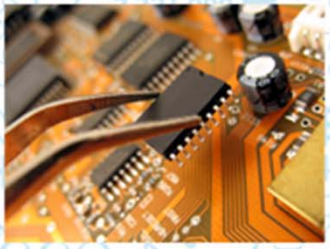
Can Anxiety Beat Depression in November?

DR. RAJEEV DHAWAN

DIRECTOR

Presented at the Global Interdependence Center's Central Banking Series meeting at Fundación Rafael del Pino in Madrid, Spain • October 3, 2016

Economic Forecasting Center



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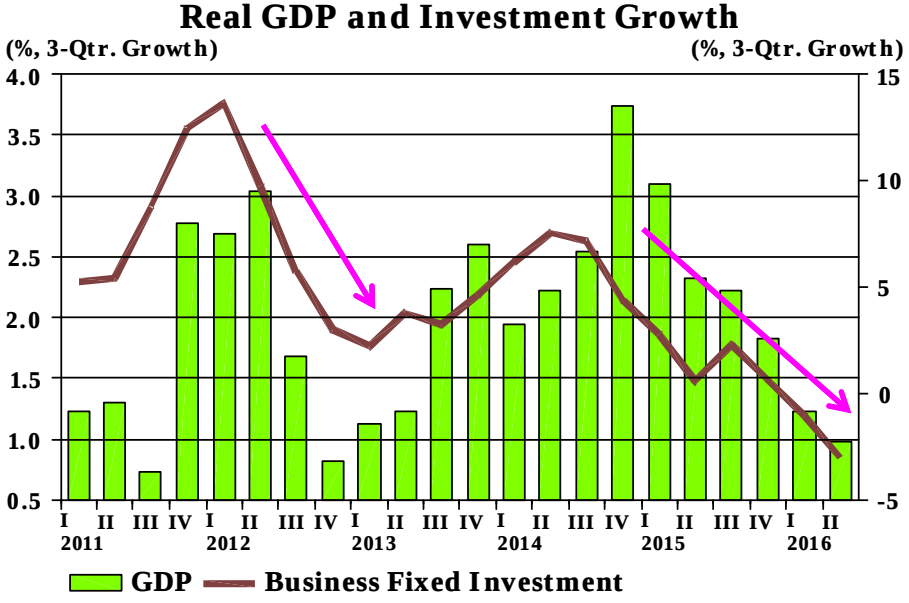
Experts on Their Anxietes

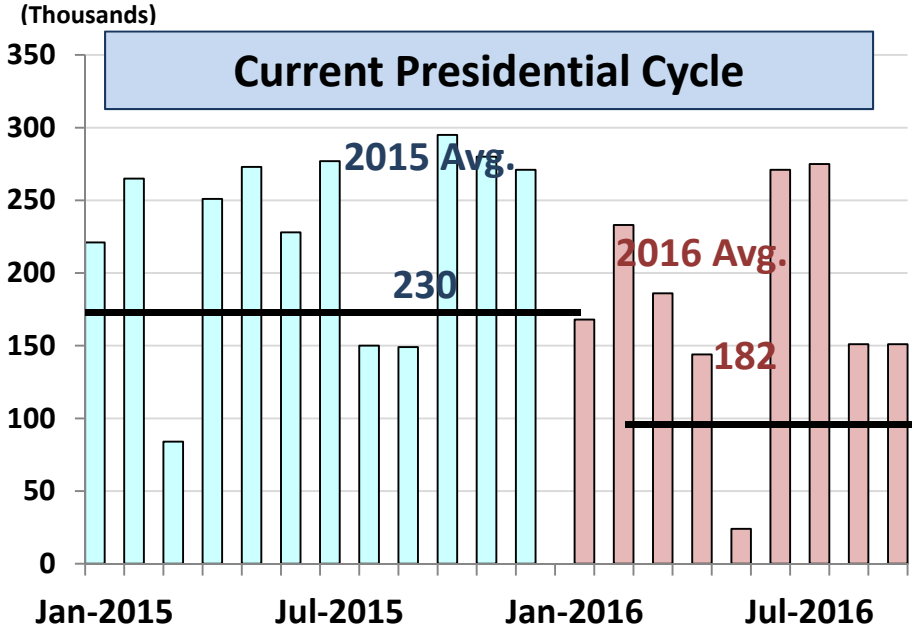
Mario Gabelli
Founder and CEO of
Gabelli Asset Management
Company Investors

