

President Trump, the Economy and Rural America

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During the recent presidential campaign, issues facing rural industries and communities never received a great deal of attention from either candidate. Democrat Hillary Clinton and Republican Donald Trump – both residents of the New York City metro area – spent most of their time focused on and talking about other matters.

But that doesn't mean rural America didn't have a lot at stake in the election's outcome. Agriculture, rural utilities and other rural industries are significantly impacted by federal policy. With President-elect Trump now preparing to take office, along with a Republican majority in both houses of Congress, *Outlook* turned to economist Kevin Hassett from the American Enterprise Institute for perspective on how the rural economy will fare in a Trump administration.

Hassett says some of Trump's stated priorities, such as cutting corporate taxes and rolling back government regulation, will help boost overall economic growth in the U.S. But how the Trump administration will address agriculture and other rural industries remains a big question mark.

OUTLOOK: As far as the economy goes, what is President Trump likely to do first?

KH: Fasten your seat belt. With a Republican Congress, and because President Obama enacted so much policy by executive action, Donald Trump will likely oversee the biggest first-year policy changes since Ronald Reagan. There's likely to be a repeal of the Affordable Care Act and legislation to lower corporate and individual taxes. Both of those promises are highly likely to happen because everybody on the Republican side in Congress wants to do them as well. We may also see an attempt to roll back many of the banking regulations in the Dodd-Frank Act, which passed in 2010 following the financial crisis. And there's going to be a close look at which regulations imposed by federal agencies can be eased.

This Month's Expert

A noted expert on U.S. economic policy, Kevin A. Hassett is State Farm James Q. Wilson Chair in American Politics and Culture

and director of research for domestic policy at the American Enterprise Institute (AEI). He has served as an economic advisor for the Republican presidential campaigns of George W. Bush in 2004, John McCain in 2008 and Mitt Romney in 2012. He served as a policy consultant to the U.S. Department of the Treasury under Presidents George H. W. Bush and Bill Clinton.

Dr. Hassett, who earned his Ph.D. in economics from the University of Pennsylvania, has also served as a senior economist at the Board of Governors of the Federal Reserve System and an associate professor of economics and finance at Columbia Business School. A frequent guest on national radio and television news shows, Dr. Hassett has written opinion pieces for the *Los Angeles Times*, *The New York Times*, *The Wall Street Journal*, and *The Washington Post*. He has written or edited many books, including *Rethinking Competitiveness* (2012), *Toward Fundamental Tax Reform* (2005) and *Bubbleology: The New Science of Stock Market Winners and Losers* (2002).

OUTLOOK: What might some of those be?

KH: The only thing that's quite clear is that he's going to work to repeal the Clean Power Plan, the Environmental Protection Agency's carbon regulations that placed crippling restrictions on coal. Reversal is going to be very important for coal country. Outside of those areas, the impact will be less sudden and less visible.

In California, a lot of farmers are struggling to get enough water to keep their farms alive, thanks to restrictive water regulations. For example, there are regulations aimed at protecting some fish species that make it much harder to divert water to irrigate farms. These problems have only intensified with the California drought. I would expect President Trump might try to ease restrictions, but I haven't seen or heard any specifics yet, and many of those regulations are at the state level.

OUTLOOK: What impact do you think Trump's policy changes will have on the overall economy? Will growth accelerate, decelerate or stay the same?

KH: Trump's policies, if they become law, are very positive for economic growth. You should probably take the growth rate of about 2 percent we've experienced in recent years and add a percentage point each year for the next several years.

OUTLOOK: Equity markets have risen notably since the election. What do you think is behind that investor optimism?

KH: The investor optimism is 100 percent a sign that markets expect big policy changes, that a lot of the heightened regulations of the Obama Administration will be reversed and taxes cut. The markets are factoring that in. The policies Trump has talked about are favorable for businesses and ultimately for workers.

OUTLOOK: How concerned are you about the prospects for a recession during Trump's presidency? How are Trump and a Republican Congress likely to react if a recession occurs?

KH: If the Trump policies become law in early 2017, say, by April or May, the odds of a recession in the next few years will be very low. If some external force like war in the Middle East sends oil prices skyrocketing and causes a recession, a Trump administration and Congress would probably pursue some kind of stimulus package based on further tax cuts. Right now, though, it seems very unlikely that we'll have a recession if his platform becomes law.

