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
Net Imports	4.5
Total	19.1
Gasoline for Transportation	8.8
Diesel for Transportation	2.8

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