The Outlook for Inflation

August 26, 2024

After a thorough evaluation of the economic programs of both presidential candidates, our initial reaction is that we would be better off owning real assets going into 2025. The rationale for this recommendation is that the outcome of both economic programs, one way or the other, will cause inflation.

Let's start with the proposed import tariffs. As our regular readers know, tariffs raise the price consumers and producers must pay. When President Trump imposed tariffs on aluminum and steel imports, foreign governments responded with excise taxes. Specifically, duties of 31% were imposed by the European Union, while China imposed levies of up to 55% on U.S.-made motorcycles. As a result, the average price of motorcycles increased by $2,200, and Harley-Davidson moved much of its production offshore. More importantly, the Livewire division of Harley-Davidson, which produces electric motorcycles, lost $177,273 on each "hog" produced. The tariffs also affected any company that used imported aluminum and steel products. If the next president resorts to massive across-the-board tariffs, we will likely witness shortages and surging prices. For a lesson in protectionism, one needs only review the history of the Great Depression and the Smoot-Hawley tariffs to understand how lethal these levies can be.

The equally painful economic proposals include allowing the tax rate cuts implemented in 2017 to expire and continuing massive federal spending increases. We just underwent a period when excessive government spending, supposedly brought on by the pandemic, resulted in a surge in inflation to 40-year highs (reaching nearly 9%) within two years! Paying people not to work via government checks has not contributed to productivity. Moreover, the war against corporations accused of "price gouging" gives us a glimpse into the next world war: government versus free enterprise. When the government spends more than it receives in tax receipts, printing money is the only option to cover the deficit. If trends continue in this manner, there will be trillions of dollars in deficit spending to fulfill the promises of a new administration. When prices rise, which they likely will, corporations will take the blame, and the government's response will be to attack the private sector for causing inflation. Just look at what has happened to housing prices over the past five years, as homeowners have become investors due to soaring home values. Real assets continue to garner investors' attention because investors see the need to protect against government-induced inflation risk.

While campaign promises may not always be fulfilled, a balanced political landscape across government branches could help mitigate the potential negative outcomes of the next president's economic policies. As we approach November 6th, we will gain a clearer perspective on what to expect. However, it's important to maintain cautious optimism and not rely solely on political promises—in other words, don't hold your breath!

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