

## Industry Analysis

# U.S. Industry Outlook under Electoral Scenarios

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- **Regardless of who wins the presidential election, construction may be the most benefited industry**
- **The outlook for healthcare and energy differs the most between candidates**
- **Export- and import-dependent industries may struggle regardless of who wins the election**

As the presidential election approaches and both parties have officially nominated their candidates, we deemed it relevant to provide an informed opinion on which industries would benefit the most under a hypothetical Democrat or Republican presidency. The following assessments are based on candidate's proposals under the assumption that they will be able to fully implement them after winning.

## Hillary Clinton (D.)

### Industries most likely to benefit

- **Defense and Aerospace.** Expansion of military spending can be expected during a Clinton presidency with positive effects to the defense and aerospace industries. A Clinton administration is also expected to pay more attention to cyber security, benefiting contractors in the high-tech industry.
- **Telecommunications and IT.** Clinton's intentions to expand access to broad-band internet services represent an opportunity for telecom and IT companies.
- **Renewable Energy.** A Clinton administration would support the Paris agreement, Clean Power Plan, and tax incentives for investments in renewables. Support for renewable energy could be expanded even further through R&D spending, investments in smart electrical grids, and tax incentives for the adoption of green energy. Energy storage technologies, critical for the expansion of wind and solar, are more likely to flourish under a Clinton presidency.
- **Natural Gas.** If upheld by the Supreme Court, the Clean Power Plan will be part of the Clinton energy policy. This would benefit renewables but also natural gas which is considered a transition fuel in the fight against global warming. Exports of natural gas would also flourish, most notably exports to Mexico.
- **Construction.** Spending in infrastructure has been a key proposal of the Clinton campaign. If implemented, there could be significant amounts of private and public investments flowing to transportation infrastructure (highways, roads, bridges and airports), the electrical grid, water infrastructure, schools renovation, etc. These would open opportunities for companies with activity in construction, building materials, machinery, primary metals, architecture, engineering and related services, etc.

- **Healthcare.** Hospitals, insurance companies, primary care services and community health centers are likely to benefit from a Clinton administration that would preserve and potentially expand the Affordable Care Act, Medicare and Medicaid. However, efforts to reduce healthcare costs may constrain the profitability of hospital networks and small practices that rely heavily on Medicare payments.
- **Consumer Goods.** The Clinton proposals of raising the minimum wage to \$15 per hour, reforming the immigration system, and lowering student debt (the total outstanding student-debt balance is about \$1.1tn) may boost consumer spending on goods and services, benefiting durable goods (autos, electronics, furniture, etc.), food away from home, leisure and hospitality and retail trade. The impact on these industries could be partially compensated by higher labor costs.
- **Higher Education.** Reducing student-debt balances and free public education for certain groups of students will boost demand for public universities and will prevent private institutions from raising tuition too much. This could boost demand for higher education.
- **Housing.** Individuals who are released from student-debt balances will be in better financial conditions to buy homes and take advantage of low interest rates. This could also trigger residential construction.

#### Industries most likely to lose

- **Export- and Import-Oriented Industries** like motor vehicles, chemicals, machinery manufacturing, electronic equipment, civilian aircraft, medical equipment and pharmaceutical may be affected by the highly probable reluctance of a Clinton administration to move forward with the Transpacific Trade Partnership. Given the campaign's anti-trade agreement rhetoric, there wouldn't be more free trade agreements or expansion of existing ones.
- **Biotech and Pharmaceutical.** A key point in the Clinton agenda is lowering the cost of prescription drugs. This can take a toll on the pharmaceutical industry. Caps to prices can be expected for certain drugs whose costs are considered excessive (e.g. HIV/AIDS). More support for the use of generics could also be the case.
- **Oil Exploration and Extraction.** Current regulations will be kept; however, the probability of stricter regulations is low. Renewable energy projects are more likely to be favored by a Clinton administration than big pipelines or drilling in non-traditional areas.
- **Guns and Ammunition.** A Clinton administration would impose restrictions to guns ownership (background checks, closing the gun show and internet sales loopholes, etc.), impacting the gun sales and manufacturing.

## Donald Trump (R.)

### Industries most likely to benefit

- **Defense and Aerospace.** Defense spending is likely to increase under a Trump administration, which seems more inclined to dissuade potential enemies and to increase the use of military force to fight ISIS in the Middle East.
- **Security Equipment and Criminal Justice.** A Trump administration is likely to devote a significant amount of resources to reduce unauthorized crossings in the southern border, and to arrest and deport undocumented immigrants. Thus, purchases of surveillance equipment may increase, and local communities along the Southern border would benefit from greater government spending. This industry may also benefit from measures aimed at providing police forces with better equipment to combat crime. Prison and retention center operators may also benefit from Trump's potentially tougher measures on crime, and undocumented immigration.
- **Construction.** The proposal to build a wall along the U.S.-Mexico border, roughly estimated to cost about \$25 billion, and the creation of an infrastructure fund (supported by government bonds available to institutional investors and individuals) would benefit construction companies as well as those dedicated to the provision of engineering services, construction materials and machinery.
- **Consumer Goods.** The proposal to reduce the income and corporate tax rate and eliminate it for individuals making less than \$25K and for families making less than \$50K will boost demand for goods and services—at least in the short-run given the potential impact on inflation and interest rates. This would have a positive impact on auto dealers, physical and online retail stores, restaurants, hotels, entertainment and various manufacturing industries such as: autos, computer and electronics, apparel, and furniture.
- **Commodities:** Uncertainty about the predictability of a Trump administration may be favorable for the gold mining industry. In addition, defunding and potential elimination of the EPA and other energy regulatory entities may have a positive effect on the oil, gas, and coal industries as it may lower compliance costs. Big pipeline and drilling projects that were rejected by the Obama administration may re-gain attractiveness and be promoted and approved. The coal industry may be relieved from stricter regulations on CO2 emissions; however, it will still struggle with competition from natural gas and the impact of hostile trade policies on exports.