There is uncertainty among corporations about U.S. leadership, and coming tax and regulatory changes. **This is creating an air pocket in capital spending.**

If you combine **weakening employment data** with **poor corporate earnings**, **a Fed rate hike**, and **a barrage of scary headlines about Trump**, the stage could be set for a **global growth scare.**

Jeffrey Gundlach
Co-founder and CEO
DoubleLine Capital





Source: *Barron's* – June 13, 2016

Source: EFC calculations on data from Bloomberg

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Is Corporate Worried About Trump Presidency?

Warren buffet
Chairman & CEO
Berkshire Hathaway

That won't be the main problem.

U.S. businesses will continue to adapt and thrive.

We've operated under price controls, we've had 52% federal taxes applied to our earnings. But, in the end, business in this country has done extraordinarily well for a couple hundred years. It has adapted to society and society has adapted to business.

No presidential candidate or president is going to end that.

Source: *AJC,* May 1, 2016; *The Wall Street Journal*, May 2, 2016

Do Election Outcomes Influence the Economy?

Alan S. Blinder
Princeton University

Presidents and the US Economy: An Econometric Exploration

The American Economic Review (AER) is a general-interest economics journal. Established in 1911, the AER is among the nation's oldest and most respected scholarly journals in economics.

Mark W. Watson
Princeton University

Time Period of Study (From Truman to Obama)

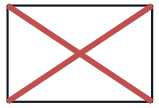
	Democrat	Republican
GDP Growth	4.33	2.54
	(0.6)	(0.3)
Quarters in Recession	1.14	4.56
	(0.5)	(0.8)

Difference
1.79

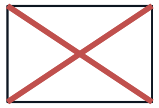
What Explains the Difference?

(a) Spurious Aka Omitted Variable Bias
Makeup of Congress or what presidents did before

(b) Initial Conditions
Democrats were elected more often when the economy was poised for growth



(c) Fiscal or Monetary Policy of Presidents
Who they chose as Fed Chair?



(d) Luck
Oil shocks; productivity shocks, foreign growth etc.

1.0%

(e) Rest is Still a Mystery !

Political Structure and Stock Market Returns

Since 1928		Length (years)	S&P 500 Returns
White House	Congress		
R	R	12	2.1%
D	D/R	4	16.0%
D	D	34	14.1%
R	D	22	8.6%

Source: *USA Today,* August 26, 2016

Are Imports Good or Bad?

Donald Trump

The only power that we have with China is massive trade. I would tax China on products coming in. I would do a tariff, yes — and they do it to us. I'm a free trader, but it's got to be reasonably fair. I would do a tax and the tax, let me tell you what the tax should be … the tax should be 45 percent.

Since China joined the WTO, Americans have witnessed the closure of more than 50,000 factories and the loss of tens of millions of jobs. It was not a good deal for America then and it's a bad deal now. It is a typical example of how politicians in Washington have failed our country.

Henry George
American Political Economist
(1839-1897)

If foreigners will bring us goods cheaper than we can make them ourselves, we shall be the gainers.

Trade is not invasion. To have all the ships that left each country sunk before they could reach any other country would, upon protectionist principles, be the quickest means of enriching the whole world, since all countries could then enjoy the maximum of exports with the minimum of imports.

Milton Friedman
American Economist (1912-2006)

George's book "Protection or Free Trade" (1886) was the most rhetorically brilliant work ever written on the subject.

