



November 15, 2016 | Andrew J. Nelson, Chief U.S. Economist

## A Preliminary Outlook on the Economic Impacts of a Trump Presidency

### Summary

- Any forecasts of impacts from the Trump Administration must be viewed as extremely preliminary, and the actual effects will ultimately depend upon the extent to which Trump’s campaign proposals are enacted.
- Trump’s planned stimulus package of tax cuts and infrastructure spending in early 2017 could provide a mild boost to employment and economic growth in the second half of 2017 and into 2018. But these gains are widely expected to be at least partially offset by greater inflation and higher interest rates.
- The impact of Trump’s broader economic platform raises more uncertainty. The planned business-friendly policies to reduce regulation and lower taxes can be expected to further stimulate economic growth, while the anti-globalization measures to reduce imports and net in-migration threaten to reduce economic growth in 2018 and beyond.
- On balance, these policies materially raise the odds of a recession by 2019, though much depends on the extent to which Trump’s economic plank is ultimately adopted.
- Impacts on the property sector should broadly track these economic trends, with moderate leasing gains in the office and perhaps industrial sectors in 2017, yielding slower to negative absorption as economic growth moderates and then falls during a recession.
- The industrial sector would be further hurt directly by reduced trade flows, with some offset from greater domestic manufacturing and energy production.
- The impact on the housing market remains more uncertain, as greater consumer disposable income from lower personal income taxes would be offset by higher interest rates and job losses during the recession. Benefits to renters and the multifamily market likely would be less, as expected tax cuts will be weighted to more affluent households, who tend to be homeowners. The impact on the retail sector would be similar, with the additional direct losses from lower, more expensive imports.
- Finally, expect a hit to real estate capital markets, as property fundamentals weaken and interest rates rise, particularly if foreign sources reduce their U.S. investing in the event of global trade wars.

### What Just Happened?

Compared with Donald Trump’s shocking upset of Hillary Clinton, [Wall Street’s positive reaction](#) to Trump’s triumph in the days afterward ranks as only mildly surprising. Still, the post-election gains must be viewed as puzzling for at least two reasons: First, for the two weeks leading up to the election, the markets had seemed to track directly with Clinton’s odds of victory. Markets fell [in the wake of the FBI’s disclosure](#) that it was reviewing another huge cache of messages related to Clinton’s infamous private email server, and then [surged with the FBI’s follow-up statement](#) last Sunday—can it be that was only a week ago?—that it would not pursue further action against Clinton after all. Finally, when Trump’s stunning victory became clear late Tuesday night, [overnight options markets plunged again](#).

Surely, Wall Street would fall sharply when it opened the next trading day. Nope. Initial modest losses quickly reversed, followed by [strong gains again on Thursday](#). Apparently, Wall Street likes Trump after all. Actually, financial markets love certainty above almost all else, and part of the gains can be attributed to the inevitable post-election bump. A [recent analysis showed](#) the median return for the S&P 500 between election day and the inauguration is +3.7%. As of Friday, the market was up a little less than 3%. (Alas, there is no correlation between the results before and after the inauguration).

Perhaps the markets also were reacting favorably to the [clean sweep by Republicans](#)—who now control the White House, both houses of Congress, and, soon, the Supreme Court—which portends the end of the gridlock that has been crippling Washington for so long. Now that all the oars of the federal government can start rowing in the same direction, it raises the prospect that something—anything—finally will get done in Washington after years of inaction.

