

Will Trump's Election Affect Tie Demand? Time Will Tell

By Petr Ledvina, RTA Economic Team

Trump's victory surprised many people. Nevertheless, in the days preceding the election there was sentiment swirling that it could be a close race and that if Trump did win, the stock market would drop precipitously. Even though most pollsters predicted a Clinton win, investors reacted by selling into those fears just prior to the vote.

Following the election, the stock market rallied, market volatility index dropped, bonds sold off, and the dollar got stronger. Even though the markets do not like uncertainty, investors seemed to be buying into Trump's promise of lower taxes and more government spending.

It is not possible to ascertain which of his plans will become law. Yet, research shows that for most of the last century, presidents were able to fulfill about 75 percent on their campaign promises (Pacific Standard, Jan 21, 2015). This source also states that Obama fully delivered on 45 percent of his promises and to some degree on 24 percent.

It remains to be seen if this success rate will also apply to Mr. Trump's campaign pledges. In his proposals, there are three key elements that could have some effect on tie demand: infrastructure spending, trade policies, and deregulation (www.donaldjtrump.com). However, in all, the effect on tie demand may be small.

President-elect Trump would like to resurrect the coal industry by slashing some EPA regulations regarding energy production. This could bring an increase in higher coal rail traffic and higher demand for ties. However, if the administration also encourages more oil and natural gas drilling and fracking, the increased production would result in lower natural gas prices. This may lower the incentive for the power generating industry to return to coal (Crossties Jan/Feb 2016). Trump could also postpone or abandon some regulations as suggested by AAR in an open letter to the Vice President-Elect.

On the other hand, protectionist policy could hurt tie demand. Most notably, tariffs against Mexico and China would decrease rail traffic. Many companies import either final products or parts such as cars, while



others export goods such as grain (<http://www.wsj.com/articles/u-s-rail-industry-asks-donald-trump-to-embrace-fair-and-open-trade-1478707493>; <http://money.cnn.com/2016/11/10/investing/donald-trump-railroad-stocks-coal-mexico/>). Trade restrictions would result in higher prices and lower demand for goods.

Infrastructure spending would certainly affect tie demand positively. Even if railroads don't receive direct benefit through appropriations, they would benefit through higher traffic volume of steel, cement and other aggregates needed for new or repair of the old infrastructure. This increase in economic activity would also result in overall higher economic growth, as suggested by Standard & Poor's, and that would result in higher rail traffic and demand for ties.

Without specifics on the Trump's administration plans, RTA cannot be certain to what extent tie producers may be affected. As Trump's ideas take the form of actual law, it may be possible to incorporate the changes into the tie demand forecast. Until then, RTA's forecast remains unchanged from previous reports.

The election of Donald Trump is seen as a significant change to the business-as-usual conditions in American politics. What shifts may come with his presidency are not yet fully known, but an aggressive approach to tax reform and federal spending is on the horizon. Below is a roundup of industry executives' comments post-election:

ASLRRRA: Linda Darr, President

ASLRRRA looks forward to meeting with President-Elect Trump's Transition Team,

ensuring that our issues are well understood and represented in the going forward plans. Our Congress has significant work ahead of them. We will work with them to take up the issues of critical importance to our members from balanced regulation to two stated priorities of the incoming Administration and Congress: infrastructure and tax reform. By making the 45G railroad rehabilitation tax credit permanent, we will promote jobs and invest in a strong and sustainable rail infrastructure reaching rural communities and small town America."

We encourage the Trump Administration to preserve the 45G tax credit leading up to, and support permanency of the 45G tax credit as a key element in, tax reform as a way to support self-funded growth, improved infrastructure and greater safety in our industry.

AAR: Edward R. Hamberger, President & CEO

As the transition team begins laying the groundwork for investing in other areas of our infrastructure, freight railroads can serve as an example of how smart investments can spur huge economic impacts. With this in mind, the Association of American Railroads (AAR) offers the following policy recommendations:

- A fully functional Surface Transportation Board respectful of sound economic principles: In light of recent sweeping reregulation efforts that lack data-driven justification or analysis, the freight rail industry believes the Trump Administration should nominate STB board members who are committed to sound economic

principles and understand that freight rail regulations impact the entire economy. Only when equipped with a full, five-member board, should the STB proceed with major rule makings.

