



Trump Administration Fuels Hopes for Defense Market

By Tom Hennessey, VP of Marketing and Business Development for iBASEt

To get a sense of how the election of Donald Trump is likely to affect the aerospace and defense sector, one need look no further than Wall Street the day after the election. Defense stocks surged appreciably, with many running to record highs in anticipation of a Trump administration and Republican-controlled Congress.

As noted in [MarketWatch](#), “The iShares U.S. Aerospace & Defense exchange-traded fund ITA powered up 4.3 percent to a record close, with 34 of 37 equity components trading higher. That outperformed the broader stock market.”

Further, major defense companies with large market capitalizations (e.g., Northrup Grumman, General Dynamics, and Raytheon) all surged, closing at all-time highs.

Aiming for a Defense Budget Increase

In the weeks since the election, both the newly minted administration and senior congressional leaders have substantiated the market’s A&D optimism. It seems certain that President Trump and the Republican Congress will undo the budget sequester, taking the shackles off military spending.

In mid-January, Sen. John McCain, chairman of the Senate Armed Services Committee, released a white paper [calling for a \\$54 billion increase](#) to the Defense Department’s base budget for 2018. McCain emphasized the importance of “Restoring American Power” in the face of terrorist threats and global competition, echoing Trump’s pledge to end the sequester and increase spending to rebuild the military.

An earlier article in [Forbes](#) contended that Trump is likely to boost overall military spending by \$500 billion to \$1 trillion. That piece cites analysis from [William Hartung and Ross Harrison](#) that further elucidates the potential costs of Trump’s plan for an invigorated defense sector:

“What we do know is that Trump has been drawing many of his defense proposals from the [National Defense Panel](#) and the [Heritage Foundation](#). Both of these organizations have advocated for returning the defense budget to the levels proposed in the fiscal 2012 budget request (the so-called Gates budget).

Without any other details from the Trump campaign, I think this is a good ballpark estimate for what Trump is aiming for in terms of the defense budget. The 2012 request is about \$800 billion to \$900 billion higher over 10 years than the most recent president's budget request.

Building a Stronger Military

During the campaign, Trump called for 90,000 more Army soldiers, a 350-ship Navy, 100 more aircraft fighters, and strengthened nuclear and missile defense.

The Navy projection alone would be very expensive, with increased spending on big-ticket items such as aircraft carriers and attack submarines.

The [Air Force Times](#) writes that the defense-spending boom under Trump is likely to mean significantly more airmen and planes. Trump has said that he would adopt the Heritage Foundation's proposal to boost the Air Force's fighter aircraft to at least 1,200.

The Forbes article further theorizes that support for increased defense spending will have widespread support in the Senate: "Congress will be filling out, not cutting back, the Trump defense budget. Obama used his veto to balance defense and domestic spending. That balance is dead. Moreover, there is bipartisan support for big defense spending. So in the Senate, while there might be a unified Democratic filibuster on some kinds of extreme domestic legislation, there would not be one in opposition to defense spending."

Such support is now less theoretical, given McCain's position of authority and recently announced budget plans.

Opportunity and Challenge

The good news for A&D contractors comes with a stern caveat. It is important to keep in mind that McCain has long been a vocal critic of wasteful spending at the Pentagon. Combined with Trump's get tough rhetoric on globalized manufacturing, Air Force One and fighter jet contracts, the emphasis on getting more out of each defense dollar should put manufacturers on high alert.

In a long anticipated [press conference on Jan. 11](#), Trump took time to call out the F-35 project for being "way behind schedule and many billions of dollars over budget. I don't like that."

As a candidate, Trump promised disgruntled taxpayers more for less on NBC's Meet the Press: "I'm gonna build a military that's gonna be much stronger than it is right now. But you know what? We can do it for a lot less."

President Trump's energized voting base, characterized by working class families in Rust Belt states struggling to rebuild after decades of manufacturing job losses, is avidly following Trump's every move as he pressures big name car and equipment makers to bring jobs back to the U.S., threatening stiff import tariffs on goods they build in overseas factories.

The agenda of the Trump administration and the Republican Congress creates a two-pronged mandate for defense contractors. The sector needs to get ready for growth, assuring they have the systems and processes in place to accommodate what promises to be a boost in demand not seen in decades.

Furthermore, they must also prepare for an era of higher accountability, characterized by requirements to deliver on time and on budget with decreased tolerance for delays, setbacks, and quality issues.

Trump has proven he's not hesitant to name and shame—design, engineering, and production failures could become public and damaging to an unprecedented degree.

Boeing's CEO Dennis Muilenburg got a taste of this treatment when Trump threatened via social media to cancel the Air Force One contract for being too expensive. After a [Jan. 17 meeting with Trump](#), Muilenburg referred to conversations about Air Force One and F-18 fighter jets, announcing "We made some great progress on simplifying requirements for Air Force One, streamlining the process, streamlining certification by using commercial practices...That's going to lead to substantial cost reductions."

Such public negotiations set the tone for the defense industry even before Inauguration Day.

Smart Manufacturing is Fundamental

Those that gear up and embrace smart manufacturing approaches, sooner rather than later, will be best positioned to take advantage of the looming opportunity. Technology and digital manufacturing companies face similar opportunity and challenge as they support the A&D sector. Bringing the advanced analytics, automation, and cyber-physical integration capabilities to fruition in the complex business of building next generation fighter jets is a momentous undertaking.

The time has come to bolster our defenses and our ability to compete with powerful global forces, but we can't do it as we always have. There will be tremendous pressure to build stronger, smarter, faster aircraft in less time, with fewer mistakes and overruns. We have the technological might; now it is up to A&D sector leaders, as well as military and government heads, to invest in smart manufacturing as the foundation for a stronger and more secure defense.