25. November 2016

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# Trumponomics

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The market participants are still focused on the implications of Donald Trump's victory at the US presidential elections. In simple terms, "Trumponomics" are a combination of expansive fiscal policies and restrictive trade policy. An increased budget deficit is supposed to support economic growth, while the curbing of free trade aims at job protection.

### Heterogeneous growth

While real global economic growth is below average, it is also remarkably constant at +2.5%. Trumponomics will make economic growth more heterogeneous and probably also more volatile (i.e. higher fluctuations). The trade-off is between an outlook of higher economic growth in the USA and possible, so-called positive externalities (NB higher US growth could be beneficial for the rest of the world) on the one hand, and a restrictive trade policy and higher US interest rates on the other hand.

### Falling deflation pressure

The decline in commodity prices over the past years has caused inflation to fall sharply to excessively low levels. The global deflation pressure is subsiding on the back of the stabilisation of commodity prices that we have seen this year. In the USA, economic stimulus is provided against a backdrop of economic resources (i.e. labour, capital) already tending towards full capacity utilisation. The so-called negative output gap has probably already been closed. In the USA, the overheating of the economy and an increase in inflation have become more likely.

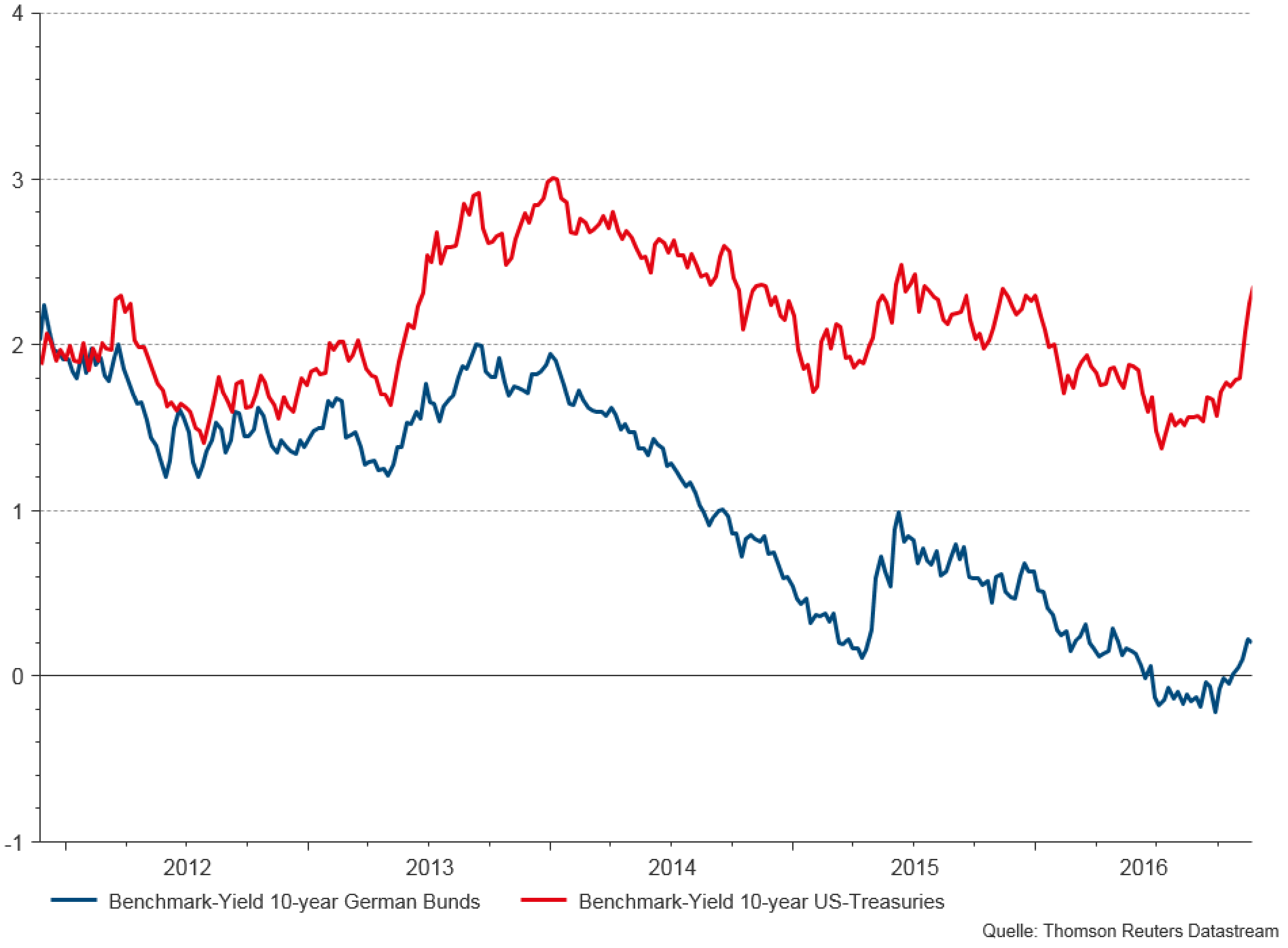
### The end of austerity

The budget balance adjusted for the effects of the economic cycle, i.e. the so-called structural balance, was at -2.5% of GDP in 2015 in the developed economies. For 2016, the consensus expects an increase of the budget deficit to 2.8%. The general austerity pressure exerted by governments has already subsided even prior to the expected expansion of the budget deficit in the USA. The assessment according to which the central bank policies are “the only game in town” has lost its validity.

### No additional impulse from monetary policy

The market does not expect additional expansive measures from any of the important central banks. Their policies are already in extreme territory. Key-lending rates are low, some of them even negative. Also, the central banks are buying large volumes of bonds in order to keep yields low and generate liquidity. Since deflation pressure is falling, so is the need for additional measures. In the USA, economic growth and inflation expectations are on the rise due to the outlook on tax cuts and ramped-up spending. Therefore, the expectations regarding rate hikes by the US Fed are also rising.