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OUTLOOK: *What about all the promises Trump made on trade, for example, about punishing trading partners he says have taken advantage of the United States?*

KH: That's much less certain, and more difficult. Free-trade deals such as NAFTA have probably hurt manufacturing, but they've been a net benefit for U.S. agricultural exports. It will be interesting to see how Trump can balance these concerns. He'll certainly want to come up with policies that help manufacturing without hurting farmers. I have not seen any real mention of what those policies might be, and it's hard to think what they might be. It's not an easy problem to solve. If you put a tariff on, say, Chinese manufactured goods, then maybe China is going to put a tariff on our soybeans.

OUTLOOK: *What can Trump do to prevent jobs from going overseas?*

KH: His most powerful tactic is really going to be reducing the U.S. corporate tax rate, currently the highest in the developed world. That's something he's talked a lot about, and there's a lot of support for it. A lower tax rate would make it much less attractive for companies to move activities and jobs overseas. That's the best possible policy, and it's something he's spoken favorably about.

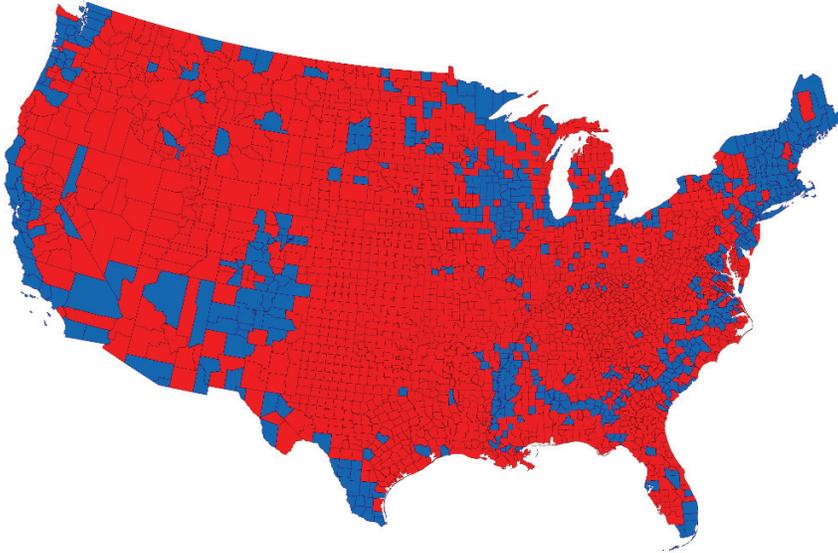
OUTLOOK: *What about those small towns that have lost factories already?*

KH: When a single manufacturer in a small town shuts down, too often there's nothing for those workers to do. In past generations, if a plant shut down, the company president and engineers would say, "Let's think of something else we can do." In this age of mobility, the managers and engineers move to the city. Blue-collar workers stay behind, unable to prosper the way they used to.

Government has not done a good job of helping people whose lives are disrupted by free trade or automation find new things to do. That's been a policy failure.

URBAN VS. RURAL VOTING PATTERNS

RED SHOWS COUNTIES CARRIED BY TRUMP; BLUE COUNTIES WENT FOR CLINTON



Source: University of Michigan

OUTLOOK: *Immigration was a central theme of his campaign, especially illegal immigration. How likely do you think it is that we'll see large numbers of undocumented workers deported?*

KH: Over the past decade we haven't really seemed like a nation of laws when it comes to immigration. I think that's a real frustration for a lot of voters, and it's likely we'll see some legislation in the coming year aimed at reducing illegal immigration and protecting the border. I also believe that if someone gets arrested and it turns out they're here illegally, they're likelier to be deported under a President Trump.

On the other hand, I don't believe we'll see large numbers of undocumented workers deported, regardless of anything Trump said during the

campaign. It's hard to see how the government would go around searching for people, rounding them up and checking their immigration status, unless they've already been arrested for some other crime. I just don't think that's going to happen.

OUTLOOK: *What do you see happening in terms of legal immigration?*

KH: If anything, I think we'll see a move to expand legal immigration, because there's not enough of it. The farmers I talk to are always anxious about whether they'll have enough workers to make it through the harvest season. An increase in the supply of immigrant workers is necessary for the agricultural economy. Although Trump has spoken pretty sensibly at times about the need for increased legal immigration, we've yet to see any formal plan.