### Industries most likely to lose

- **Healthcare.** A potential repealing of the Affordable Care Act and the elimination of Medicaid could deprive tens of millions of people from access to healthcare, and hospitals and insurance companies could lose a significant source of income. However, big healthcare conglomerates, pharmaceuticals, or medical equipment companies with some degree of monopolistic power may not be seriously affected.
- **Renewable Energy.** A Trump administration will most likely disown the Paris agreement on climate change and eliminate the Clean Power Plan. It would most likely remove the fiscal incentives (investment and production tax credits) for wind and solar, putting a break to the number of renewable energy projects in the country.
- **Export- and Import-Dependent Industries.** Multinationals and top exporting industries like motor vehicles, chemicals, machinery manufacturing, electronic equipment, aerospace, medical equipment and pharmaceutical may be affected by protectionist trade policies. Industries with significant exposure

to China (through imports and exports of finish and intermediate goods) may suffer from a hostile Trump administration and the possible retaliation from the Chinese government. In an environment of stronger protectionism, trade lawyers stand to benefit vastly as they rewrite trade regulations and find ways to go around them

- **Railroads.** Erstwhile an alternative to pipeline transportation of oil and gas, railroads may lose business if a Trump administration supports the development of mega pipeline projects.
- **Low Skilled-Labor Industries.** Tougher immigration policies will likely have more damaging effects on industries that are more dependent on undocumented labor force. The industries that rely more on this type of workers include construction, leisure and hospitality, agriculture, manufacturing, and some professional and business services like dry cleaning, restaurants, landscaping, waste management, hospitality, nail salons, car washes and religious organizations.

## Bottom Line

The industry that will benefit from either a Trump or Clinton administration is construction. Meanwhile, the industries that will probably feel a negative impact regardless of who wins the election are those with significant exposure to foreign trade as skepticism on the benefits of free-trade agreements have permeated both campaigns. The outlook for energy and healthcare is fundamentally different depending on who wins.

The composition of Congress will be a critical factor to what extent the candidates' proposals are fully implemented or not. With a divided Congress, the chances of preserving the status quo are high, and thus, the impacts presented in our analysis could be less pronounced. At the same time, as part of the negotiation process, some industries could be thrown under the bus and thus, sectors that currently are seen as having a neutral exposure may wake up with a large impact.

Domestic industries affected by globalization and technology have fewer chances of being improved by protectionist measures like trade barriers or additional taxation on multinational corporations. The impact of such policies could turn harmful to the entire economy.

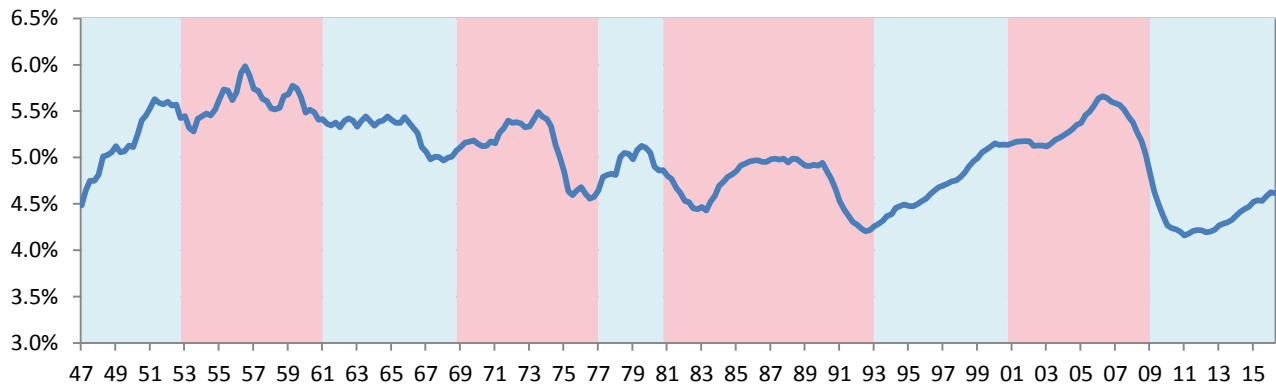
Finally, in spite of who wins the election, structural trends like the aging of the population, the ascent of Millennials as a relevant economic and political force, faster economic and population growth in emerging markets, the widespread adoption of information technologies, automation, and climate change will impact several industries beyond the next presidential terms. Today's presidential candidates may have different views on the challenges and opportunities coming from these developments, however, a low-leveraged private sector would try to seize the opportunities regardless. In the long-run, industries that don't react to these trends may experience a mild performance.