### Yield comparison 10-year Government Bonds Germany vs. USA (11/2011-11/2016)




*Source: Thomson Reuters; Data per 24.11.2016*

### Stalling globalisation

The process of globalisation has stalled, with global trade currently only growing at low rates anymore. Donald Trump has confirmed that he wants to withdraw from the Trans-Pacific Partnership Agreement (TPP). The risk associated with this situation is that of actionist measures being replaced by a trade war. This would cause world trade to contract. In contrast, the Chinese President Xi Jinping announced at the 21st Asia-Pacific Economic Cooperation Summit in Peru that China wanted to play a bigger role in globalisation (free trade, free flow of capital). This would strengthen the trend towards a multi-polar world.

### Climate agreement

There is ultimately also the hope that some of Trump's delicate statement during the campaign will not be implemented. After all, this week he said he was "open" about the previously announced withdrawal from the climate agreement.

### Adjustment and consolidation

The market prices have adjusted to the outlook of higher economic growth and higher inflation in the USA (i.e. higher bond yields), a heterogeneous environment (i.e. appreciation of the US dollar against other currencies), possible positive spill-over effects to the rest of the world (i.e. higher yields in the Eurozone), and possible negative consequences (i.e. falling prices of equities, bonds, and currencies in the emerging markets).

Will this development continue? We might see a phase of consolidation, because there is still little specific information on the kind, extent, and speed of the possible measures to be taken by Trump's cabinet, and it will take a few quarters before we can notice the effect in the real economy.

**Postscript:** This also goes for US equity indices, which have set new highs this week. The economy already suffers from the strong US dollar, whereas possible measures supportive to the economy would only become effective several quarters down the road.

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He holds a degree from a polytechnical college and studied economics and business at Vienna University with a special focus on financial markets. He holds a CFA charter and participated from 2001 to 2003 in the doctoral programme for finance at the Center for Central European Financial Markets in Vienna.

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