For the agricultural sector, one of the perils of immigration legislation is that intellectuals and economists tend to say we need more H-1B visas, for high-skilled workers. While that's true, the agricultural sector needs workers too, including lower-skilled labor, and they have a hard time finding them, and the costs are skyrocketing. The hope would be that legal immigration would expand for high-skilled and for low-skilled workers.

When you've got a major deal like NAFTA that was negotiated over many years and has been in place for more than two decades, opening it all up again would be extremely cumbersome and difficult.

OUTLOOK: Trump famously called NAFTA "the worst trade deal ever." What's your take?

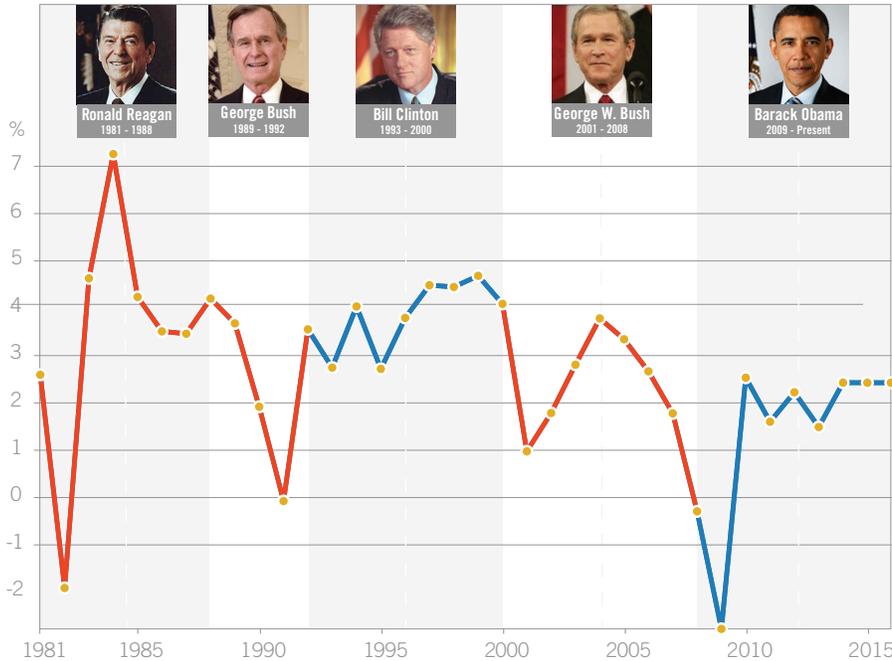
KH: The economic research shows it's been a net positive. The U.S. has probably benefited on the order of 1 percent of GDP. It's been beneficial to U.S. agriculture, and a positive for consumers, in terms of lower prices. But there have also been a lot of disruptions in terms of manufacturing jobs that have moved to Mexico. The academic evidence is 100 percent clear that blue-collar workers in the manufacturing sectors saw a dramatic reduction in their wages and wage growth after NAFTA.

OUTLOOK: Realistically, what will or can Trump do to alter NAFTA?

KH: When you've got a major deal that was negotiated over many years and has been in place for more than two decades, opening it all up again would be extremely cumbersome and difficult. As we mentioned before, Trump has spoken a lot about lessening the flow of U.S. jobs to Mexico. I could imagine him pursuing some kind of smaller, bilateral agreement with Mexico that modifies NAFTA in some way. I'm not sure he would negotiate with the Canadians and the Mexicans at the same time. And a wholesale dismantling seems highly unlikely.

Incidentally, we saw similar anti-NAFTA rhetoric when candidate Barack Obama criticized Mrs. Clinton in the primaries back in 2008 for having supported the deal. Obama demonized NAFTA and free trade. Then he went to the White House and he became a free-trade advocate, promoting the Trans-Pacific Partnership. It remains to be seen whether for Trump, bashing free trade was likewise simply a sound campaign strategy, or something he plans to pursue vigorously as president. My guess is the former, which would certainly be better for the United States, but we won't know for sure until he takes office.

U.S. GDP GROWTH RATE BY ADMINISTRATION



Source: New York Fed

OUTLOOK: *Trump has said he will pull out of the Trans-Pacific Partnership, which would join the U.S. and 11 other Pacific Rim nations in free trade. What's your reaction to that?*

KH: Unlike NAFTA, which was adopted back in the 1990s, the TPP has yet to be ratified. Given Trump's anti-free-trade stance, it's most likely off the table. The TPP was potentially a big positive for American agriculture. A lot of nations around the world close their markets to U.S. agricultural projects. The key objective of trade deals is to open them up, which is what the TPP would have accomplished throughout the Pacific Rim.