### Appendix: Selected Variables under Presidential Cycles

**Construction:** The highest share of construction employment relative to total employment was reached in the 1950s during the construction of the Interstate Highway System. Recently, the last peak was reached during the housing boom in 2006. These events were triggered by public policy in the form of public spending (Highway System), and monetary policy and de-regulation (Housing Boom). Both candidates have promised to boost infrastructure spending during the next administration. This would increase the ratio of construction workers and boost the economy through the multiplier effect. However, the downward trend in federal construction (vis-à-vis current spending) suggests that the \$3.6 trillion investments needed to update U.S. infrastructure requires extensive participation of the private sector.

Chart 1

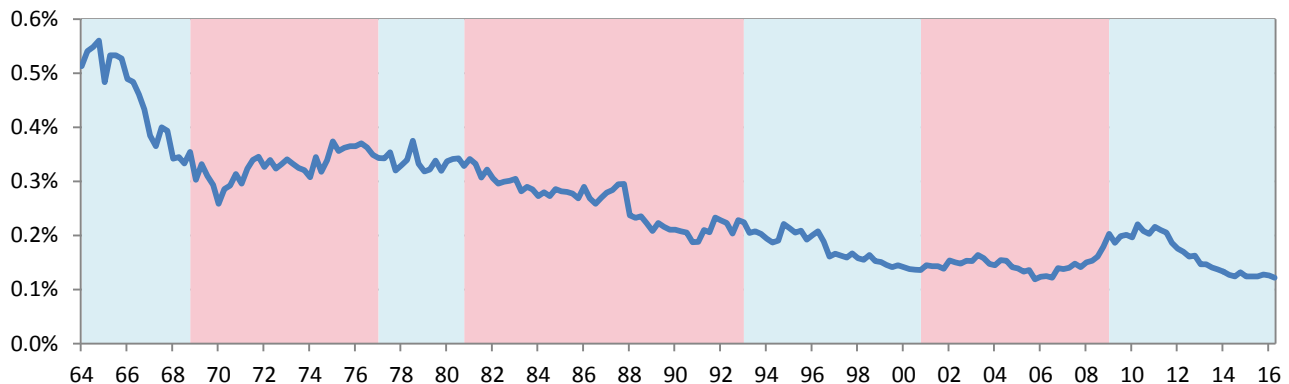
**Ratio of Construction to Total Nonfarm Payroll**, (Republican = red shaded area, Democrat = blue shaded area)



Source: BBVA Research/Haver Analytics

Chart 2

**Value of Total Federal Construction Put in Place**, (share of GDP, Republican = red shaded area, Democrat = blue shaded area)

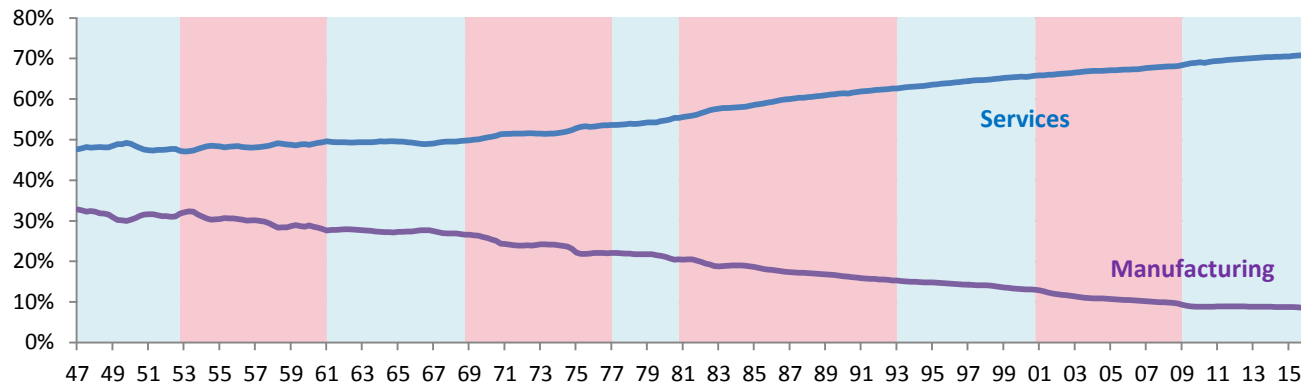


Source: BBVA Research/Haver Analytics

**Manufacturing:** Historically, a declining share of manufacturing employment has not depended on which party is in power but on structural trends such as technology and globalization. This suggests that proposals aimed at “bringing back manufacturing jobs” through trade barriers or taxation of multinationals may have little chances of succeeding or could only come at a high cost for the economy.

