The Trump Economy

Dylan McCollough
Faculty sponsor: Professor Cindi Bearden
Department: Business and Nonprofit Studies

Abstract

There are many ways to measure the health of a country's economy. Job creation, unemployment, labor force participation, wages, inflation, and interest rates will be used in this paper. Wages and job creation are increasing, while unemployment and inflation rates are decreasing. The population rate is also having an impact on the U.S. economy, because of its effect on unemployment and the labor force participation rate. The trade deficit between the U.S. and China has been an issue of focus for the Trump Administration and has led to the implementation of new tariffs on Chinese imported goods. The ongoing tariff negotiations between the U.S. and China are currently having a negative effect on some sectors of the U.S. economy, especially the agricultural sector.

The Trump Economy

The U.S. economy during President Trump's presidency has seen growth in jobs creation and wages. Unemployment is at its lowest in nearly a half century and the U.S. economy is having its longest job creation streak in history. The Federal Reserve is monitoring inflation and is using interest rates to control it. The labor force participation rate has remained stagnant, and the decline in U.S. population rates may be to blame. President Trump's trade disagreement with China has put pressure on many American industries, but there are signs it may be coming to an end.

Job Creation and Unemployment

The U.S. economy has added jobs for over 100 straight months (Davidson, 2019). Job creation in February 2019 was not as strong as the 180,000 that was predicted, only 20,000 jobs were created (Long, 2019). This is the slowest increase in job growth since September 2017 (Irwin, 2019). President Trump's economy is doing well when one looks at the longevity of his presidency. The 100-month job creation streak is a clear indication of the sustained long-term growth of the economy, it is the longest streak in U.S. history.

The unemployment rate is calculated by dividing the total number of unemployed people, by the number of people currently in the labor force over the age of 16 (U. S. Bureau of Labor Statistics (BLS). The unemployment rate is currently 3.8%, which is nearing rates not seen since the 1960's (Cohen, 2018). According to the Bureau of Labor Statistics, the unemployment rate has stayed at or below 4.0% since March 2018 (U. S. Bureau of Labor Statistics (BLS).

Labor Force Participation

The labor force is the number of individuals aged 16-64 who have a job or are searching for one. It is important to note that stay-at-home spouses, retirees, students, and discouraged workers are not included in the calculation of labor force (Amadeo, 2019). The labor force participation rate (LBFR) has remained stagnant since the end of the 2008 Great Recession. In October 2015, the LBFR was 62.3% and only increased to 62.9% by November 2018 (Amadeo, 2019). The population rate may contribute to both low unemployment and a stagnant LBFR. According to the Federal Reserve Bank of Atlanta, half of the decrease in the LBFR is because of the aging population U.S. (Amadeo, 2019).

Population

The U.S population grew at its slowest pace since 1937, with only a .62% increase between July 2017 and July 2018 (Tavernise, 2018). According to the Centers for Disease Control (CDC), in 2017 the total fertility rate in the U.S. was 1,765.5 children born per 1,000 women over the course of their lifetime. For a population to remain level, the fertility rate must be 2,100 children born per 1,000 women (Matthews & Hamilton, 2019). Without immigration the U.S. population would be declining because the U.S. fertility rate is low (Tavernise, 2018). A low fertility rate will mean fewer people will enter the workforce, meanwhile "baby boomers" (which make up the largest generation in the U.S.) are reaching retirement age. The "baby boomer" generation is the group of people born between 1946-1964. About 10,000 turn 65 years old every day (Bergman, 2018). This creates a gap between the number of people entering the workforce, and the number of people retiring from it. When there are not enough people entering the workforce to fill positions, employers must compete by offering better wages to attract potential employees (Amadeo, 2019).

Wages

Wages for American workers have increased 2.9% in 2018, which is the fastest growth since June 2009 (Needham, 2018). Jerome Powell [current Chair of the Federal Reserve (Fed)] reported strong wage growth, especially for low wage earners (Cox, 2019). Median wage growth is the best indicator of real wage increases. Figure 1 depicts usual weekly earnings as reported by the Pew Research Center. It shows that typically, the largest increase in wages comes from the 90th percentile of earners (DeSilver, 2018). Jerome Powell stated that low wage earners are also showing strong wage growth, which indicates that both mean and median wages are increasing. This is an indicator of a healthy economy.