That doesn't mean Trump's going to be able to ignore trade, or the need

to keep international markets open to agriculture and other industries. The reality is, he's going to need to replace the TPP with his own efforts, probably on a country-by-country basis, to get access for American rice farmers to Japan, for American beef everywhere in Asia, and so on. One of the hardest jobs Trump's going to have is making his trade rhetoric make sense as effective policy. In practice, he's got to negotiate with other parties, who aren't necessarily going to want to concede anything. That's going to be the hardest thing for him to do, and it'll probably take a long time for that to develop.

OUTLOOK: *The president-elect was especially critical of China during his campaign. How likely is a trade war with China?*

KH: A trade war with China could be very harmful to agriculture and the U.S. economy overall. They're one of our most important export sectors. Just to put it in perspective, soybean exports added 1 percent to third quarter GDP growth. A lot of that was exports to China.

One hopes Trump understands that and will pursue policies that make better deals. On the positive side, in purely practical terms, making deals with China is easier than dealing with a democratically elected government. In France, for example, trade negotiations last forever and they're highly political. If China wants to, they can make a deal right away, without legislating it. We know that Trump has been a hard-nosed businessman. We don't know what happens when he tries to use those tactics in the political arena to cut trade deals. That's another work in progress.

Photo sources: Ronald Reagan - National Archives, George Bush - National Archives, Bill Clinton - Library of Congress Prints and Photographs Division, George W. Bush - The White House, Barack Obama - Obama for America

When I look at Trump's economic policies in total, pretty much everything seems right out of the Ronald Reagan playbook, except for trade, which is difficult to handicap at this time.

OUTLOOK: *Trump has talked a lot about investing in infrastructure. How significant do you think federal spending on infrastructure will be, and will rural industries stand to benefit?*

KH: Infrastructure represents a big positive for growth, potentially, but I think most of that will be focused on areas of congestion, to ease the flow of people, goods, and services, rather than rural areas, which have less congestion. We're talking about major airports and Northern Virginia highways, or Interstate 95 between Philadelphia and New York. Infrastructure improvements along those lines can have a big impact on people's lives.

OUTLOOK: *As an economist, what do you make of Trump as an economic thinker?*

KH: When I look at his economic policies in total, pretty much everything seems right out of the Ronald Reagan playbook, except for trade, which is difficult to handicap at this time. His free-trade positions have been quite different from traditional supply-side. Even on Trump's own team, some of his most trusted advisors say they disagree with him on trade. It'll be interesting to see where it all ends up. Otherwise, for the most part, he's a deregulatory, free-market-loving, supply-side tax-cutting Republican.

OUTLOOK: *Trump has crossed swords with almost as many Republicans as Democrats. How well will he work with members of his own party and the other to enact the changes you've outlined?*

KH: Trump has already shown that he's going to have no trouble working with establishment Republicans. Many elected officials, Republicans and Democrats, choose to serve because they're patriotic people. It's quite possible that establishment Republicans and establishment Democrats as well will work with President Trump. Everybody wants a healthier, happier country, and they may disagree about how to do it, but if presented with an opportunity to make things better, I think people of both parties will work with the president. ■

Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 11/30/16. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	7	7	6	5
90	12	15	12	9
180	16	24	20	16
365	44	48	40	30

Costs are stated in basis points per year.

