the thinness of the Republican majority and how hard it was to hold together in the face of Democratic spending initiatives. You're going to have exactly the same group of awkward Congress people that are going to have to be dealt with," McMillan says. "The deficit is one of their key redlines, and it's far from certain to me that they're going to be any more accommodating to a Trump infrastructure program than they would have been to an Obama infrastructure program."

That the Dow Jones industrial average, S&P 500 and Nasdaq Composite index have each soared to all-time highs in the weeks since Trump's election suggests investors widely expect the incoming administration to be economy- and business-friendly. But as McMillan points out, economic performance under Trump may ultimately come down to his favorability in Congress.

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