Source: The Wall Street Journal, June 12, 2016; cnn.com; newsweek.com

Tariff History in Modern Times aka 1970 Onwards

1971 - Richard Nixon

On 15 August 1971, President Richard Nixon closed the gold window (ending the ability of foreign central banks to convert their dollar holdings into gold) and imposed a 10% surcharge on all dutiable imports in an effort to force other countries to revalue their currencies against the dollar. These policies were designed to prevent a run on US gold reserves and reverse

Trade Act of 1974 says: "Whenever fundamental international payments problems require special import measures to restrict imports to:
(1) deal with large and serious United States balance of-payments deficits;
(2) prevent an imminent and significant depreciation of the dollar in foreign exchange markets; or
(3) cooperate with other countries in correcting an international balance-of-payments disequilibrium

the President shall proclaim, for a period not exceeding 150 days:
(A) a temporary import surcharge, not to exceed 15 percent ad valorem, in the form of duties on articles imported into the U.S.;
(B) temporary limitations through the use of quotas on the importation of articles into the U.S.; or
(C) both a temporary import surcharge described in subparagraph (A) and temporary limitations described in subparagraph (B)."

trade law was ostensibly enacted to temporarily protect the domestic steel industry.

2009 - Barrack Obama

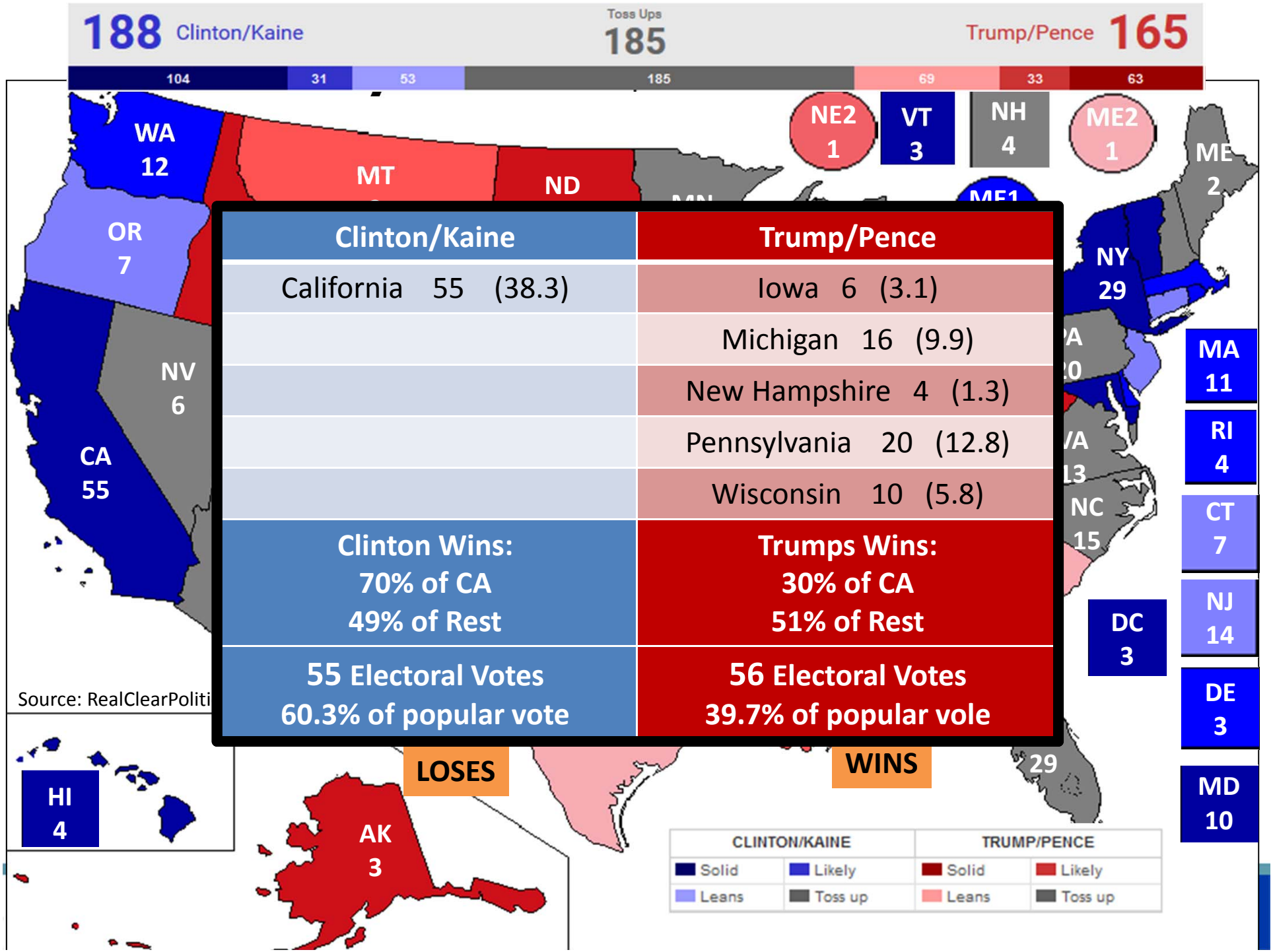
The Obama administration set steep import duties of 35% on Chinese passenger and light truck tires, responding to what the U.S. International Trade Commission determined to be a surge of Chinese tire exports that has rocked the domestic U.S. tire industry and displaced thousands of jobs.