ECONOMIC AND INTEREST RATE PROJECTIONS

Forecasts courtesy of Bloomberg and Blue Chip Economic Indicators

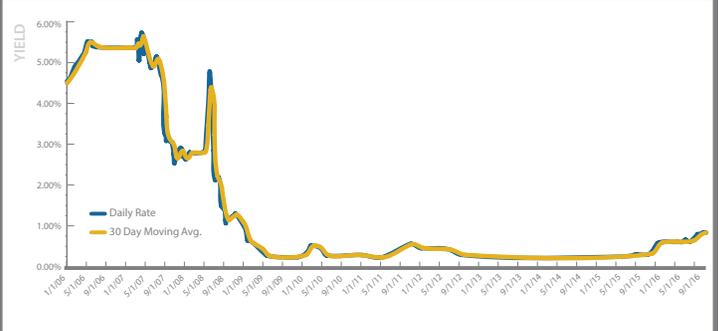
US Treasury Securities

2016	GDP	CPI	Funds	2-year	10-year
Q4	2.10%	2.90%	0.53%	1.03%	2.23%
2017	GDP	CPI	Funds	2-year	10-year
Q1	2.20%	2.10%	0.68%	1.11%	2.25%
Q2	2.30%	2.40%	0.78%	1.23%	2.33%
Q3	2.20%	2.30%	0.89%	1.37%	2.44%
Q4	2.10%	2.40%	1.03%	1.53%	2.53%

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

3-MONTH LIBOR



PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

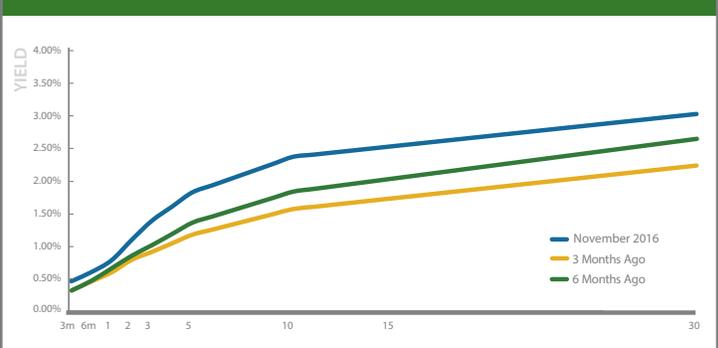
IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.94%	1.12%	1.56%	1.87%	2.09%	2.29%
0.25	1.10%	1.24%	1.66%	1.95%	2.15%	2.32%
0.50	1.18%	1.35%	1.75%	2.03%	2.21%	2.38%
0.75	1.28%	1.46%	1.85%	2.11%	2.27%	2.43%
1.00	1.39%	1.57%	1.94%	2.18%	2.33%	2.47%
1.50	1.63%	1.78%	2.10%	2.30%	2.43%	2.54%
2.00	1.81%	1.99%	2.24%	2.38%	2.51%	2.61%
2.50	1.97%	2.14%	2.35%	2.47%	2.58%	2.65%
3.00	2.14%	2.28%	2.46%	2.57%	2.64%	2.70%
4.00	2.33%	2.47%	2.60%	2.68%	2.73%	2.76%
5.00	2.52%	2.64%	2.68%	2.76%	2.78%	2.80%

RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





About CoBank

CoBank is a \$120 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation’s rural economy.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank’s web site at www.cobank.com.

CoBank Launches “No Barriers” Program for Veterans With Disabilities

CoBank has announced a new program designed to help veterans with disabilities from America’s rural communities. The bank will sponsor up to 50 veterans from rural areas across the U.S. to participate in the No Barriers Warriors program, a series of outdoor expeditions that challenge veterans mentally and physically and help them to transform their lives.



Robert B. Engel

Cooperatives and other eligible CoBank borrowers will be able to nominate veterans from their local communities to participate in the program, with CoBank covering the full cost for each veteran, including travel expenses. Selected veterans will go through the program, which is presented in partnership with the nonprofit group No Barriers USA, in 2017.

Customers will be able to submit nominations for the 2017 program of rural veterans with disabilities through May 1, 2017. They can contact a CoBank associate for information on the process, and detailed information about the nominations and requirements is available [here](#).

“Every American owes an enormous debt of gratitude to the men and women who serve in the armed forces and protect our country,” said CoBank CEO Bob Engel. “Those who are wounded or injured in the course of duty are even more deserving of our thanks. At CoBank, we want to do our part to honor veterans and repay them for their service to the nation.”



Erik Weihenmayer

No Barriers was co-founded by Erik Weihenmayer, an internationally renowned mountain climber and the only blind person in history to reach the summit of Mount Everest. Weihenmayer has been a regular speaker at CoBank meetings over the past several years and has shared his inspirational message about overcoming barriers and challenges to live a life rich in meaning and purpose with the bank’s customers and employees.

“Through the Warriors program, No Barriers has been working with veterans with disabilities for years,” said Weihenmayer. “We’re grateful to CoBank for its partnership and the opportunity to serve even more of our nation’s veterans with disabilities.” ■