Post-election impact to manufacturing and consumer businesses
The 2016 election cycle was full of surprises. In the age of social media, data analytics, and a 24-hour news cycle, there were no dull moments—including the final result, which stunned many pollsters and contradicted most forecasts.
Introduction
The outcome of the 2016 election cycle is a reminder that, in a world where we have become comfortable with thinking that everything can be analyzed and predicted, we can still be surprised. Business leaders are now forced to confront a geopolitical landscape outside of the expected, and to challenge previously-held assumptions about how to effectively operate manufacturing and consumer businesses.

So now what?
The change in administration could widen the horizon lines for potential policy changes that may impact business. Some specific focal points within President Trump’s campaign platform that stand out as potentially significant for businesses include:
- Global trade policy
- Regulatory change
- Repatriation of cash

While the occupant of the White House is known, there is still much uncertainty about what the Trump administration will prioritize and how it will operate.

“Success depends on intuition, on seeing what afterwards proves true but cannot be established at the moment.”

- Joseph Schumpeter, Prominent 20th century economist
Global trade policy

Only time will tell how President Trump will transform his campaign platform into a governing agenda. If the first month of his presidency is any indicator, trade policy, particularly changes to NAFTA (North American Free Trade Agreement), may significantly impact manufacturers and the cost of goods to consumer businesses. Actions such as leaving NAFTA if Mexico doesn’t agree to renegotiate the pact, establishing a 45 percent tariff on all Chinese imports, or declaring Beijing a currency manipulator could be significant departures from current global trade policy.

What if US policy results in trade wars lasting a substantial period of time and significantly impacting supply chain networks?

As Ian Stewart, Chief Economist at Deloitte UK, points out, the big US-based manufacturers today run complex and often highly interconnected production processes based on the movement of intellectual property, components, and semi-finished goods across borders.

Further, the distinction between a US and a foreign company is no longer one of where it produces, but one of history, the nationality of board members, where tax is paid, and the location of headquarters. Large changes to the global supply chain could cause manufacturers to have to rethink production and distribution strategy, leading potentially to significant increases in production cost.

Case study of impact on industry

Soon after taking office, President Obama used his powers to impose tariffs of up to 35 percent on imports of Chinese tires. China retaliated by imposing steep tariffs on US poultry and automotive products. Although the US tire industry grew by 1,200 jobs following the tariffs, the cost of the tariffs added up to approximately $1.1 billion due to significantly higher prices for American tires—all shouldered by the American consumer.

In the end, the United States produced more tires, but imports from other countries rose even faster, cancelling any large scale economic benefit. The Obama administration later became more cautious about challenging China with trade restrictions.
Regulatory change

President Trump campaigned on a promise of changing regulatory priorities in a variety of forums; from changes in healthcare, to energy exploration and production, to financial services reform.

What regulatory changes may have the greatest impact to manufacturing and consumer companies?

The questions that remain relate to priorities, timelines, and legislative realities. Direct impacts to companies are yet to be determined, but there are several changing horizons worth exploring.

Energy and environmental. Businesses in the carbon value chain from oil and gas to chemicals producers and manufacturers of derivative products stand to gain from a potential loosening of oil and coal production regulation. Companies providing goods and services to these sectors could benefit from a renewed push toward energy independence. However, the trends in underlying commodity prices should be monitored closely if the market begins to appear oversupplied in any of these areas.

Labor and employment. Some of the most well-publicized immigration policy shifts limiting immigrants from certain countries or religious groups from entering the country could adversely impact hospitality and retail businesses. Additionally, some proposed changes to overtime rules may likely—if they survive challenges by the courts and the Trump administration—ffect the exempt status of employees and require overtime for those earning less than $47,476 per year. A variety of state and local efforts to raise the minimum wage may have local impacts on business models and profitability in the short run.

Some additional trends around increased defense and infrastructure spending could favor companies with established and mature compliance programs. Manufacturers, in particular, could take advantage of this expected uptick. Companies with strong compliance programs could be advantaged in the short run to gain first-mover advantages by expanding and focusing on their compliance capabilities.

