

Trump's policies will worsen next recession, top Moody's economist says

By Konrad Putzier, The Real Deal, December 1, 2016

Donald Trump's economic plans may worsen the next downturn, according to Moody's Analytics chief economist Mark Zandi.

"I think the economy is going to be more cyclical as a result" of Trump's election, Zandi, a Democrat, said Thursday at a Urban Land Institute New York event.

Like several other commentators, Zandi expects that Trump's plans to cut taxes and boost government spending this late in the economic cycle will drive up prices and in turn interest rates. "If you layer fiscal stimulus on top of a full-employment economy, what does that do? Well, it creates inflationary pressure," he said.

The stimulus, combined with planned deregulation of bank lending, also "means we're going to get more of an overheating economy more quickly," Zandi said. And overheated economies tend to come down more forcefully than the well-tempered kind.

Commercial real estate markets could play a part in the increased volatility, he added.

Zandi's remarks depart from more bullish recent statements by leading real estate investors. Last month, Blackstone's real estate head Jonathan Gray said he expects Trump's fiscal stimulus and possible boost to growth to benefit the real estate market.

Financial markets have largely cheered Trump's victory as good for near-term economic growth in the U.S., and Zandi doesn't necessarily disagree — he simply cautioned that there will be a price to pay later on.

In the medium term, Zandi doesn't see a reason to change his expectation of 2 percent average annual GDP growth. Any boost to growth from lower corporate taxes or deregulation will likely be minor, he argued, and offset by a pinch to growth from possible new trade barriers. "Trump's been saying 'I'm going to get 4 percent GDP growth' — that's not going to happen," Zandi said.

Zandi, one of the country's best-known economists, had first claimed that Trump's proposed economic policies would lead to a "lengthy recession" in a June report.

Hillary Clinton referred to the report in campaign speeches, falsely implying that Zandi is a Republican (although he did once advise John McCain). The Trump campaign, in turn, released a statement accusing Zandi of "causing the Great Recession," because his employer, Moody's, has a bond-rating business that did a poor job assessing risk in housing bonds prior to 2008. The campaign's statement omitted the fact that Zandi works for a different part of the company and is responsible for macroeconomic research and analysis, not bond ratings.