But it seems likely the markets are actually showing some love for Trump's anticipated policy direction as well. Promising to double economic growth, Trump advanced many [economic policy ideas](#) during the long campaign. It is impossible to know at this early date which specific policies ultimately will be advanced, much less enacted (or when). But based on the most consistent campaign themes, the Trump Administration seems most likely to promote economic policy changes in three key areas:

- Shift from monetary (low interest rates) to fiscal stimulus (infrastructure spending and lower taxes)
- Shift away from globalization (less immigration and global trade)
- Shift toward less government control over business (less regulation and simpler taxation)

## 2017 Stimulus

Based on post-election reporting in the financial press, it seems that traders have been most focused on the [potential stimulus package](#). It's always a fool's errand to second guess the wisdom of markets, and more foolish yet to predict future market directions. But the market's optimism seems either misplaced or short-sighted, and goes against the clear consensus of conventional economists, at least in regard to the longer-term implications of Trump's likely economic policies. In short, while tax cuts and infrastructure spending may well provide a short-term boost to economic growth, most economists are concerned about the greater downsides and even more troubling risks associated with Trump's proposed economic policies, particularly regarding trade.

Moreover, the impact of the stimulus is likely to be less than many hope for, and in any case will take time to produce results. The Wall Street Journal's latest [monthly survey of economists](#), just released on Sunday and the first major survey of economists after the election, shows the 2017 GDP forecast at 2.2%, the same as in the prior survey, while growth in 2018 ticked up from 2.0% to 2.3%.

Several factors point to a muted impact of the stimulus. First, [Trump's tax cuts](#) are heavily weighted to upper income households, who tend to save or invest tax savings rather than spend them (the famous "lower marginal propensity to consume" relative to lower-income households). Thus, a set of tax cuts focused on the wealthy will yield less spending and hence stimulus than if aimed at the less affluent.

Second, notwithstanding the campaign rhetoric, the economy is already [near full employment](#). Inducing more people back into the workforce will require raising wages, which are already starting to rise. Thus, a stimulus package at this stage of the cycle is likely to fuel more inflation than real economic growth. Plus, interest rates are likely to rise more quickly. With no stated plans to reduce spending significantly in other areas of the budget, the stimulus package would be funded largely by debt, raising the national debt, which will likely to induce the Fed to hike rates more aggressively. [Interest rates already have shot up](#) more than 40 basis points on the 10-year Treasury since Trump's victory.

Third, and perhaps most important, the stimulus package will take time to be enacted and even longer to take effect. Tax law is complex and revisions are notoriously time-consuming to draft, negotiate and adopt, even with an accommodating Republican Congress. The infrastructure program will take even

longer. Remember the delays in implementing [Obama's stimulus package](#)? The lack of “shovel-ready” projects means the projects can take years to negotiate and get off the ground, even when authorized.

On the other hand, the prospect of a more business-friendly environment, with lower taxes and reduced regulation, could spur business investment, a key component of GDP that has been lagging in recent quarters. Such capital spending could well boost hiring and thus support more consumer spending. On balance, expect a moderate boost to both GDP and job growth over the next two years.

### **Longer-Term Economic Impacts**

Looking further out, Trump's full package of economic proposals brings a mixture of pro-business measures, such as reducing and simplifying business taxes and reducing the regulatory burden, as well as distinctly less business-friendly, anti-globalization policies that limit immigration and trade. Though economists will be debating which of these forces will prove to be the stronger for some time, the vast majority of economists from across the political spectrum are concerned with the anti-globalization forces generally that have been gathering strength in recent years. Economists broadly believe that globalization has been the single most important force for [raising economic growth and incomes](#)—globally and in the U.S.—in the second half of the 20<sup>th</sup> century and beyond (not to mention promoting global peace and political stability). Any major step in another direction would seriously harm our economy. Further, deporting large numbers of illegal immigrants and/or reducing the number of immigrants granted admission into our country would directly reduce consumption and GDP.

My own view, and I believe that of most mainstream economists from both the left and right, is that on balance Trump's anti-globalization policies, if enacted as proposed, would materially slow long-term growth, globally and especially in our country, though this decline would be at least partially mitigated by the pro-business shift in regulation and taxation. Indeed, Trump's economic policies—again, if enacted in line with his campaign promises—raise the risk of recession by 2019.