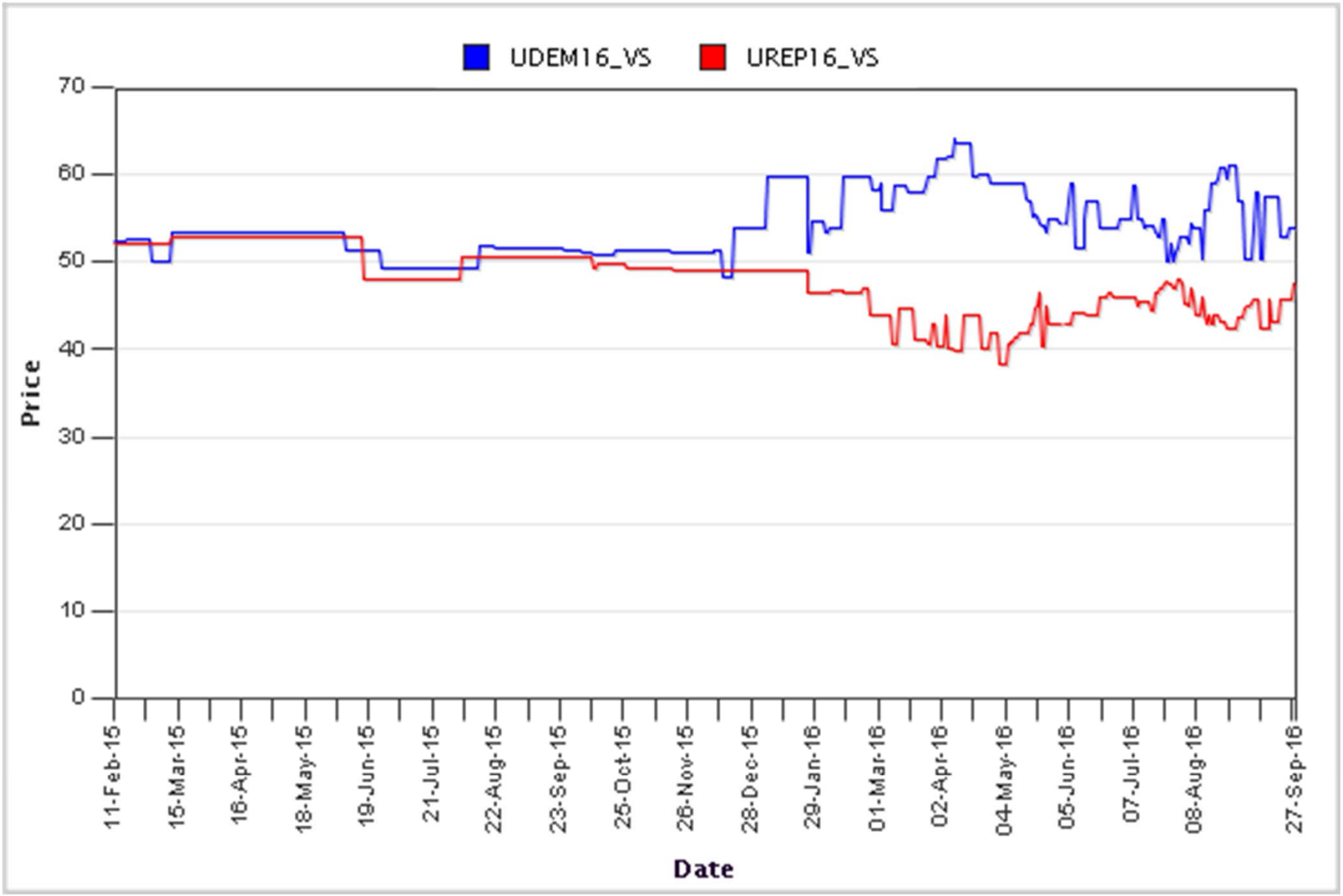
Source: *Wikipedia.com; http://legcounsel.house.gov/Comps/TRADE74.PDF;*

