THE TRUMP ERA

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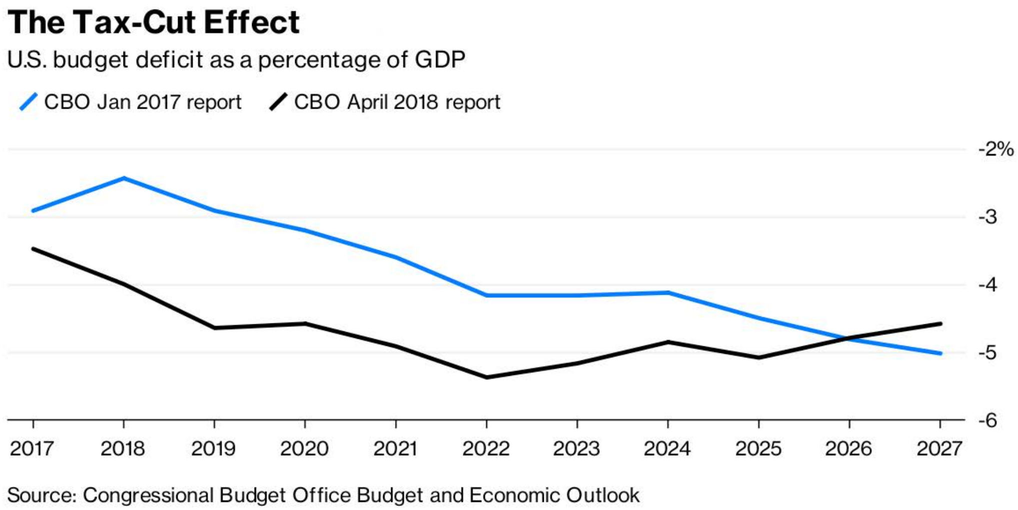
THE TRUMP ERA: What it Means for the Economy Going Forward

The Trump presidency has seen controversy and divisiveness like no other in at least the past several generations. Multiple hot-button issues have been tackled head-on by the current administration and Trump's brash, direct, and sometimes abrasive personal and political proclivities are grist for the mill as the mainstream media churns out sensationalism in place of real journalism.

For the American economy, the Trump presidency has provided a backdrop for huge changes that were unimaginable only a few years prior. With the U.S. Government's 2018 budget deficit coming in at $779 billion – up 17% over last year – the tax cuts signed into law at the beginning of this year were a bold move.

However, according to the Congressional Budget Office, the tax cuts are expected to have a beneficial effect on the deficit over the next decade:



Courtesy of Bloomberg, Congressional Budget Office

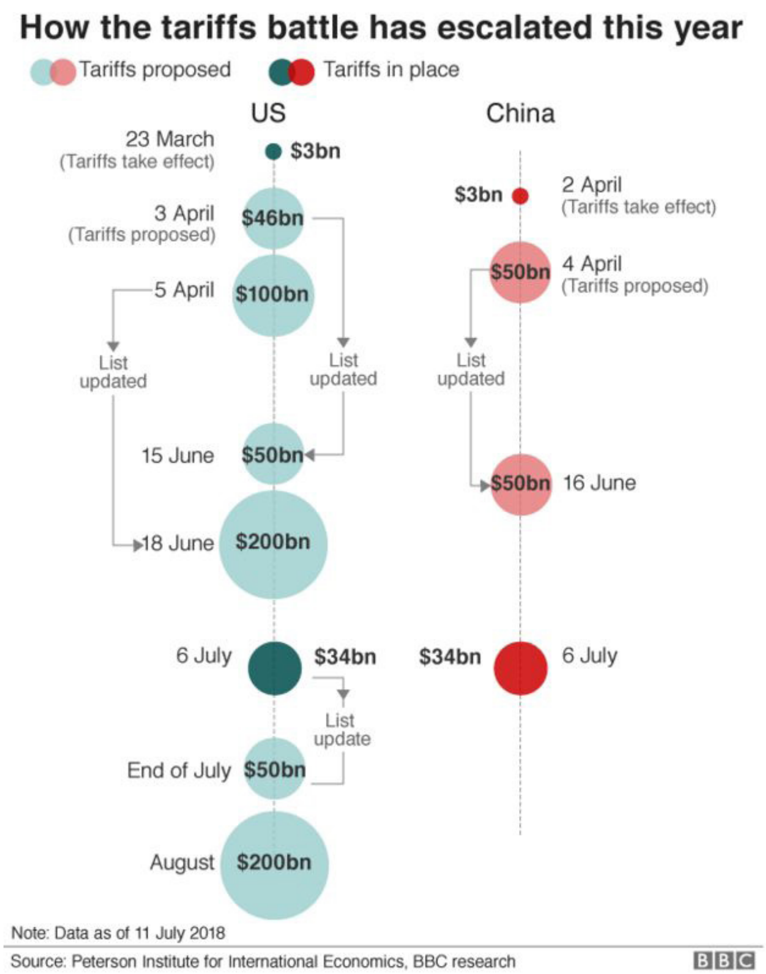
Furthermore, the Congressional Budget Office's data suggests that Trump's tax cuts will provide the nation with a better economy from 2018 to 2028 because it has the potential to boost the after-tax incomes of households and businesses. Over that time period, the Congressional Budget Office projects that the tax cuts will lower the unemployment rate, raise the real average annual GDP by 0.7%, and increase wages and investment spending – and all without causing an acceleration in inflation.