To be sure, much depends on the extent to which his platform is ultimately adopted. In most of the forecasts prepared by leading economists over the past few months, the baseline forecast under a Trump administration reflected only partial implementation of the Trump proposals on the assumption of a divided federal government. However, the odds of wider policy adoption have risen with full Republican control of Congress.

Of course, the Republican leadership has long advocated for freer trade and smaller government. Thus, we should not expect the Trump administration to get everything it wants. For example, Mitch McConnell, the Senate majority leader, has already [expressed reservations](#) about the infrastructure plan. And House Speaker Paul Ryan, a noted deficit hawk, [will resist measures](#) that expand the national debt. But on a wide range of issues, Trump's economic platform is closely aligned with that of the Republican majority in Congress, all but ensuring quick adoption of at least the broad strokes of his policies.

And Trump will have a [freer hand with trade](#) than is commonly known. Though Senate approval is needed to enter into trade agreements, the President has wide discretion to withdraw from or modify trade agreements under certain circumstances, and to impose tariffs or quotas on foreign countries, potentially initiating global trade wars. Thus, we can assume that the Trump administration may well be able to implement much of what he advocated during his campaign.

Perhaps the most widely-cited forecasts were prepared by Mark Zandi, Chief Economist of Moody's Analytics. Zandi, who has advised presidential candidates on both sides of the aisle, [forecasts a weaker U.S. economy](#) with fewer jobs and higher unemployment under any Trump scenario, with four-year GDP growth about 1.5% less annually and the U.S. entering a recession in either 2017 or 2018 depending on how broadly Trump's ideas are adopted.

Similarly, Oxford Economics projects that GDP growth would slow 0.5% annually under an assumption of partial adoption of Trump's proposals and 1% or more under full adoption. Beacon Economics reaches similar, if more qualitative assessments, concluding that Trump's policies “represent a serious threat to

the current health of the U.S. economy” and raise the potential for causing a recession, but also conceding that there is considerable uncertainty at this early date. And the non-partisan [Peterson Institute for International Economics](#) anticipates that Trump’s policies would induce a recession by 2019, with GDP almost 10% below its baseline projection and employment 4% below baseline should a full-scale trade war break out in response to Trump’s trade policies.

Again, any forecasts must be regarded as very preliminary given that we do not yet know what policies Trump will formally propose, much less what will be actually adopted and when. But the weight of factors suggests that under the most likely scenarios, Trump’s economic policies will provide a mild stimulus in 2017 to 2018, and then slow growth moderately to significantly longer term. Of course, a more benign, even positive, outcome could materialize should the low tax/regulation impacts predominate, particularly if Trump’s trade policies are less extreme than he espoused on the campaign trail and do not provoke wider trade wars. Perhaps the only certainty now is greater uncertainty pending clearer policy direction.

### **Effect on Property Markets**

Impacts on the property sector should broadly track these economic trends, with moderate leasing gains in the office and perhaps industrial sectors in 2017, yielding to slower to negative absorption if economic growth moderates and then falls during a recession. Within the office sector, the financial sector would stand to gain from any rollback of the Dodd-Frank regulations, while pharmaceuticals benefit from an expected lighter regulatory hand from Trump than what was expected from Clinton. On the other hand, the healthcare sector could suffer from the expected repeal or revamp of the Affordable Care Act.

The industrial sector would be further hurt directly by reduced trade flows, with some offset from greater domestic manufacturing and energy production. The industrial property sector could also gain from greater infrastructure spending as well as more military spending.

The impact on the housing and multifamily markets would be more uncertain, as greater consumer disposable income from lower personal income taxes would be offset by higher interest rates, and by jobs losses during the recession. The impacts on the retail sector would be similar, with the additional direct losses from lower, more expensive foreign trade. Moreover, any mass deportation of undocumented or illegal immigrants would reduce consumer demand accordingly.

Finally, expect a hit to real estate capital markets as property fundamentals weaken and interest rates rise, particularly if foreign sources reduce their U.S. investing in the event of global trade wars.