Repatriation of cash

President Trump has proposed deemed-repatriation of currently deferred foreign profits at 10% as part of tax reform proposals. In the current law, repatriated foreign-source income is taxed at full corporate rate with allowance for foreign tax credits. With a Republican-controlled Congress, there could be support for this to pass sometime in the near future. During a similar tax holiday in 2004 that allowed companies to bring back cash, the IRS estimated that a total of 843 companies repatriated over $312 billion.

Unlike a repatriation tax holiday, where companies have the option to bring profits back in to the U.S. at a reduced tax rate, a deemed-repatriation would require tax to be paid on accumulated foreign earnings regardless of whether or not the funds are actually brought back onshore.

How much cash is held outside of the United States? How much is expected to be repatriated if the tax holiday passes?

Estimates project that S&P 500 companies could bring back $200 billion of the $1 trillion in cash from outside the United States. Looking beyond the S&P 500, it’s estimated that there could be an additional $1 trillion dollars held by other companies overseas.

What impact could the tax policy change have for organizations?

If the last tax repatriation period in 2004 is any indication, a significant portion of the cash may be used for stock buybacks and dividend increases. Goldman Sachs is expecting companies to increase cash returned to shareholders by 19 percent ($1.2 trillion). However, organizations could also be expected to use the cash to invest in growth, including potential deals or research and development (R&D), as a condition of repatriation. It’s uncertain what impact the new administration’s position on mergers and acquisitions (M&A) will have on deal activity, coupled with the potential for a friendlier M&A regulatory environment.

Oversight from the Department of Justice is traditionally focused on fair competition and protecting consumers. The “America First” platform of President Trump may result in changes to this approach—for example, taking into consideration the impact of U.S. jobs and the broader impact to the U.S. economy. During the campaign, President Trump said that his administration would not support mega-mergers, as he argued that they could result in major loss of jobs. There is also expected to be greater scrutiny of foreign-led takeovers of US businesses, especially Chinese takeovers. Similar to trade policy, there are wide spectrums of scenarios that business leaders will have to monitor closely.
Identifying the shifting norms

In economic policy, there are no free lunches. Even though changes to legislation will take time to pass and then implement, executive-level policies contain drawbacks and opportunities, and carry the risk of unintended consequences. Those companies able to identify changing norms and shifting trends could be better positioned to take advantage of opportunities and thrive in uncertainty.

Business leaders can’t singlehandedly make the world more stable. But they are in a position to anticipate, adapt, maneuver, make decisions, and adjust course as needed to help their organizations become more resilient. They also have scenarios, simulations, and other tools at their disposal to support and accelerate this process.

What should businesses leaders take from this election cycle?

The short answer may just be that the future is unknown and the only surprising thing is that we continue to need a reminder of this. More valuable, though, would be to develop a stronger strategic risk point of view, a so-called organizational “wide-angle lens,” that can peer beyond what is initially visible to sense the horizon lines of the future.

However, beyond that, business leaders should carefully consider the range of possible outcomes and plan for several different futures. While a presidential election may only have a binary outcome, red or blue, the resulting changes to the business environment are always going to have more facets and may require planning and lead time to set in motion investments and strategies to capture future opportunities.

What is clear is that change creates opportunity for those willing to act. To capitalize, companies should:

• Prepare for surprises—consider the possible outcomes from one horizon to the other. Give voice to the unexpected possibilities through rigorous scenario planning.
• Scan ruthlessly—look for the unexpected in the environment constantly.
• Confront your biases—challenging the underlying assumptions made about your operating environment will open your eyes to a broader range of outcomes.
• Accelerate discovery—rapidly investigate new points of view, experiment with tools and approaches, discard failures and move forward.

Most of all, a rigorous strategic risk plan that incorporates these elements can give the organization a framework to respond to risks in a way that not only preserves value, but also creates it.
References

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