[UCLA Anderson Forecast: The New Economy Under a New Administration; A First Glance at "Trumponomics"]

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Body

In September, the UCLA Anderson Forecast released its third quarterly ***outlook*** of 2016. Relying on the polling data for the presidential election available at that time, the report assumed that Democratic candidate Hillary Clinton would be elected president of the United States. As the polls proved incorrect and Republican Donald Trump was elected president, the UCLA Anderson Forecast has accordingly revised its prognostications for the national, state and local ***economies***.

The National Forecast

Writing on behalf of the UCLA Anderson Forecast, Senior Economist David Shulman makes the following policy assumptions, in what he labels a "first pass at Trumponomics."

- $300 billion/year annual mostly higher-end personal tax cuts, effective in Q3.
- $200 billion/year corporate tax cut effective in Q3, with $50 billion of revenues associated with the repatriation of foreign earnings that quarter.
- $20 billion/year infrastructure program, effective in Q4.
- $20 billion more in higher defense spending in 2018.
- $20 billion/year Medicaid/ACA cuts, effective in Q4.
- Relaxed energy, environmental and financial regulation.
- Modest changes to ***immigration***, except for border wall/fence.
- Modest changes to trade policy, yielding net reductions in food and aircraft exports phasing in starting mid-2017.

Shulman says that the net result of these policies is "a massive fiscal stimulus on an ***economy*** at or very close to full employment." He also notes that it is the direction that a host of liberal economists have been advocating for half a decade, though with a different mix of tax cuts and spending. "Make no mistake, this is real or even reckless fiscal stimulus," writes Shulman. "How so? The federal deficit will roughly double to over one trillion dollars by 2018." Shulman says that in response to higher inflation and the exploding federal deficit the long-quiescent Fed will become more aggressive, raising the federal funds rate to over 2% by the end of 2017 and 3% by the end of 2018.

With $500 billion in tax cuts arriving in the third quarter of 2017, the Forecast calls for GDP growth to accelerate from its recent 2% growth path to 3% for about four consecutive quarters and then will slide back to 2%. Growth will be hampered by the difficulties of stimulating an ***economy*** operating at near full employment and the bite of higher interest rates. Employment will continue to grow on the order of 140,000 jobs per month in 2017 and 120,000 per month in 2018. "To be sure, if the ***new*** administration follows through with its campaign rhetoric to engage in mass deportations, job growth and the economic activity associated with it would be far slower than what we forecast," Shulman writes.

The details of the forecast fall into three categories: the good, the bad and the ugly. As for the "good," Shulman writes that the economic growth envisioned will be powered by rising consumption along with equipment and defense spending. Real consumption spending is expected to increase 3% and then 3.7% in 2017 and 2018, respectively. After declining six years in a row, real defense spending is forecast to increase 0.8% in 2017 and 3.2% in 2018.

On the negative side, housing activity will be a casualty, as the spike in long-term interest rates and the prospect of further increases dampen demand. Instead of the previously forecast 1.4 million housing starts for 2017 and 2018, the forecast is looking at about 1.2 million to 1.25 million starts. Regarding any potentially "ugly" ramifications of the ***new*** administration's policies, Shulman believes that minor tweaks to trade policy will modestly reduce imports (mostly in the auto sector) and trigger modest retaliatory actions affecting aircraft and farm exports. As a result, imports continue to rise and exports flatline. Shulman emphatically points out that the Forecast does not assume a major trade war with U.S. partners around the world. But the slowdown in trade will only be the beginning, as the global ***economy*** becomes more protectionist.

A note on infrastructure spending:

We do not believe that President-elect Trump's tax credit based infrastructure plan will pass muster in Congress on the scale he is seeking. He proposes $137 billion in tax credits for private investors to fund major infrastructure projects. To be effective, this order would require a revenue stream and there aren't any associated with highway, bridge and tunnel, wastewater and transit maintenance. We anticipate a more traditional infrastructure program with a more modest $20 billion a year of direct taxpayer funding, which could be low, but will take time for an expanded infrastructure program to ramp up.

As President Obama discovered to his chagrin, there are very few "shovel ready" infrastructure projects awaiting funding in a world of environmental impact studies and Davis-Bacon Act labor codes regarding prevailing wages. If the President-elect wants quick action, he would have to rely on Congress to waive or fast-track the environmental requirements and waive provisions of the Davis-Bacon Act. This would be a tough sell for the Democrats, but the Republicans are in the majority.

The California Forecast

In his quarterly California forecast essay, Senior Economist Jerry Nickelsburg eschews his traditional data-oriented report and cites the various unknowns regarding the state's ***economy***, providing ruminations on some of the impacts of the anticipated policies of the Donald Trump presidency.