Chart 3

**Ratio of Manufacturing and Services to Total Employment,** (Republican = red shaded area, Democrat = blue shaded area)



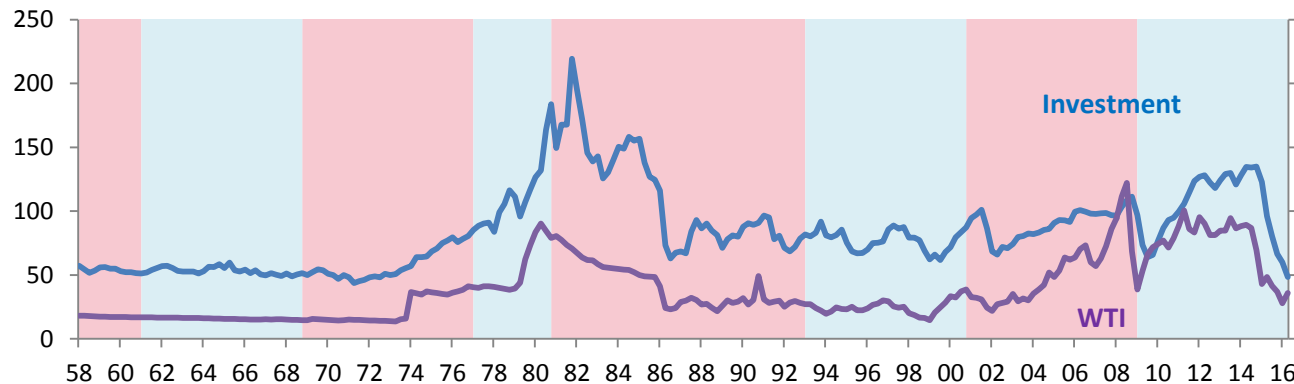
Source: BBVA Research/Haver Analytics

**Energy:** In the long-run, investments in oil and gas are more dependent on the price of crude oil than on which party holds the presidency. However, regulations, taxes and subsidies can shift market conditions in favor or against one particular sub-sector. This is the case of coal and renewables, which are subject to CO2 emission penalties and subsidies, respectively. A Democrat president would be more supportive of renewable energy projects while a Republican president could favor a less regulated market.

Chart 4

**Private Investment in Oil and Gas & Real Crude Oil Prices**

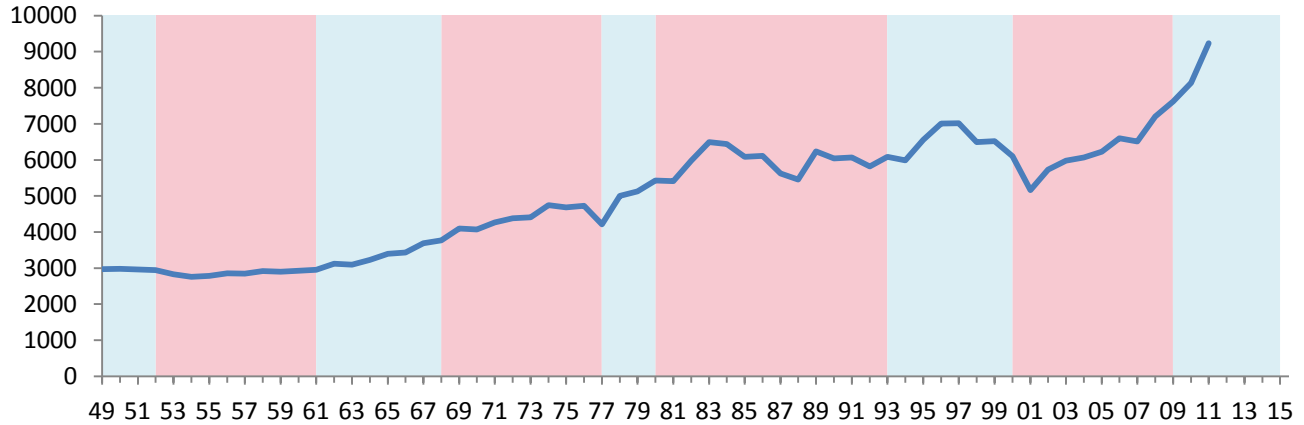
(\$ Bil. Chn & \$/bbl, 2009, Republican = red shaded area, Democrat = blue shaded area)



Source: BBVA Research/Haver Analytics

Chart 5

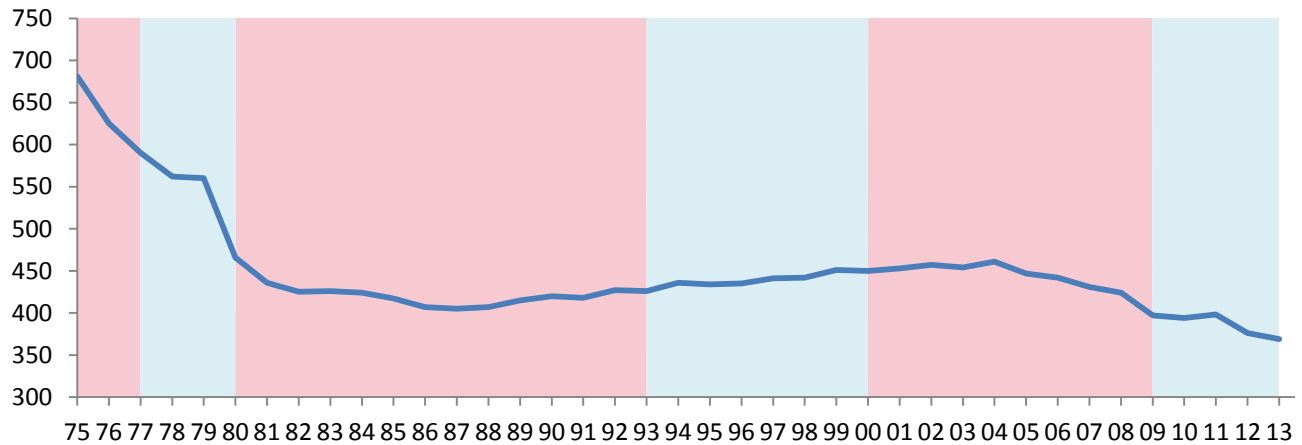
**Renewable Energy Production** (Trillion BTU, Republican = red shaded area, Democrat = blue shaded area)