Deregulation has also been a priority for the Trump presidency so far. For example, the Trump administration has ordered more lease sales for oil and gas production and faster approval for drilling, rolled back federal education regulations, and given power back to the states to expand drug testing for unemployment benefit applicants.

Moreover, Trump's administration repealed a rule by the Department of Transportation that would have taken power away from local governments on infrastructure planning, eliminated multiple regulations previously imposed on the farming industry, instituted a governmental hiring freeze from which the military was exempted, and repealed a rule requiring energy companies to disclose financial transactions with foreign governments.

And then there's the trade war... and new trade agreements. The give-and-take between Trump and Chinese President Xi Jinping has been ongoing and emblematic of the love-hate relationship the U.S. sometimes has with other major world powers. Earlier in 2018, Trump escalated trade tensions by listing over 1,300 categories of Chinese imports for tariffs, including batteries, aircraft parts, medical devices, flat-panel televisions, satellites, and various weapons.

In retaliation, China imposed tariffs on 128 products the nation imports from America, including aluminum, cars, airplanes, various food items, and steel pipes. A few days later, Trump responded by stating his intention to impose another round of tariffs on an additional $100 billion of Chinese imports.



Courtesy of the Peterson Institute for International Economics, BBC research

The tug-of-war between the Trump administration and China has been something of a roller coaster ride, with retaliatory tariff impositions sometimes leading to friendly relations and trade agreements a short time afterwards. Overall, however, the net effect has been an escalation of promises and threats:

Nonetheless, a mutually satisfactory ending might be on the horizon, as Trump has stated that he will discuss trade with Xi Jinping when the two meet for dinner on the sidelines of the G20 leaders' summit at the end of November in Buenos Aires, Argentina.

Trade concerns notwithstanding, one thing that cannot be denied is that business confidence has grown during the Trump presidency so far. According to the CNBC small business confidence survey, a solid majority of small business owners (58%) say that current conditions for their businesses are good. This figure indicates the highest level yet in six quarters of the survey.

Small Business Confidence Index

Percent of small business owners who say current conditions are "good"

	Q1	Q2	Q3
2017		38%	39%
2018	47%	53%	58%

Courtesy of CNBC, surveymonkey.com

The "Trump bump" appears to have impacted U.S. business confidence as a whole, as it has notched the highest level in 8 years. This is primarily due to chief executives being optimistic about tax reform and fewer regulations under Trump.