More related insights may be found here:

[GDP, Inflation and Interest Rates Forecast to Rise Under Trump Presidency \(WSJ\)](#)

[How Trump's Presidency Could Impact Real Estate \(Forbes\)](#)

[What President Trump Means for Retailers \(Retail Dive\)](#)

[Trump Victory: Corporate Winners and Losers \(Financial Times\)](#)

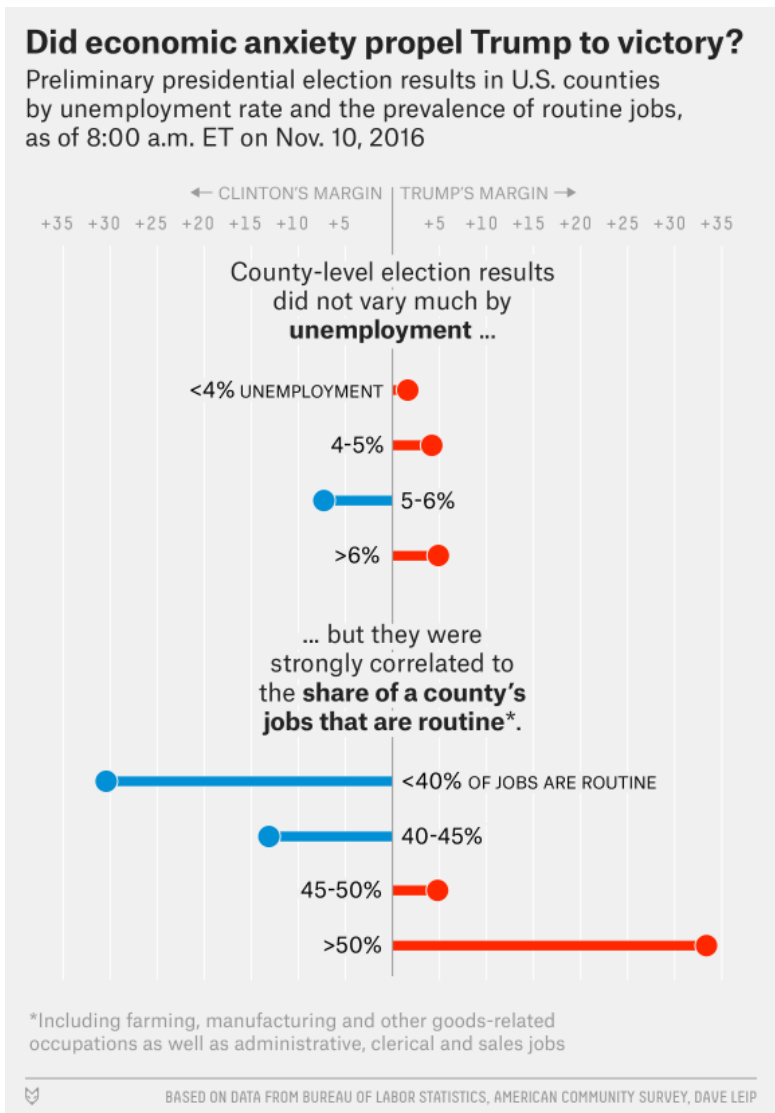
[Trump's Policies Could Damage America's Retailers \(Bloomberg\)](#)

[Economists, CRE Industry Begin to Assess 'Trump Effect' on Property Markets \(CoStar Group\)](#)

[The Economic Impact of Donald Trump's Presidency \(The Economist\)](#)

[RE Execs: US election Is No Cause for Panic \(Private Equity Real Estate\)](#)

[How President-Elect Donald Trump Could Impact Commercial Real Estate](#)



“The places that voted for Trump are under greater economic stress, and the places that swung most toward Trump are those where jobs are most under threat. Importantly, Trump’s appeal was strongest in places where people are most concerned about what the future will mean for their jobs, even if those aren’t the places where economic conditions are worst today.”

From [Trump Was Stronger Where The Economy Is Weaker \(FiveThirtyEight\)](#)