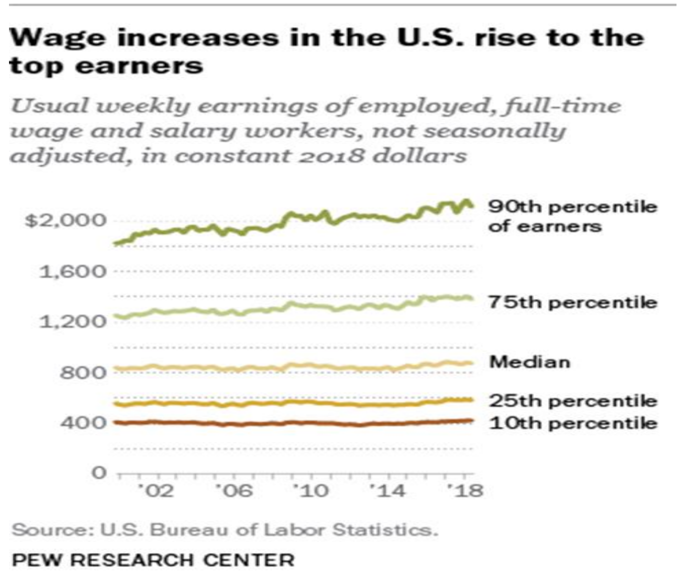

Figure 1. Weekly earnings as reported by the Pew Research Center

Inflation and Interest Rates

The inflation rate is the rate at which the cost of products and services rise (Folger, 2019). In his semi-annual address held on February 26, 2019, Chairman Powell reported annual inflation at less than the 2% target increase established by the Fed (Cox, 2019). When interest rates are low, there is an increase in borrowing and spending, therefore increasing the inflation rate (Rushe, 2018). The Fed can lower its discount rate to banks, which influences banks to lower their federal funds rate. The federal funds rate is the interest rate that banks charge on money they lend to other banks. When the federal funds rate is reduced, the interest rates on loans given to consumers also decreases (Folger, 2019). Since the inflation rate was below 2%, President Trump's administration has put pressure on the Fed not to raise interest rates. Chairman Powell has announced that the Fed will go forward with its plan to increase interest rates from 2.25% to 2.50% despite President Trump's pressure not to. President Trump has called the Fed's policy "the biggest threat" to the U.S. economy. (Rushe, 2018).

China Trade and Tariff Negotiations

President Trump's trade war with China has been ongoing since July 6, 2018. Since then, President Trump has issued three sets of tariffs on China, along with separate levies on steel and aluminum imports (Lynch, 2019). When asked about the status of the trade feud, President Trump told reporters, "Things are going well with China. China wants to make a deal very badly" (Lynch, 2019). This was after President Trump's threat to raise tariffs from 10% to 25% on $200 billion in Chinese products. The original date for the increase was March 2019, but that date has been pushed back (Lynch, 2019).

The U.S. agriculture industry has been the most negatively affected by the trade feud, forcing the Trump Administration to provide a $12 billion bailout program to farmers. In 2018, exports of agricultural products from the U.S. to China totaled $9.3 billion, which makes China the 4th largest receiver of agricultural exports from the U.S. (Office of the United States Trade Representative [USTR]). Republicans from primarily agricultural states are critical. Wisconsin Senator Ron Johnson said, "My thoughts are the thoughts of farmers. They want trade, not aid. It's really just that simple" (Bloomberg, 2018).

China's imports from the U.S. declined 25% in November 2018 as exports to the U.S. continued to rise (Stevenson-Yang, 2019). Chinese officials intend to reduce China's dependence on American consumers, labelling them as "fickle" (Lynch, 2019). Figure 2 is data obtained from the Customs General Administration of China and reports China's imports and exports to the U.S. in 2018. China's imports from the U.S. are decreasing, while exports are still on the rise (Stevenson-Yang).

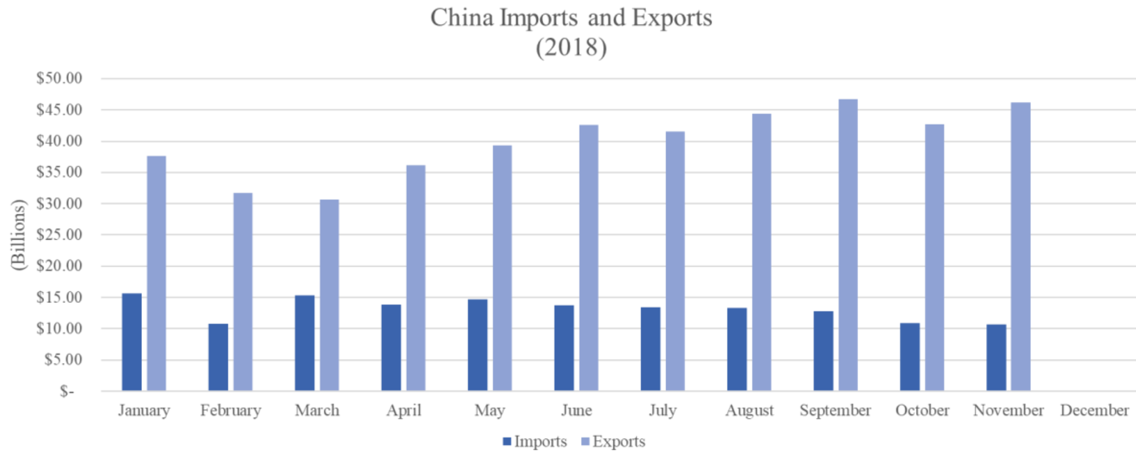

Figure 2. Data obtained from the Customs General Administration of China

According to The Office of the United States Trade Representative (USTR) goods exported to China totaled $120.3 billion in 2018. This is $9.6 billion (7.4%) less than in 2017. U.S. goods and services traded with China in 2018 totaled a n estimated $737.1 billion. Exports to China from the U.S. were only $179.3 billion, while imports were $557.9 billion. The trade deficit with China was $378.6 billion in 2018, and China was the largest supplier of goods imported to the U.S. in 2018 (USTR).