Less Trade, Slower Growth

Annual Percentage Growth in World Trade and World GDP, 1995 - 2015

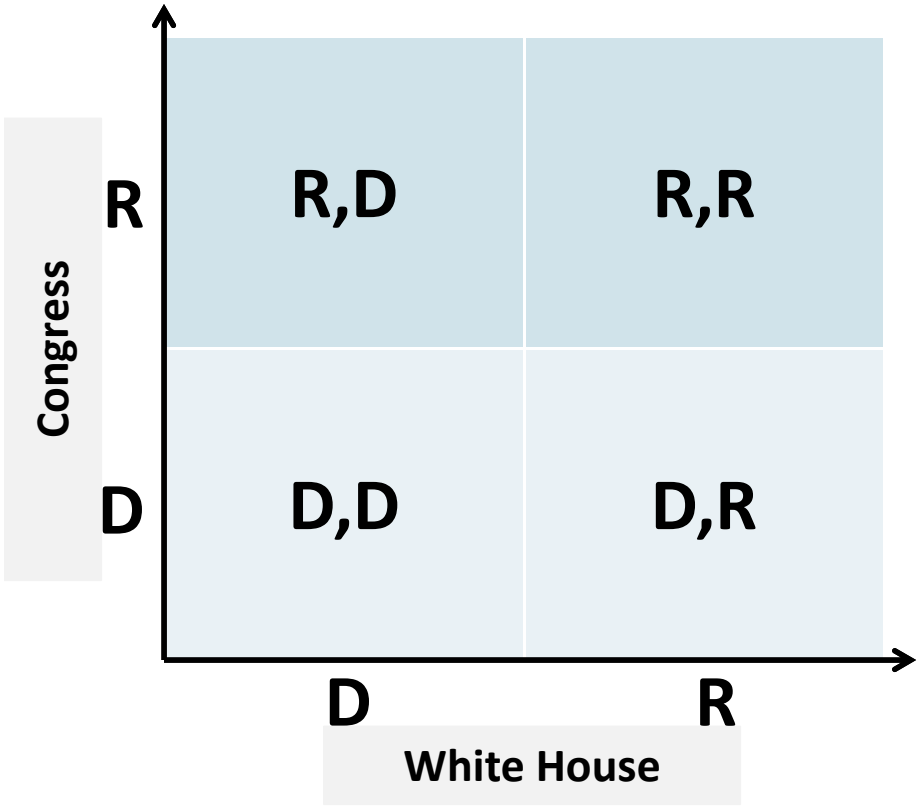
Source: IMF World Economic Outlook, January 2016


