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PRESIDENT TRUMP'S FIRST 50 (OR SO) DAYS

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KEY TAKEAWAYS

Halfway through the first 100 days of the Trump presidency many major policy initiatives have yet to be passed, but we are also seeing few signs of meaningful policy derailment.

Consumer and business confidence have improved post-election, though policy uncertainty remains high.

Neither consensus economic forecasts, nor those from the Fed, have changed much from their post-election bumps.

Since FDR first popularized the concept at the start of his first term in 1933, the first 100 days of a president's term is often seen as a benchmark date for early accomplishments that set the tone for the presidency. The first 100 days are especially meaningful when the president's party also holds a majority in Congress, making it easier to pass legislation, and when the presidency has switched parties, taking the country in a new direction. When both of those are in place, as they are for President Trump, the president has both the means and motive to get off to a fast start. We now sit a little over halfway through the president's first 100 days, which will come to a close on Sunday, April 30, 2017. Let's review what has happened since the inauguration and what it might mean for the economy.

WHAT WE'VE LEARNED

The president continues to receive the most widespread support on his expected handling of the economy. Trump's approval ratings tend to break sharply along party lines, and those divisions have widened over the last 40 years. Nevertheless, Trump's support on the economy has tended to be broader than on other issues. In particular, Trump's approach to tax reform and deregulation align well with traditional Republican policy and also draw some support from those social liberals who tend to be more conservative on economic policies.

Trump's victory led to a rapid shift in expectations between Election Day and the inauguration, but expectations have largely held steady since. In October 2016, before the election, economists surveyed by the *Wall Street Journal* had consensus expectations of 2.2% real gross domestic product (GDP) growth in 2017 and 2.0% in 2018. By January 2017, those numbers had risen to 2.4% and 2.5%, but have not moved in more recent polls. The movement from 2.2% to 2.4% for 2017 may reflect a strengthening rebound from slow growth in 2016 and is likely only marginally attributable to the election. The real difference is in 2018 expectations, when Trump's economic policies may allow stronger growth to carry through into 2018 rather than reverting back to the 2.0% growth rate typical of the current expansion. Overall, economists have seen little that has led them to change expectations in Trump's first 50 days.

The Federal Reserve (Fed), by contrast, has been more conservative with its post-election economic forecasts, awaiting greater clarity on policy. But by raising rates at its March 14–15, 2017 policy meeting, earlier than many had expected at the start of the year, it did offer a mild vote of confidence in the economy. The Fed provides economic projections every other meeting, and March 2017 projections showed little change from the September 2016 projections. Expected growth for both 2017 and 2018 edged 0.1% higher over the period, rising from 2.0% to 2.1% [Figure 1].

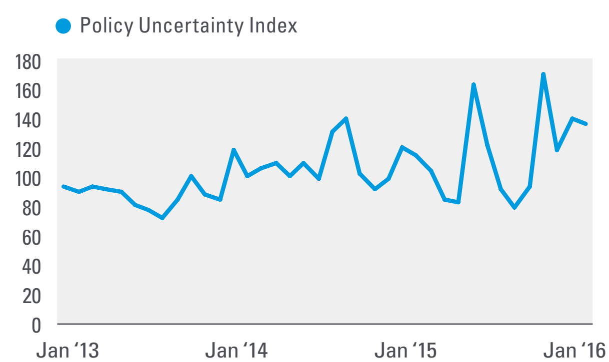
1 THE EXPECTED POLICY IMPACT REMAINS RESTRAINED FOR 2017

	2017		2018	
	Pre-Election	March 2017	Pre-Election	March 2017
Wall Street Journal Economist Survey	2.2%	2.4%	2.0%	2.5%
Federal Reserve Median Projection	2.0%	2.0%	2.1%	2.1%

Source: LPL Research, *Wall Street Journal*, Federal Reserve 03/20/17

Projections are for gross domestic product (GDP) and may not develop as predicted.

2 POLICY UNCERTAINTY MAY HOLD BACK SPENDING



Source: LPL Research; Scott Baker, Nicholas Bloom, and Steven J. Davis, "Measuring Economic Policy Uncertainty," www.PolicyUncertainty.com 03/20/17

To measure policy-related economic uncertainty, the index is constructed from three types of underlying components: newspaper coverage of policy-related economic uncertainty, the number of federal tax code provisions set to expire in future years, and disagreement among economic forecasters as a proxy for uncertainty. More details of methodology available at www.PolicyUncertainty.com.

The president's policy agenda will be delayed by repeal and replace but not derailed. In our *Outlook 2017: Gauging Market Milestones*, we indicated that the timing of the healthcare overhaul might delay the impact of Trump's economic agenda largely into 2018. The legislative complexities of repealing and replacing the Affordable Care Act (ACA) have likely pushed the timing of other priorities back. We believe the president may have been satisfied with some initial high profile but benign changes, with the full policy change to be implemented only after other top legislative priorities, but new legislation was a higher priority for Congressional Republicans, who made it the centerpiece of their criticism of Obama for years. Due to its complexity, creating the replacement law, the American Health Care Act (AHCA) will occupy significant legislative energy and will likely at least modestly push back other policy goals.

Confidence has risen, but uncertainty persists. Despite improvements in consumer and business confidence, policy uncertainty remains high [Figure 2] and may still be restraining consumer and business spending. Recent retail sales data pointed to a still cautious consumer and changes in business behavior may be delayed in some areas by uncertainty over trade policy and a lack of clarity on eventual tax reform. Even if the latter is expected to be business-positive, businesses will be reluctant to act if they are anticipating a major change in how they are taxed. The president's immigration policy is also creating uncertainty about the labor market, particularly within technology industries. Trade and immigration remain two areas where the president's proposed agenda may weigh on growth, although expectations remain that they may be overwhelmed by positive policy effects and some of the rougher edges may be smoothed over as details emerge.

Trump will not pivot, but he will adjust. As the president moved from being just one candidate among a field of hopefuls during the Republican primary, to the party nominee, to president-elect, to the president, pundits have often speculated about when he would pivot, broadening his vision and sounding, from a conventional point of view, more "presidential." Taking our bearings from the first 50 days, the answer may be never. That does not mean he has been inflexible. For example, he quietly backpedaled after questioning the "One China" policy. The closest we have come to a full pivot was the president's widely praised February 28 address to Congress, but the political capital from that speech eroded four days later with tweets accusing President Obama of wiretapping Trump Tower, which has dominated the news cycle since.

Watch out for distractions. It's important to be able to see ahead to the end of the legislative process when evaluating the president's economic agenda and not get overly caught up in posturing, whether reactive or as part of the negotiating process. The media will have its news cycle, but much of the political theater may have little direct relevance to actual policy implementation. Distractions can be damaging, however, when they cause a shift in priorities or lead to unwanted use of political capital. Remember, the president proposes but Congress passes.

There clearly has been a learning curve for Trump and his advisors, but that's true of every new administration. We have not seen any of the policies that may lead to better economic growth meaningfully derailed, but the first 50 days likewise has not allayed concerns about a potential policy mistake. Nevertheless, we continue to see a positive overall backdrop for 2017 that will likely be sustainable into 2018 as policy proposals become more concrete and move towards enactment. While a steady economy is typically good for markets, we have often said that GDP is not S&P. What happens in financial markets begins with economic activity but financial markets also have their own idiosyncratic drivers. Look to future weekly commentaries on how the president's early policy agenda has impacted financial markets and what we might expect as greater policy clarity emerges. ■

DEFINITIONS

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

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