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The Trump card: The economy after our crazy election

Based on the financial data on hand and past trends, here's what I think the new year could bring for our nation's veterinary practices.



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If the near term reflects the recent past, the general economy should continue to expand moderately, well into the year. The market for veterinarians will remain robust, with more jobs available than applicants to fill them and new veterinary graduate salaries posting large gains in most areas. But the reality is that the near term does not have to resemble the recent past, and in 2017 uncertainty will be a major factor in forecasting the direction for the general economy.

A key question is, what will happen to healthcare, government and taxes?

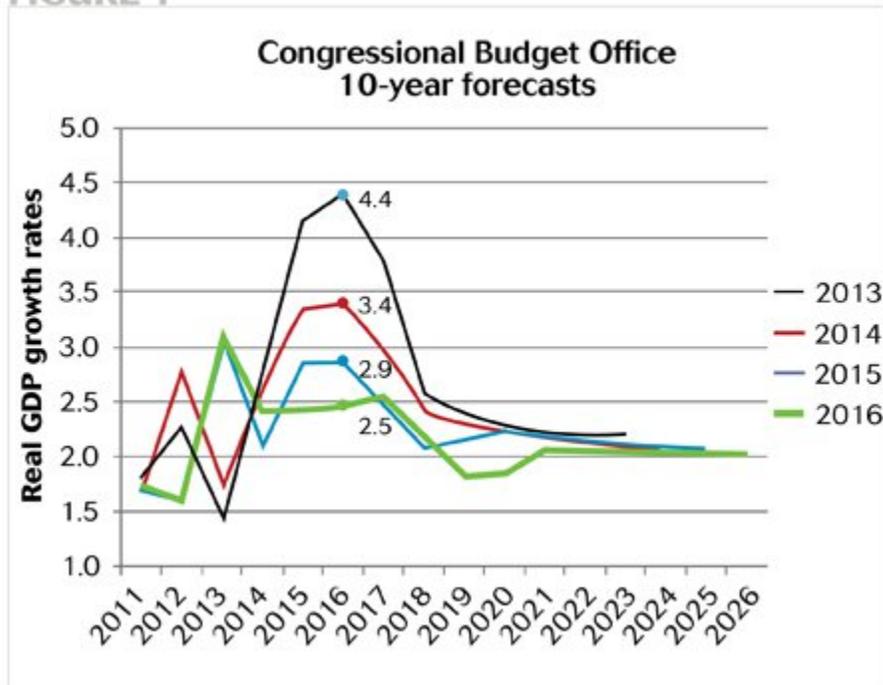
President-elect Donald Trump takes office Jan. 20, and with him the Republican Party will control both the legislative and executive branches of government for the 14th time in the last 60 congressional sessions. A single party has controlled both branches of government in roughly half (34) of the past congressional periods (1900 through 2019), and we know that this tends to yield greater movement of the political agenda.

The new president has talked about a long list of policy changes in national defense, trade, immigration, healthcare, energy and education, to name a few. As such, post-election uncertainty about the economy is magnified. A key question that affects veterinary practices is, what will happen to healthcare, government spending and taxes? While policy changes will be difficult to implement before 2018, businesses and individuals can change production and consumption behaviors in anticipation of proposed changes.

Adding to the uncertainty of policy specifics is just how long changes will take. A new healthcare plan, for instance, might be legislated in the first 100 days of the new administration, as the Republican Party has been trying to eliminate the Affordable Care Act of 2010 since its passage. Other changes to trade agreements, the tax code or immigration policy are less well-defined and may not be legislated quickly, if at all.

The key here is that both the anticipation and uncertainty of policy changes will impact U.S. economic growth and consumers' disposable income. Unfortunately, we are limited to current policy to predict the year ahead. We use the August 2016 Congressional Budget Office's (CBO's) 10-year economic forecast to guide our projections. This nonpartisan congressional support agency considers how the economy will perform over the next 10 years with existing federal policies. Figure 1 below provides a summary of the past four years of CBO 10-year forecasts—what they call “baselines.”

FIGURE 1



The Congressional Budget Office predicts a continued slowdown in GDP growth in the chart above. (Source: AVMA Veterinary Economics Division)
GDP growth slows ...

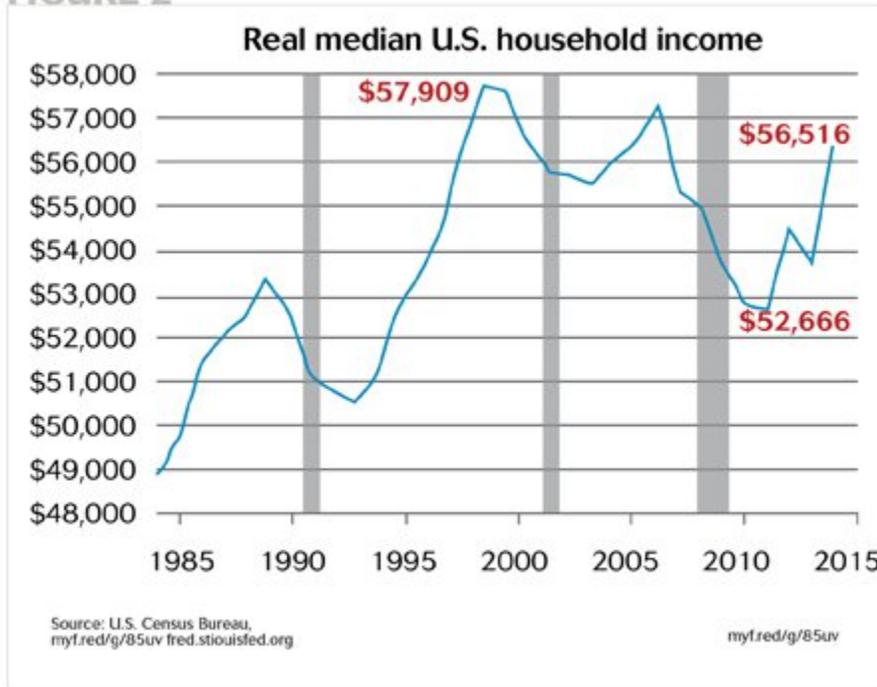
The 2013 CBO forecast (the black line in Figure 1) expected that under current policies the economic growth rate would accelerate to 4.4 percent annual growth in gross domestic product (GDP) by 2016. Yet for each successive forecast the 2016 growth rate was reduced. The 2016 CBO forecast expects a 2016 annual GDP growth rate of just 2.4 percent. This suggests that, based on historic responses to economic conditions and with current policy, the economy didn't perform as expected.