188 Clinton/Kaine
Toss Ups
185
Trump/Pence 165
104
31
53
185
69
33
63
WA 12
OR 7
CA 55
NV 6
MT
ND
NE2 1
VT 3
NH 4
ME2 1
ME 2
NY 29
MA 11
RI 4
CT 7
NJ 14
DE 3
MD 10
DC 3
NC 15
HI 4
AK 3
29
LOSES
WINS
Clinton/Kaine
Trump/Pence
California 55 (38.3)
Iowa 6 (3.1)
Michigan 16 (9.9)
New Hampshire 4 (1.3)
Pennsylvania 20 (12.8)
Wisconsin 10 (5.8)
Clinton Wins:
70% of CA
49% of Rest
Trumps Wins:
30% of CA
51% of Rest
55 Electoral Votes
60.3% of popular vote
56 Electoral Votes
39.7% of popular vole
Source: RealClearPoliti
CLINTON/KAINE
TRUMP/PENCE
Solid
Likely
Leans
Toss up
Solid
Likely
Leans
Toss up



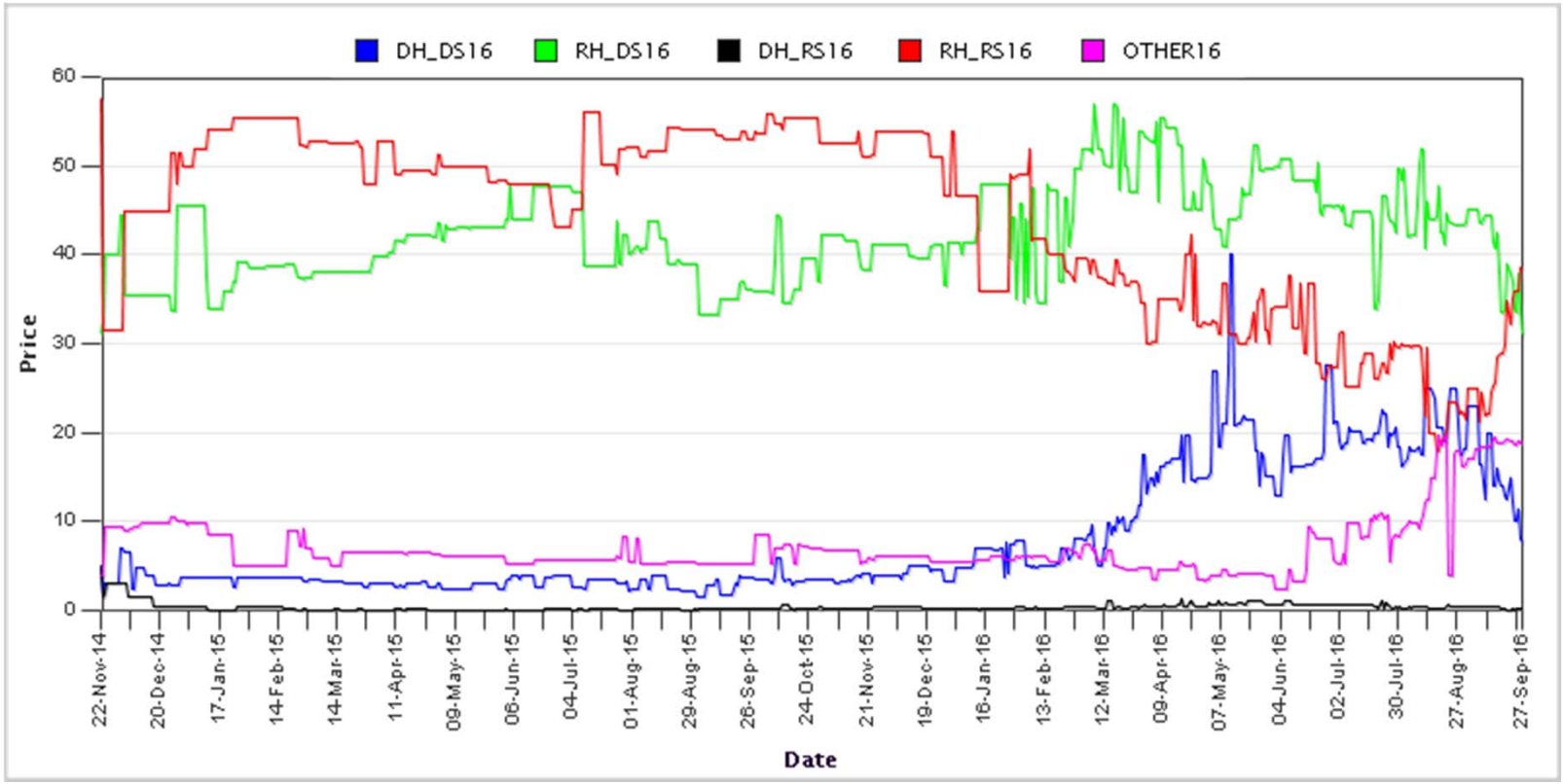
Source: Iowa Electronic Market: http://tippie.biz.uiowa.edu/iem/