Conclusion

The economy has been strong, consistent, and enduring during Trump's presidency. A job creation streak of over 100 months, which has been the longest period of job creation growth in U.S. history, is a measure of the success of President Trump's economic policy. The unemployment rate is lower than it has been in almost 60 years which is another indicator that the Trump Administration is creating a positive business climate in the U.S. While President Trump can be credited for some of the economic growth, some of the success being observed in wage growth, labor force participation, and the unemployment rate could be attributed to slowed birth rates. Globally, President Trump has tackled the trade deficit with China. He has made a great effort to level the playing field by increasing tariffs on imports from China, but it has negatively affected the American agriculture industry.

References

Amadeo, K. (2019, March 8). 5 Reasons Why People Dropped Out of the Labor Force and Won't Return. Retrieved March 3, 2019, from https://www.thebalance.com/labor-force-participation-rate-formula-and-examples-3305805

Bergman, A. (2018, June 22). Social Security Feels Pinch As Baby Boomers Clock Out For Good. Retrieved March 15, 2019, from https://www.forbes.com/sites/greatspeculations/2018/06/21/social-security-feels-pinch-as-baby-boomers-clock-out-for-good/#4b7691204995

Bloomberg. (2018, July 24). Republicans Fume at Trump's $12 Billion Plan to Aid Farmers. Retrieved March 17, 2019, from http://time.com/5347827/republicans-fume-at-president-trumps-12-billion-plan-to-aid-farmers/

Cohen, P. (2018, September 07). In a Sign of the Economy's Strength, Jobs and Wages Moved Higher in August. Retrieved March 3, 2019, from https://www.nytimes.com/2018/09/07/business/economy/jobs-report.html

Cox, J. (2019, February 26). Powell warns of slower growth, says the Fed is prepared to 'adjust' balance sheet unwind if needed. Retrieved March 3, 2019, from https://www.cnbc.com/2019/02/26/powell-warns-of-headwinds-says-fed-is-prepared-to-adjust-balance-sheet.html

Davidson, P. (2019, February 03). Employers add booming 304,000 jobs in January, marking 100th straight month of employment gains. Retrieved March 17, 2019 from https://www.usatoday.com/story/money/2019/02/01/jobs-report-added-january-100th-straight-month-gains/2738245002/

DeSilver, D. (2018, August 07). For most Americans, real wages have barely budged for decades. Retrieved March 13, 2019,from http://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/

Folger, J. (2019, February 06). What is the Relationship Between Inflation and Interest Rates? Retrieved March 3, 2019 , from https://www.investopedia.com/ask/answers/12/inflation-interest-rate-relationship.asp

Irwin, N. (2019, March 08). Sharp Drop in Hiring Brings Dose of Realism. Retrieved March 16, 2019, from https://www.nytimes.com/2019/03/08/upshot/february-jobs-report-hiring-down.html

Long, H. (2019, March 08). U.S. economy adds just 20,000 jobs in February, well below expectations. Retrieved March 13, 2019, from https://www.washingtonpost.com/business/2019/03/08/us-economy-adds-just-jobs-february-well-below-expectations/?utm_term=.a215fbc310b1

Lynch, D. J. (2019, February 13). Fearing Trump's China tariffs may never end, companies are taking action. Retrieved March 17, 2019, from https://www.washingtonpost.com/business/economy/fearing-trumps-china-tariffs-may-never-end-companies-are-taking-action/2019/02/13/53ca718e-2f09-11e9-86ab-5d02109aeb01_story.html?utm_term=.45ac13707bb1

Matthews, T. J. & Hamilton, B. E. (2019, January 10). Total Fertility Rates by State and Race and Hispanic Origin. Retrieved March 3, 2019, from https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_01-508.pdf

Needham, V. (2018, September 07). Trump gets good news on wages. Retrieved March 3, 2019, from https://thehill.com/policy/finance/405652-trump-gets-good-news-on-wages

Office of the United States Trade Representative (USTR). (n.d.). The People's Republic of China Retrieved March 16, 2019, from https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china

Rushe, D. (2018, December 19). Federal Reserve raises interest rates despite pressure from Trump. Retrieved March 16, 2019, from https://www.theguardian.com/business/2018/dec/19/federal-reserve-interest-rates-raised-trump

Stevenson-Yang A. (2019, December 30) Trump's strategy on China trade isn't working. Retrieved March 3, 2019, from https://www.bloomberg.com/opinion/articles/2018-12-31/trump-s-strategy-on-china-trade-isn-t-working

Tavernise, S. (2018, December 19). Fewer Births, More Deaths Result in Lowest U.S. Growth Rate in Generations. Retrieved March 16, 2019, from https://www.nytimes.com/2018/12/19/us/census-population-growth.html

U. S. Bureau of Labor Statistics (BLS). (n.d.). Labor Force Statistics from the Current Population Survey. Retrieved March 3, 2019, from https://data.bls.gov/cgi-bin/surveymost