The 2016 forecast indicates a decline in GDP growth rates below 2 percent in the near term and lower long-term growth rates. These lower estimates of future GDP growth suggest slower growth in the demand for veterinary services and thus lower veterinary incomes.

... but median household income grows

Even while U.S. economic growth has slowed, a lower number of job applicants has yielded higher levels of wages, median household incomes and consumer disposable incomes. Median household incomes have risen sharply, from the post-recession low of \$52,666 to a high of \$56,516 in 2015 (see Figure 2 below). While this is still below the pre-recession high of \$57,909, the increasingly tight labor market—with an unemployment rate reaching 4.9 percent in October 2016—suggests further advances in median household incomes. Increasing household incomes contribute to GDP growth and continued economic expansion. Thus, GDP can be expected to continue to grow into 2017 until household incomes reach a peak and begin to decline.

FIGURE 2



Real median household income in the United States shows post-recession growth through 2015 but hasn't reached the pre-recession of \$57,909. (Source: AVMA Veterinary Economics Division.)

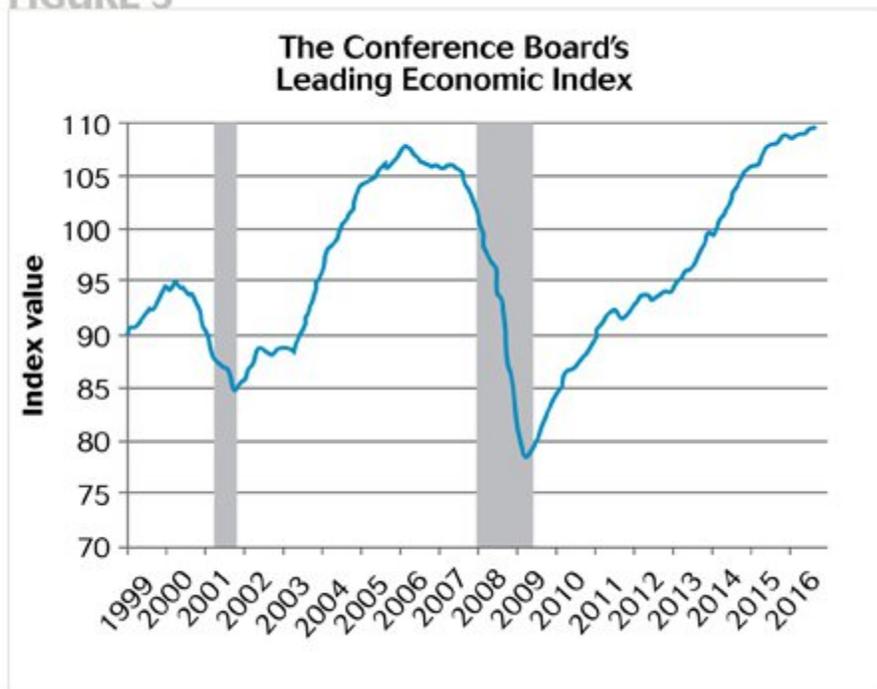
Business group also says growth is slowing

The leading economic index (LEI) from The Conference Board, a business research association, has proven effective at predicting economic downturns in the U.S. economy. The LEI is plotted for the most recent 17-year period in Figure 3 below, with the gray vertical bars indicating periods of recession.

Should the LEI reach a peak in 2017, the probability of a recession will increase.

The rate of increase in the LEI has declined over the past two years and may foretell that the peak has been reached in the current business cycle. But the continued rise in the LEI through November of 2016 indicates that the economy is likely to continue to expand into 2017. Should the LEI reach a peak in 2017, the probability of a recession will increase—this index has historically declined eight to 12 months in advance of a recession.

FIGURE 3



The Conference Board's Leading Economic Index (LEI) has foretold previous recessions (see the gray bars in the figure above). We'll see if the slowing growth in 2017 means we're heading for another one. (Source: AVMA Veterinary Economics Division)

So, what's this mean for your veterinary practice in 2017?

Both Congress and the new administration have shown concern regarding the recent slow and declining growth in GDP and will need to quickly implement tax reductions and increased spending to stimulate continued growth in economic activity. If these policies are implemented rapidly, the economy may continue to expand into 2018. Failure to promptly implement economic stimulus policies may find the economy heading into recession as early as the fall of this year.

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