Source: BBVA Research/Energy Information Administration

Chart 6

**CO2 Vehicle Emission Standards by Model Year**, (g/mile, Republican = red shaded area, Democrat = blue shaded area)



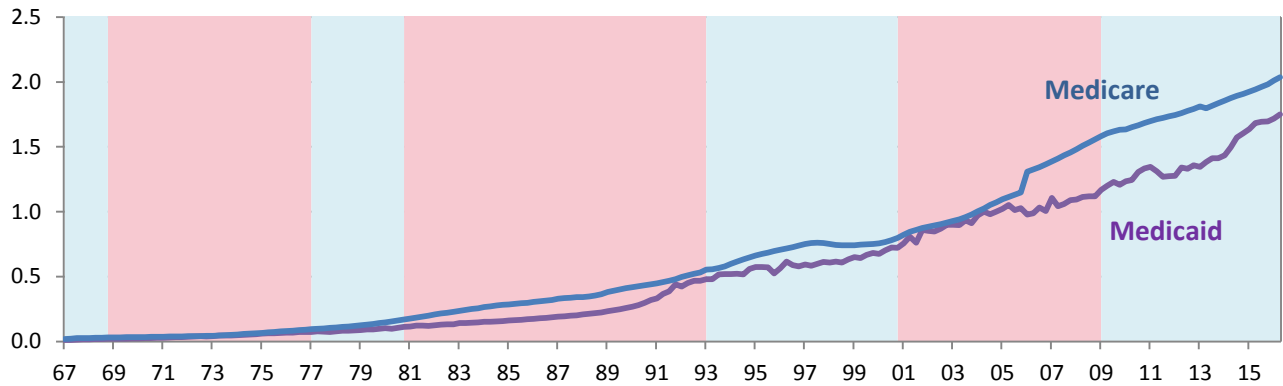
Source: BBVA Research/Haver Analytics

**Healthcare:** Medicare and Medicaid transfers per capita continue on an upward trend. Although in the long-term entitlements impose a risk to the stability of public finances, they are difficult to downsize given the increasing number of retirees relative to working age population and high healthcare inflation. Measures to limit entitlements are highly unpopular, suggesting that the next administration will leave these programs untouched, increase taxes or reduce inefficiencies. A Democratic administration would expand benefits and raise taxes, while a Republican administration would try to repeal the Affordable Care Act and contain benefits.

Chart 7

**Personal Current Transfer Receipts (Medicare & Medicaid) / Total Population**

(Thous. \$, Republican = red shaded area, Democrat = blue shaded area)

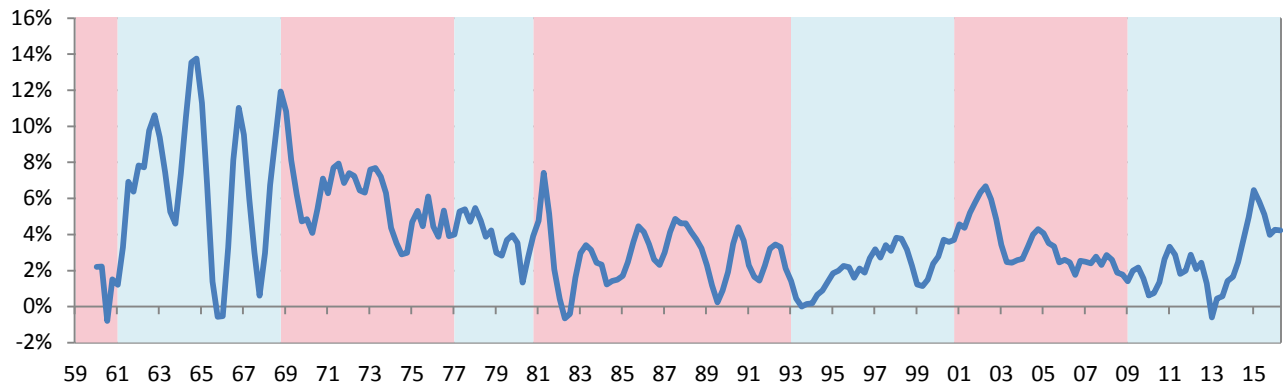


Source: BBVA Research/Haver Analytics

Chart 8

**Real PCE Healthcare Services**

(YoY % change. \$, Republican = red shaded area, Democrat = blue shaded area)