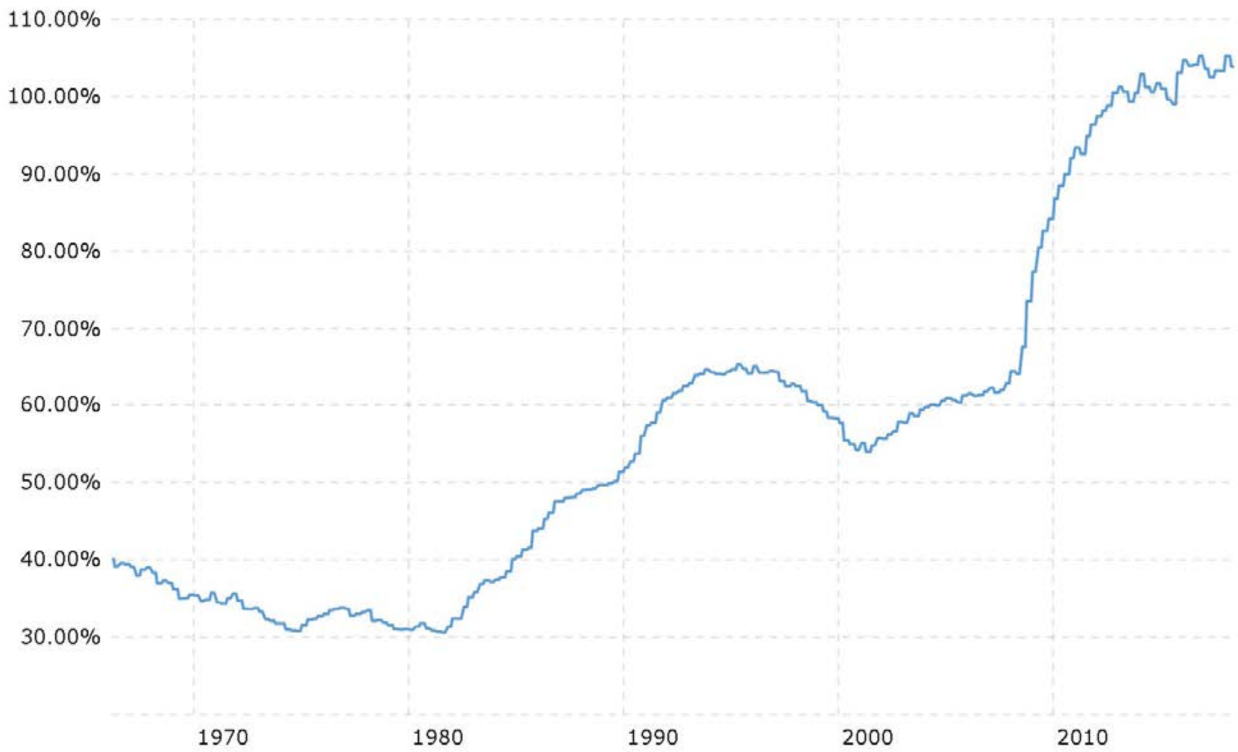
To offset the boost in business confidence, however, is the negative of the $1 trillion deficit reached during the Trump presidency. Critics have also not hesitated to point out that the Federal Government's deficit in 2018 is 21% higher than what it was in 2017.

Businesses also haven't applauded the more aggressive interest rate hiking policies of Federal Reserve Chairman Jerome Powell, whom Trump has criticized but was nonetheless hired by the president. Furthermore, critics have noted that some of Trump's fiscal policies, such as the tax cuts, likely helped push the Fed towards higher rates.

Courtesy of macrotrends.net

What does all of this portend for the foreseeable future of the U.S. economy and markets? Given the ballooning deficit and the Fed's headlong rush to hike Treasury yields after a decade of QE, ZIRP, and NIRP, the next elections will, in all likelihood, revolve around getting out of a recession and addressing unfunded liabilities on a national level.