- Forward-thinking safety regulations: Technology is constantly making transportation safer and more efficient. Rather than layering on prescriptive rules that lock the industry into bygone practices and technologies, regulators must embrace performance-based approaches that incentivize industry to innovate in order to achieve policy goals.
- A sustainable, user-pay infrastructure funding system: Corporate tax reform should be enacted, but any such deal pairing it with infrastructure should also create a sustainable source of funding for the Highway Trust Fund (HTF). Since 2008, policymakers have transferred \$143 billion in general funds to the HTF. The tradition in which users of freight infrastructure pay for that infrastructure should not be broken, and a Trump Administration should seriously consider solutions such as a weight distance fee to establish a truly equitable system.
- Regulatory reform rooted in common-sense principles: In overhauling the regulatory system, the team should ensure that (1) rules are based on current and complete data and sound science; (2) regulations are enacted only if benefits outweigh costs, and agencies analyze the cumulative effects of proposed regulations; and (3) “guidance” and “emergency orders” are limited as regulatory tools.

—Comments made in a letter to Vice President-Elect Mike Pence

**U.S. Chamber of Commerce:
Rob Engstrom, SVP & National
Political Director**

American Free Enterprise is well positioned to fight back in 2017. The results speak for themselves:

- 239 endorsements for Congress – 95% success rate overall 87% win rate in the U.S. Senate
- 95% win rate in the U.S. House
- 100% win rate in primaries where the Chamber invested
- 60 endorsement events across the country partnering with our chamber of commerce members and small business network

- 7 state chamber-sponsored U.S. Chamber ad campaigns
 - 46 television ads holding politicians accountable on things like Obamacare and higher taxes in 15 different states
- Voters on the ground made their voice heard. But the work didn't stop on Election Day. It only just started.

We worked with local business leaders and employers on the ground to protect and promote candidates that have both the ability to win elections and the courage to do the hard work of governing post-Election Day. Now comes the second part—governing effectively. —Comments made in a letter to Friends of the U.S. Chamber of Commerce

**National Association of Manufacturers:
Jay Timmons, President & CEO**

Manufacturing and business leaders from across the country have pledged to rebuild trust in our democratic and economic institutions so that we can ensure our exceptional country offers abundant opportunity to all.

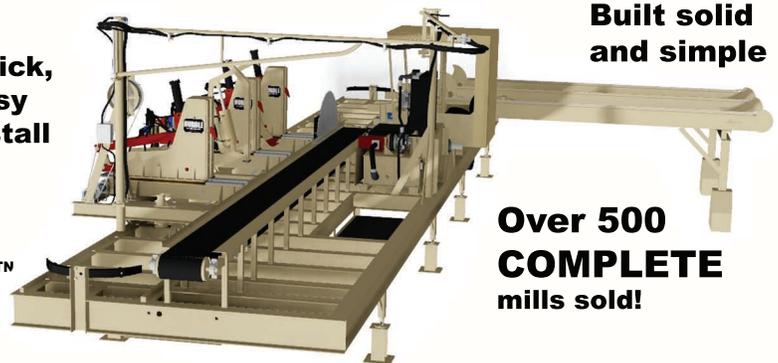
Regardless of political party affiliation, the president of the United States deserves the respect of all Americans, and for the sake of our country, manufacturers want

our next president to stand tall on the world stage and stand up for America's entrepreneurs. We will do our part, sharing our ideas and our expertise with President-elect Trump and the 115th Congress to lead by example and set a productive tone for this next chapter in our nation's history. At the same time, we will celebrate and defend the values that make our nation great; chief among those are free enterprise, competitiveness, individual liberty and equal opportunity. Manufacturers expect our newly elected leaders to worry less about the powerful political extremes and concern themselves solely with solutions that will lift all Americans up and leave no one behind. These solutions, which the NAM will lay out in detail over the next several weeks, must be the focus of our policymakers if we truly want to see widespread growth and prosperity in this country.

This election makes clear that Americans agree that manufacturing is the nation's priority. They want our industry to lead the world and create more jobs. They know that when manufacturing is strong, America is strong. It will be up to us to channel that enthusiasm towards the right policies.” ■

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