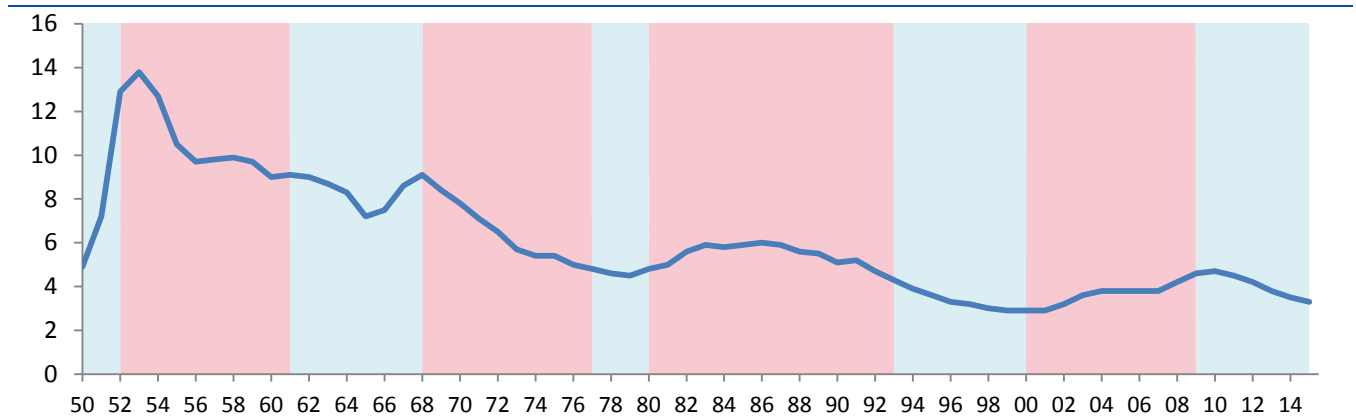
Source: BBVA Research/Haver Analytics



**Defense Spending.** Cuts to defense spending amid ongoing economic growth have lowered the ratio of defense spending to GDP to levels not seen since early 2000s. Both presidential candidates are inclined to increase defense spending, which has large second-round effects to the economy, to strengthen national security and reduce potential threats. However, any deficit-neutral increase in outlays would require increasing taxes or cutting non-mandatory spending.

Chart 9

**National Defense Outlays**, (as a share of GDP, %, Republican = red shaded area, Democrat = blue shaded area)



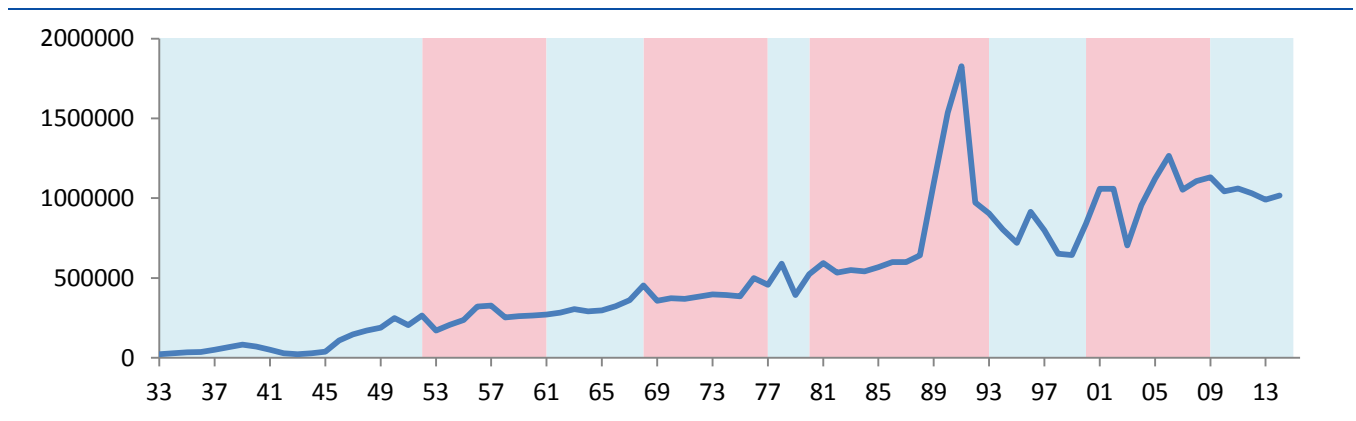
Source: BBVA Research/Haver Analytics

**Immigration-dependent industries.** Although comprehensive immigration reform could have large net positive economic effects, it requires significant compromise from both parties and thus, has a low probability of occurring. Regarding high-skilled immigrants, both parties will have to deal with the shortage of high-skilled workers and pressures from the business community to expand the number of available visas. Clinton will probably continue taking a step-by-step approach to facilitate the legalization of large numbers of undocumented immigrants, while Trump will mainly focus on enforcement actions against undocumented immigrants, the border with Mexico, and targeted policies for specific groups.

