

Trump and the Economic Outlook

Maryland Government Financial Officers Association

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Reasons for Optimism

Inexpensive Energy: Shale Gas/Oil, Wind and Solar, Seabed Crystalline Hydrate, and Who Knows What Else

Inexpensive Capital: More Efficient Use, Greater Abundance

Inexpensive Production: Robotics and Artificial Intelligence; Supply Chain Management; New Materials: All Revolutionizing Production

Global Dissemination of Technology: Intensifying Competition

Developing Countries Advancing Inexpensive Technologies

U.S. Well Situated

United States: At Cutting Edge of Energy, IT/Production Technologies, Leader in New/Refined Materials and Intellectual Property Protection

Japan: Lacks No Technology or Educational Asset the U.S. Enjoys but Low Birth Rate, Xenophobia Stifles Growth

Germany: Most Advanced/Largest EU Economy but Threatened by the Bloc's Dysfunctions. Does Not Recognize It Too Must Reform!

China: Leadership Committed to Reform and Relying on Domestic Demand, but Reforms Require Slower, More Sustainable Growth and More Transparency—and Less Aggressive Military and Foreign Policy Posture

Lessons of History

Stronger Growth is Possible

Reagan – Clinton: 1981 - 2000

GDP Growth: **3.4%**

Bush – Obama: 2001 - 2017

GDP Growth: **1.8%**

Potential Growth: 3 – 4 Percent?

Productivity Growth

Annual Labor Productivity Growth

1980-2009: 2.0%

2010-2016: 0.9

Similar Slowdown in Labor Force Growth

1979-2009: 1.3%

2010-2016: 0.5

Remedies

Investment: Taxes, Regulation, Trade Deficit

Labor Force: Entitlements, Immigration Reform

Trump – GOP Agenda

Immigration

Repeal and Replace ObamaCare

Entitlements Reform

Tax Cuts and Reform

Trade Policy/Trade Deficit

Infrastructure

Regulatory Reform – Energy,
Environment, Finance and General
Business Conditions

Trade Policy

Eliminate Trade Deficit

35/45 Percent Tariffs on Mexico/China

Renegotiate NAFTA

America First Initiatives

Buy American

Cancel TPP, Resort to Bilateral Agreements

Tougher Enforcement of Trade Remedies Laws

Trade Agreements/Trade Barriers Review

Mar-a-Largo Agreement

House GOP Corporate Tax Reform (BTAs)

Personal Income Tax Reform

Cut Top Rates, Scale Back Credits,
Deductions, Special Breaks

No Tax Cut Overall for Upper Brackets

Middle Class Tax Cut?

Revenue Neutral?

Corporate Tax Reform

WTO Rules

Taxes on Goods – VATs, etc – BTAs **OK**

Taxes on Labor or Profits – **Not OK**

Brady Corporate Tax Plan:

Current System: Taxes Profits No Matter Where
Products Are Made

Proposed System: Tax Products Where
Products Are Sold

Transforms Corporate Tax into a VAT by
Permitting Expensing of Structures, Equipment
and Eliminating Interest Payment Deductions

BTAs and 20 Percent Corporate Rate

Deregulation

Executive Orders – Review Process, Law Suits

Energy Policy – Eliminating US Import Dependence?

Dodd-Frank – Reopening the Rule Book (Dimon)

Overlapping Jurisdictions

Capital Requirements

Resurrecting Glass-Steagall?

Labor Markets (Minimum Wage); Education; Law Enforcement

Energy Policy

Millions of Barrels/Day

Crude Oil Supply

Domestic Production	14.8
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Net Imports	4.5
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Total	19.1
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Gasoline for Transportation	8.8
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Diesel for Transportation	2.8
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Summary Outlook

Global Growth: About 3.5 Percent Plus

US Growth: 2.2 to 2.4 Percent

US Drivers: Consumers and Business Investment

Consumer Sector

Stronger Household Balance Sheets, Improved
Job Security

Stronger Residential Construction

Business Investment

Manufacturing

Residential Construction – Rebuilding Cities

IT – Robotics, Artificial Intelligence, Software

Infrastructure – Roads, Mass Transit, Schools

National Economic Forecast

	Q117	Q217	Q317	Q417	Q118	2016	2017	2018
GDP: Annual	0.7	2.6	2.6	2.4	1.9	1.6	2.3	2.3
GDP: Q4/Q4						1.9	2.4	2.3
CPI: Year/Year	2.6	2.2	2.3	2.0	1.9	1.3	2.3	2.0
Core CPI: Year/Year	2.2	2.0	1.9	1.9	1.9	2.2	2.0	2.0
Unemploy- ment	4.7	4.4	4.4	4.3	4.3	4.9	4.5	4.3
Fed Funds: Qtr/Yr End	0.875	1.125	1.375	1.375	1.625	0.625	1.375	2.125

Fed Policy

Fed Funds Rate: Three Quarter Point
Increases Per Year

Top Fed Funds Rate of 3.5 Percent

Inflation Tolerance of 2 to 2.5 Percent

Fed Scales Down Balance Sheet from
\$4.5 Trillion to \$2.5 – 3.5 Trillion over
Several Years and then Rebounds

Interest Rates

(End of Year)

	Federal Funds	10-Year Treasury	30-Year Conventional
2016	0.625	2.45	4.20
2017	1.375	2.75	4.45
2018	2.125	2.96	4.61
2019	2.875	3.09	4.76

Permanently Lower Cost of Capital

Businesses Use Much Less Financial
Capital to Create New and Better Products

Google Was Founded on \$25 Million in 1998
and Valued at \$23 Billion at Its IPO Five
Years Later

By Comparison Consider How Much Money
and Time It Took Ford

25 Year Average S&P P/E: 25

P/E of 35 Reasonable → S&P 3200

Long Term Equilibrium Interest Rates about
25 Percent Lower

Risks and Issues

Big City Land Values

\$1.4 Trillion Student Debt

European Banks

China

US Corporate Debt

Obstructionism and Gridlock in
Congress Frustrates Trump's
Agenda