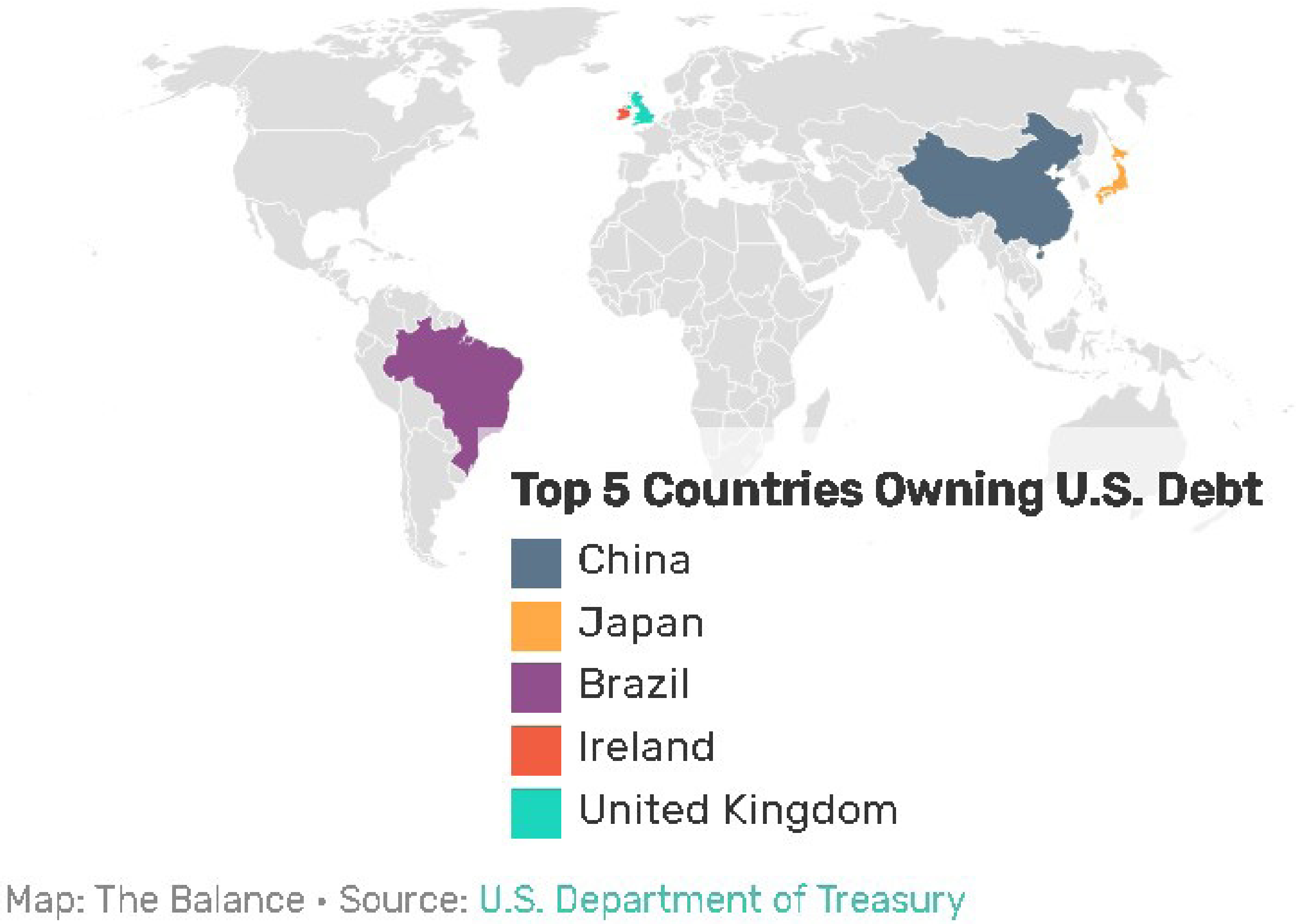
Blame Trump, past presidents, or whomever you choose to blame, but the facts are the facts: the U.S. debt-to-GDP ratio is over 100% now, an entirely unsustainable burden that will take a toll on the national economy until it's either addressed or the economy and markets buckle under their own weight:



Courtesy of macrotrends.net

The debt-to-GDP ratio being over 100% means that as a nation, the United States owes more than it produces. That's like a person having a credit card bill greater than their salary: it's a situation that's likely to get worse before it gets better.

The U.S. debt to just the nation of China alone is $1.17 trillion according to the most recent count. That's 19% of the $6.3 trillion in U.S. Treasury bills, notes, and bonds held by foreign countries. Other large-scale debtors include Japan, Brazil, Ireland, and the United Kingdom:



Courtesy of thebalance.com, the U.S. Department of the Treasury

Assuming that the economy and markets will weigh heavily on future elections, how the current administration deals with the nation's financial issues now will have a tremendous impact on Trump's political future, as well as the future of the nation. The world will be watching and waiting for the president's next move as the ongoing legacy of the Trump Era takes shape.

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