Chart 10

**Persons Obtaining U.S. Legal Permanent Resident Status**

(Republican = red shaded area, Democrat = blue shaded area)



Source: BBVA Research/Haver Analytics

**Appendix: Industry Assessment by NAICS code**

**Hillary Clinton (D)**

Issues	What to expect	Benefit	(NAICS) Industries	Worsen
<b>Infrastructure</b>	Construction boom across the country, focused primarily on transportation infrastructure. No support to mega pipeline projects like Keystone XL.	21231 Stone Mining and Quarrying 21232 Sand, Gravel, Clay, and Ceramic and Refractory Minerals Mining and Quarrying 2373 Highway, Street, and Bridge Constructio 2379 Other Heavy and Civil Engineering Construction 23812 Structural Steel and Precast Concrete Contractors 23622 Commercial and Institutional Building Construction 2382 Building Equipment Contractors 2383 Building Finishing Contractors 3255 Paint, Coating, and Adhesive Manufacturing 3259 Other Chemical Product and Preparation Manufacturing 3273 Cement and Concrete Product Manufacturing 3311 Iron and Steel Mills and Ferroalloy Manufacturing 3312 Steel Product Manufacturing from Purchased Steel 3315 Foundries 3321 Forging and Stamping 3322 Cutlery and Handtool Manufacturing 3327 Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing 3329 Other Fabricated Metal Product Manufacturing 33312 Construction Machinery Manufacturing 3336 Engine, Turbine, and Power Transmission Equipment Manufacturing 3339 Other General Purpose Machinery Manufacturing 33511 Electric Lamp Bulb and Part Manufacturing 335122 Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing 33612 Heavy Duty Truck Manufacturing 484 Truck Transportation 4821 Rail Transportation 5413 Architectural, Engineering, and Related Services 5416 Management, Scientific, and Technical Consulting Services	23712 Oil and Gas Pipeline and Related Structures Construction	
<b>Defense</b>	Expansion of military spending. Special focus on cyber-security	33641 Aerospace Product and Parts Manufacturing 33692 Military Armored Vehicle, Tank, and Tank Component Manufacturing 541511 Custom Computer Programming Services		
<b>Energy</b>	More support for renewables. No sign of stricter regulation on hydrocarbons	221114 Solar Electric Power Generation 221115 Wind Electric Power Generation 221116 Geothermal Electric Power Generation 221117 Biomass Electric Power Generation 221112 Fossil Fuel Electric Power Generation (natural gas) 333611 - Turbine and Turbine Generator Set Units Manufacturing 54162 Environmental Consulting Services	221112 Fossil Fuel Electric Power Generation 2111 Oil and Gas Extraction 2121 Coal Mining 21311 Drilling Oil and Gas Wells 21312 Support Activities for Oil and Gas Operations 221112 Fossil Fuel Electric Power Generation ( excl. natural gas)	
<b>Immigration</b>	Support for immigration reform. +11 million people into the formal economy. Higher demand for goods and services, including banking. Higher labor costs for industries that depend heavily on undocumented workforce.	44-45 Retail Trade 61 Educational Services 62 Health Care and Social Assistance 52211 Commercial Banking 52212 Savings Institutions 52221 Credit Card Issuing 522291 Consumer Lending 522292 Real Estate Credit 52231 Mortgage and Nonmortgage Loan Brokers 53 Real Estate and Rental and Leasing 524 Insurance Carriers and Related Activities	11 Agriculture, Forestry, Fishing and Hunting 23 Construction 311 Food Manufacturing 7211 Traveler Accommodation 722 Food Services and Drinking Places 812 Personal and Laundry Services 8123 Drycleaning and Laundry Services 722 Food Services and Drinking Places	

**Hillary Clinton (D)**

Issues	What to expect	Benefit	(NAICS) Industries	Worsen
<b>Healthcare</b>	Support for the Affordable Care Act. Emphasis on reducing healthcare costs. Potential expansion of entitlements.	541711 Research and Development in Biotechnology 54171 Research and Development in the Physical, Engineering, and Life Sciences 623 Nursing and Residential Care Facilities 622 Hospitals 621 Ambulatory Health Care Services	3254 Pharmaceutical and Medicine Manufacturing	
<b>Free Trade Agreements/ Protectionism</b>	Rejection of the TPP, lack of interest in new trade agreements.	5411 Legal Services 3311 Iron and Steel Mills and Ferroalloy Manufacturing	3361 Motor Vehicle Manufacturing 3364 Aerospace Product and Parts Manufacturing 325 Chemical Manufacturing 3391 Medical Equipment and Supplies Manufacturing 333 Machinery Manufacturing 11 Agriculture, Forestry, Fishing and Hunting 3341 Computer and Peripheral Equipment Manufacturing 325211 Plastics Material and Resin Manufacturing 3254 Pharmaceutical and Medicine Manufacturing 331 Primary Metal Manufacturing 337 Furniture and Related Product Manufacturing 44-45 Retail Trade 42 Wholesale Trade	
<b>Increasing the minimum wage</b>	Temporary boost to consumer spending	4481 Clothing Stores 4482 Shoe Stores 4431 Electronics and Appliance Stores 4452 Specialty Food Stores 4453 Beer, Wine, and Liquor Stores 4471 Gasoline Stations 4481 Clothing Store 4541 Electronic Shopping and Mail-Order Houses 441 Motor Vehicle and Parts Dealers 442 Furniture and Home Furnishings Stores 52211 Commercial Banking 52212 Savings Institutions 52221 Credit Card Issuing 522291 Consumer Lending 522292 Real Estate Credit 52231 Mortgage and Nonmortgage Loan Brokers 53 Real Estate and Rental and Leasing		
<b>Student Debt Relief</b>	Young adults will be in better financial condition to buy homes and durable goods			
<b>Expanding broad-band access</b>	More people with access to better-quality internet	5171 Wired Telecommunications Carriers 5182 Data Processing, Hosting, and Related Services 4541 Electronic Shopping and Mail-Order Houses		