Gambit of Election Outcomes



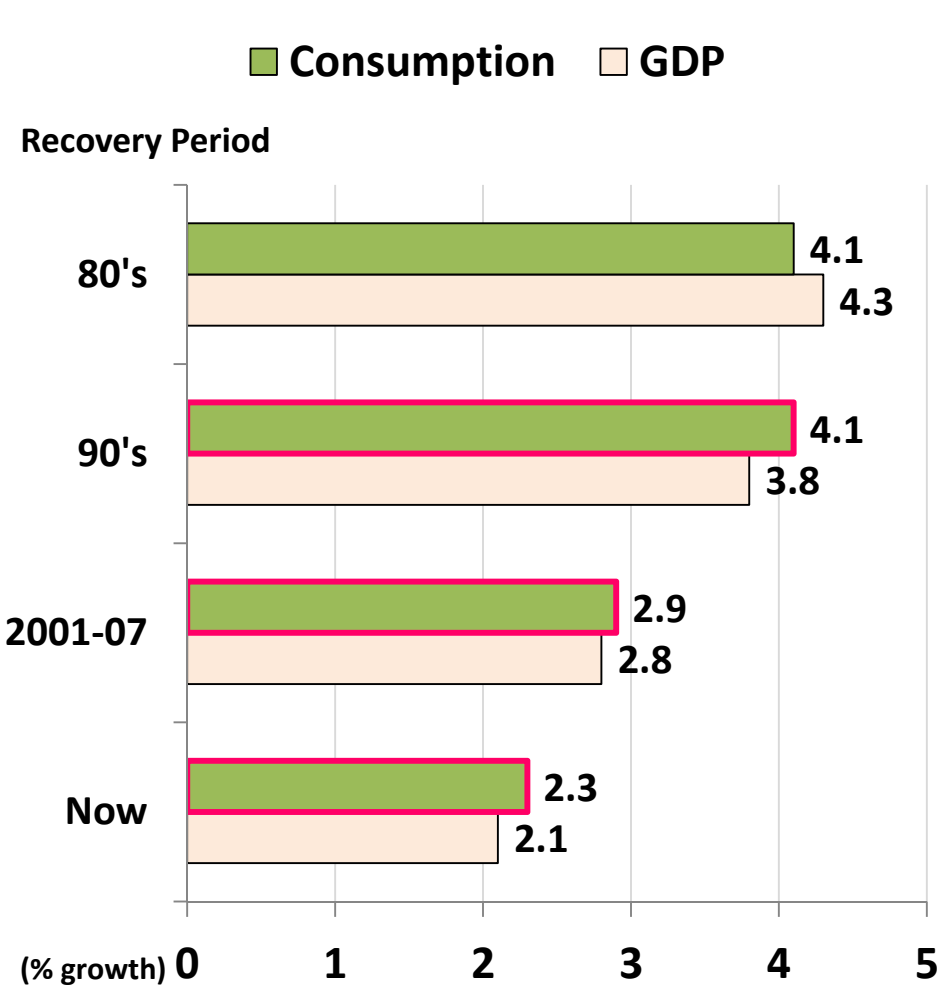
Probabilities			
WH	Congress		Prob.
R	R	Revolutionary / Anxiety	20%
D	D	Predictable/ Anxiety	10%
D	R	Status Quo / Depression	40%
R	D	Dysfunctional	5%
D	R/D	Best for Corporate	25%

