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Economic Commentary

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The consensus expectation for the advance estimate of Q1 2019 GDP was 2.2%. When the headline number was released at 3.2%, many were pleasantly surprised, but mostly because they quit reading after the headline number was posted. The Bureau of Economic Analysis (BEA) data releases are interesting, but mostly for economists. Financial market professionals, institutional investors and individual investors rarely dig below the headlines printed in data releases. The underlying data that is revealed after the layers of the onion are peeled back is the accurate portrayal of the economy.

We really do not expect much variation in data points released each month. What we, along with everyone else who is trying to accurately gauge the health and condition of our economy, want to see are trends in place that reveal a future condition, good or bad. Most of those data points are centered around the consumer. Is the consumer employed, are wages growing, is the consumer spending or saving, is the consumer's dollar buying more or less relative to inflation? How confident is the consumer as a result of their employment, wage growth and their perception of their fellow consumers' financial health? Are personal wealth components like home values, savings and retirement accounts growing or shrinking? These things are important because the consumer drives at least 70% of our GDP.

Other measurements like manufacturing data, housing starts, housing permits, auto sales, small business confidence index, and utility consumption confirm what the consumer is doing, but are a result of and not a predictor of consumer activity. The peeled away layers of the economic data reveal a consistent theme. The consumer is employed, spending (at some cost to saving) and confident. There are no observable data points that suggest the trend currently in place is or will change in the next quarter. While we expect the revised estimate to change from the initial or advance number released in late April for Q1 of 2019, the change will likely be around the margins. Significant contributors beyond the consumer in the quarter results were inventory buildup and trade balance due to energy prices. Neither of these is likely to change significantly. Most analysts expected the government shutdown to have a noticeable impact in Q1 results, the evidence of which was not seen. Negative impact of the shutdown will most likely not be seen in the second quarter's results and therefore most analysts are forecasting a number in the middle of the 2 – 3% range. Current underlying consumer, business and government activity would affirm those forecasts.

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Initial bipartisan conversations about infrastructure investments got off to a positive start. Previous discussions between the president and Democratic leadership in both the House and Senate resulted in acrimonious finger wagging and meeting walkouts; so, to be honest, our expectations for success might have been tamped down. Nonetheless, both parties agreed that spending on infrastructure was long overdue and represented an important national economic security need. The number that participants spoke of was two trillion dollars over a ten-year time frame. How the parties arrived at the spend number is unknown and how they proposed to pay for the expenditure was also left unexplained at the time of the initial press briefing.

Both parties independently have raised the ideas of a significant national infrastructure investment over the past decade. In fact, there have been a few attempts at introducing bipartisan infrastructure bills in the house, but all failed around the issue of payment. The possibilities for payment are many and most center around the combinations of additional deficits, raising user fees such as landing/gate fees, port of entry fees and fuel taxes. All of the above are either passed on to or paid directly by consumers. Public polling suggests that consumers are somewhat supportive of increased fuel taxes, but with a rather large caveat that they want to see results. The appetite for infrastructure investment is strong within both parties; however, the divide over method of payment is as wide as ever, and this divide will be the challenge. Republicans in legislative leadership prefer private dollar support through bond investments and asset purchases (private purchases of toll assets like bridges, roads and ports) while Democratic leadership favors limited taxation on the general public and increasing taxes on heavy users and particularly petroleum based transport users. Large investments are best paid when the cost of the investment is spread over the largest number of investors. How both parties get to yes on what is a publicly desired investment will be yet another significant ideological battle.

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To put the proposed infrastructure investment in perspective, our current annual budget deficit is about $795 billion dollars. In the round, we will spend in this fiscal year $4.0 trillion on our federal budget. We will collect $1.6 trillion in payroll taxes and another $1.6 trillion in income taxes (mostly individual) for a total of $3.2 trillion, thereby adding nearly $800 billion to our budget deficit. Without funding the infrastructure investment and assuming the $2.0 trillion cost remains constant over the ten years described, we will add another $200 billion to the deficit each year totaling $1.0 trillion each year. The last federal gas tax imposed was in 1993, which is slightly over a quarter of a century ago. As alternative fuels increase and as mileage of alternative fuel cars and trucks increase, traditional tax at the pump will produce less revenue to support infrastructure investment and therefore thoughtful solutions to the funding of infrastructure investment will be required.

Every major national investment requires a cost to be paid. National defense, National Institutes of Health, Social Security, Medicare, NASA, Consumer Protection, etc., do not exist without taxpayer support. Each also generates an economic benefit that includes jobs, patents, technology development, private company spinoffs, industrial output, efficiencies and improved quality of life for more. The same can be said for infrastructure investment, which could, if financed correctly, be a contributor, not a detractor, for both our short and long-term GDP.

The process to solution is complicated and in the end political, and therein lies the rub. It will be to the current administration's benefit to be able to launch a significant major infrastructure investment plan prior to the 2020 campaign. Doing so could possibly expand the president's base of support and provide cover for many Republican congressmen in competitive 2020 races themselves. With 20 announced Democratic contenders for president, the campaign is well under way. It will be interesting to see if the Democratic leadership gives the president the opportunity to launch this initiative before November of 2020.