**Donald Trump (R)**

Issues	What to expect	Benefit	Worsen
<b>Infrastructure</b>	Boost in construction activity but development of mega pipeline projects could hurt railroads.	21231 Stone Mining and Quarrying	4821 Rail Transportation
		21232 Sand, Gravel, Clay, and Ceramic and Refractory Minerals Mining and Quarrying	
		2373 Highway, Street, and Bridge Constructio	
		2379 Other Heavy and Civil Engineering Construction	
		23812 Structural Steel and Precast Concrete Contractors	
		23622 Commercial and Institutional Building Construction	
		2382 Building Equipment Contractors	
		2383 Building Finishing Contractors	
		3255 Paint, Coating, and Adhesive Manufacturing	
		3259 Other Chemical Product and Preparation Manufacturing	
		3273 Cement and Concrete Product Manufacturing	
		3311 Iron and Steel Mills and Ferroalloy Manufacturing	
		3312 Steel Product Manufacturing from Purchased Steel	
		3315 Foundries	
		3321 Forging and Stamping	
		3322 Cutlery and Handtool Manufacturing	
		3327 Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing	
		3329 Other Fabricated Metal Product Manufacturing	
		33312 Construction Machinery Manufacturing	
		3336 Engine, Turbine, and Power Transmission Equipment Manufacturing	
3339 Other General Purpose Machinery Manufacturing			
33511 Electric Lamp Bulb and Part Manufacturing			
335122 Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing			
33612 Heavy Duty Truck Manufacturing			
484 Truck Transportation			
5413 Architectural, Engineering, and Related Services			
5416 Management, Scientific, and Technical Consulting Services			
<b>Defense</b>	Increased use of military force to fight ISIS in the Middle	33641 Aerospace Product and Parts Manufacturing	
		336992 Military Armored Vehicle, Tank, and Tank Component Manufacturing	
		541511 Custom Computer Programming Services	
<b>Energy</b>	Coal benefits from lower compliance costs. Possible elimination of CPP and tax breaks hurts renewables.	221112 Fossil Fuel Electric Power Generation	221114 Solar Electric Power Generation
		2111 Oil and Gas Extraction	221115 Wind Electric Power Generation
		2121 Coal Mining	221116 Geothermal Electric Power Generation
		213111 Drilling Oil and Gas Wells	221117 Biomass Electric Power Generation
		213112 Support Activities for Oil and Gas Operations	333611 - Turbine and Turbine Generator Set Units Manufacturing
		23712 Oil and Gas Pipeline and Related Structures Construction	54162 Environmental Consulting Services
		221112 Fossil Fuel Electric Power Generation (natural gas)	9241 Administration of Environmental Quality Programs

### Donald Trump (R)

Issues	What to expect	(NAICS) Industries	
		Benefit	Worsen
<b>Undocumented immigration and crime</b>	Tougher measures on crime and undocumented immigration. Industries that rely on undocumented labor force would be hit.	334511 Light reconnaissance and surveillance systems and equipment manufacturing 541690 Security consulting services 922140 Prisons 9221 Justice, Public Order, and Safety Activities	11 Agriculture, Forestry, Fishing and Hunting 23 Construction 311 Food Manufacturing 722 Food Services and Drinking Places 812 Personal and Laundry Services 8123 Drycleaning and Laundry Services 7211 Traveler Accommodation
<b>Healthcare</b>	Repeal of ACA could decrease access to healthcare and reduce income for providers.		3254 Pharmaceutical and Medicine Manufacturing 622 Hospitals 621 Ambulatory Health Care Services 541711 Research and Development in Biotechnology 54171 Research and Development in the Physical, Engineering, and Life Sciences 623 Nursing and Residential Care Facilities 3364 Aerospace Product and Parts Manufacturing
<b>Free Trade Agreements</b>	Rejection of TPP and renegotiation of NAFTA would hurt export and import-dependant industries.	5411 Legal Services	325 Chemical Manufacturing 3391 Medical Equipment and Supplies Manufacturing 11 Agriculture, Forestry, Fishing and Hunting 325211 Plastics Material and Resin Manufacturing 3254 Pharmaceutical and Medicine Manufacturing 331 Primary Metal Manufacturing 337 Furniture and Related Product Manufacturing 3361 Motor Vehicle Manufacturing 333 Machinery Manufacturing 334 Computer and Electronic Product Manufacturing
<b>Financial System</b>	Stricter immigration policy is detriment to remittance sector.		522390 Money transmission services

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