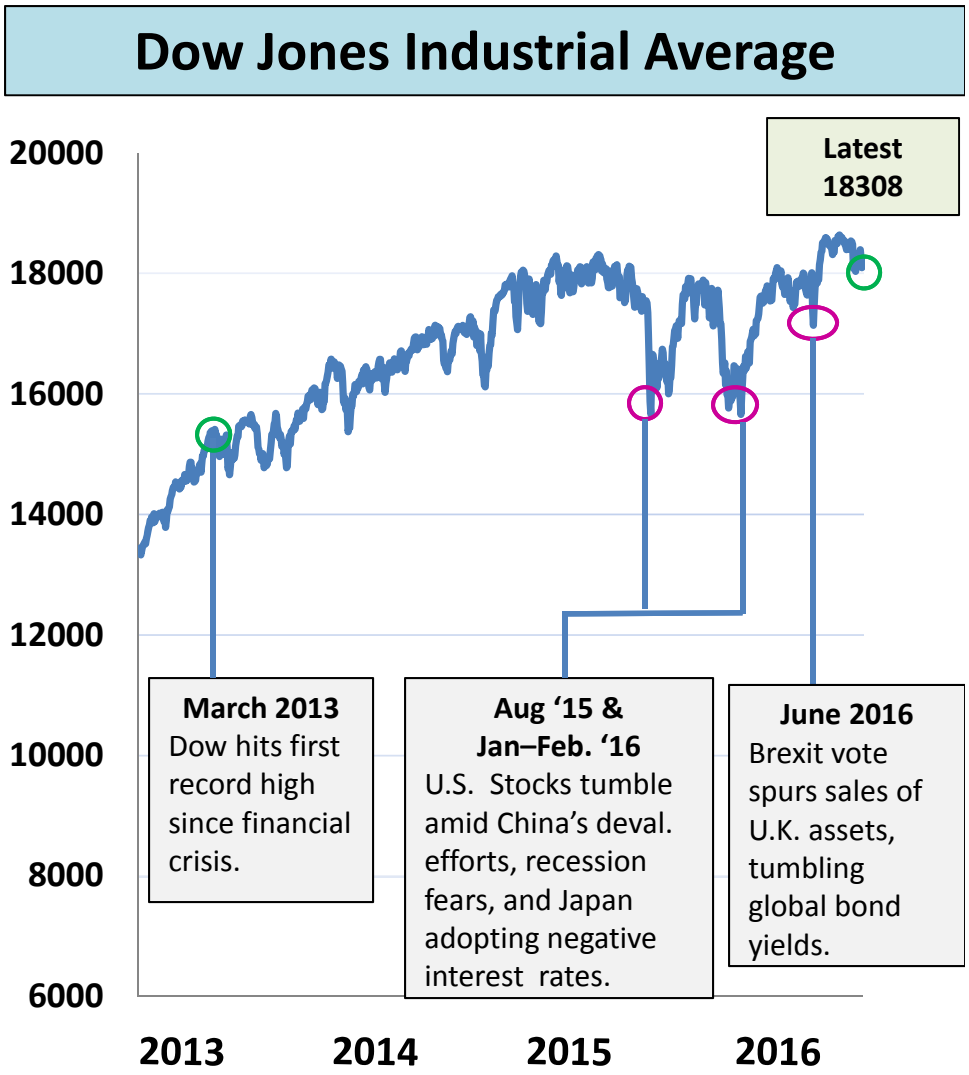
Gambit of Election Outcomes



Source: Iowa Electronic Market: http://tippie.biz.uiowa.edu/iem/

Stock Market and Consumption





Source: EFC calculations; Bloomberg Finance

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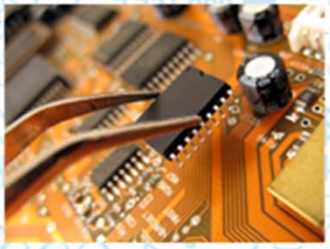

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