Nickelsburg's first observation takes into account the U.S. forecast for increased defense spending. "The increase in defense spending will be disproportionately directed to California, as sophisticated airplanes, weaponry, missiles and ships require the technology that is produced here," writes Nickelsburg. "Moreover, there are few places to build the proposed 150 ***new*** warships, and San Diego is one of them. Regionally we expect a positive impact in the Bay Area and in coastal Southern California." The U.S. forecast also calls for increased infrastructure spending. While California needs funding for projects, such as the Western Electrical Grid, water infrastructure and road repairs, it's unclear how much of this federal spending will be directed to the state. Nickelsburg notes the size of the California congressional contingent and its influence regarding funding, but also recognizes the fact that California is a sanctuary state with many sanctuary cities. President-elect Trump has said he will block funds to sanctuary cities, so how much funding headed to the state remains to be seen.

As for the employment environment, Nickelsburg writes that despite its current 5.5% unemployment rate, the state is basically at full employment. Where the state will find people to fill ***new*** jobs remains to be seen, as the ***new*** administration is expected to oppose an expansion of the skilled worker visa program. Instead, expect wages to rise to induce skilled workers to come to California from other states. This in turn will lead to increased demand for housing, pushing prices higher for home buyers. Rents, however, may see a decrease, if the ***new*** administration proceeds with its intended plans for mass deportations.

Such deportations will also have an impact on the Central Valley and the state's agriculture sector. It's estimated that as many as half of California's farm workers are undocumented. If these workers are deported, California's farmers will have trouble harvesting their crops, while paying much higher wages to their documented farm workers.

As for trade issues, it remains unclear what exact policies will be implemented, which clouds the forecast. Depending on how these policies shake out, the reverberations will likely be felt throughout the California ***economy***.

The ***new*** forecast is slightly more optimistic than the prior one through the end of 2017 and less so in the latter part of 2018, reflecting the stimulus assumed in the national forecast, particularly through the defense appropriations. The ensuing weakness relative to the U.S. reflects the fact that California, having already reached near full-employment, will benefit less from further stimulus than rust belt states. In addition, deportations of unskilled workers will affect food harvesting and food processing. We expect California's unemployment rate to have its normal differential to the U.S. rate at 5.2% by the end of the forecast period.

The forecast for 2017 and 2018 total employment growth is 1.8% and 1.3%, respectively. Payrolls will grow at about the same rate over the forecast horizon. Real personal income growth is forecast to be 3.6% and 3.8% in 2017 and 2018, respectively. Home building will continue in California at about 120,000 units per year through the forecast horizon.

The Economic Landscape for Los Angeles Under President Trump

Economist William Yu's latest report examines the impact of a Trump presidency on Los Angeles. With regard to trade policy, his report suggests that there could be an additional 24,000 jobs in the logistics sector, should trade negotiations have a positive outcome, i.e., doubled port exports. If such negotiations have a negative result, such as a trade war with China, a similar number of logistics jobs could be lost. He suggests that a trade war with China or Mexico is less likely to happen.

Looking at an ***immigration*** policy, it's estimated that there are 1 million undocumented workers living in Los Angeles. For a variety of reasons, including deportation, stronger border policies, stronger employment enforcement and the high cost of housing in the region, this number should be reduced in the next few years. One consequence of this reduction is a smaller supply of low-skilled workers and, in turn, an increase in wages for the remaining low-skilled workers. One unintended, but beneficial consequence of this phenomenon would be the mitigation of an unemployment problem: the $15-per-hour minimum wage in the coming years.

The report cautions that the long-run challenge facing Los Angeles is not near-term Trumponomics, but the development of worker skills needed for 21st-century jobs.

The Election and the ***New*** Economic Forecast

Given the unanticipated outcome of the recent presidential election, the UCLA Anderson Forecast changed the special topic of its December 6 Forecast Conference to focus on the ***New*** UCLA Economic ***Outlook*** and a Trump Presidency. (The affordable housing topic will be moved to Spring 2017.) The December 6 event will take place at the UCLA Meyer & Renee Luskin Conference Center. For more information, *click here* .

About UCLA Anderson Forecast

UCLA Anderson Forecast is one of the most widely watched and often-cited economic ***outlooks*** for California and the nation, and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001. Visit UCLA Anderson Forecast at *uclaforecast.com* .

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UCLA Anderson School of Management is among the leading business schools in the world, with faculty members globally renowned for their teaching excellence and research in advancing management thinking. Located in Los Angeles, gateway to the growing ***economies*** of Latin America and Asia and a city that personifies innovation in a diverse range of endeavors, UCLA Anderson's MBA, Fully-Employed MBA, Executive MBA, Global Executive MBA for Asia Pacific, Master of Financial Engineering, doctoral and executive education programs embody the school's Think in the Next ethos. Annually, some 1,800 students are trained to be global leaders seeking the business models and community solutions of tomorrow.

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