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UNITED STATES

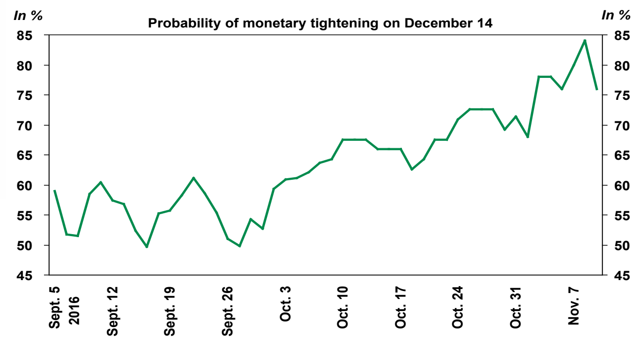
Donald Trump, 45th president of the United States

Defying the vast majority of surveys and forecasts, Donald Trump has been elected president of the United States. This surprise victory obviously has immediate repercussions on the markets. We had a glimpse of them, when certain surveys showed him to be gaining ground during the first week of November. But now that this victory—one that is more populist than Republican—has come to pass, investors must adjust to the new reality. Yet we should keep in mind the other surprise of 2016, the Brexit vote in the United Kingdom, which also triggered a strong reaction in the markets. As far as the stock market is concerned, we have watched the British indexes climb back up over the summer, and the immediate worries have faded. It now remains to be seen whether U.S. business and consumer confidence will be impacted to the point of having a real effect on the economy. The data of the next few months will tell us.

When he takes occupancy of the Oval Office of the White House on January 20, what is President Trump likely to bring with him? His program[1] puts great emphasis on revitalizing the U.S. economy through drastic tax cuts for individuals and businesses, investments in infrastructure, streamlining of regulations and the renegotiation of trade agreements. Congress, where the Republicans have held onto their majority in both the Senate and the House of Representatives, is unlikely to stand in the way of that agenda. Still, the Democratic minority in the Senate could throw a spanner in the works by filibustering; not to mention certain Republicans who are more in favour of free trade, or of budgetary prudence.

In itself, and notwithstanding the immediate effects of Mr. Trump's victory on the markets or on confidence, his program could make a positive contribution to the U.S. economy in the short term. However, the budgetary impact of the measures he is proposing (which, according to realistic assumptions, entail inflating the debt and deficits) presents a risk in the longer term. The proposals to restrict immigration are likely to adversely affect the labour supply, which could slow potential GDP growth. Lastly—and this is the main risk—the tougher stance on international relations, in particular with respect to trade agreements, could undermine growth. Obviously that is also the main subject of concern for the Canadian and Quebec economies.

The probability of an interest rate hike by the Federal Reserve has diminished, but is still high



Sources: Bloomberg and Desjardins, Economic Studies

Implications: Mr. Trump's election is a major surprise that the markets will now have to take into account. The Federal Reserve officials will also have to make adjustments. Up until yesterday, there was a very high probability of key interest rates being raised at the December 14 meeting. That probability has declined somewhat, reflecting the instability observed in the markets and the greater uncertainty for the U.S. economy. Economic scenarios will also have to be adjusted. It seems too early yet, however, to expect a possible dissolution of trade agreements, including NAFTA. Therefore, for the time being, the anticipated effects on the U.S., Canadian and Quebec economies should be moderate. But we must keep in mind that uncertainty and risk have grown considerably.

Francis Généreux
Senior Economist

[1] Desjardins, Economic Studies, *Economic Viewpoint*, "The November 8 elections and the U.S. economy", November 2, 2016, www.desjardins.com/ressources/pdf/pv161102-e.pdf?resVer=1478093155000 and November 4, 2016, www.desjardins.com/ressources/pdf/pv161104-e.pdf?resVer=1478258878000.

François Dupuis
Vice-President and Chief Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Mathieu D'Anjou Senior Economist
Benoit P. Durocher Senior Economist
Francis Généreux Senior Economist
Jimmy Jean Senior Economist
Hendrix Vachon Senior Economist