



## MACROECONOMIC *view*

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### *The Economic Consequences of Donald Trump*



#### KEY HIGHLIGHTS:

- Donald Trump will return to the White House far better prepared than eight years ago.
- To stimulate U.S. growth, he states that he wishes lower interest rates and a weak dollar.
- However, his economic platform is poised to produce the diametrically opposite result.
- Two risks need to be monitored closely. First, the independence of the Fed could be called into question. Second, tariff hikes, a potentially devastating shock for Europe.



The inflation shock that occurred under Joe Biden's presidency weighed heavily on the Democratic camp and discredited it during the U.S. elections on November 5th. Over the past four years, inflation has averaged 5% annually, peaking at nearly 9%. This is more than double the normal trend of recent decades. Consequently, voters predominantly chose the Republican camp, which ensured Donald Trump a landslide. Paradoxically, his economic platform is, at first glance, the most inflationary.

**Economically, Donald Trump's core ideas are the same as eight years ago, but this time he is better prepared to implement them.** In 2016, his victory surprised even his campaign team, which had no plan in forming the future government. Donald Trump had presented himself as a candidate outside the 'system', but the main positions in his administration had gone to traditional Republicans. This setting helped counterbalance the sometimes-radical ideas of the 45th President of the United States. In 2024, the picture looks entirely different. Donald Trump has reshaped the Republican Party at his own discretion and led it to victory, thereby creating dependencies among newly elected officials. The initial appointments of the future 47th president reveal his intent to surround himself with loyal individuals aligned with his views. Although this doesn't rule out competence, it cannot be guaranteed in all areas..

Another major difference is that Donald Trump won with a comfortable margin, securing 58% of the Electoral College votes, without the slightest suspicion of fraud or foreign interference. This gives him greater legitimacy. He won the popular vote. All his legal troubles will suddenly be forgotten. Trusted think-tanks have been working in his orbit in recent months, and he can count on powerful allies on Wall Street and, through Elon Musk, in cutting-edge sectors. Republicans have also regained the majority in the Senate. Their views are well represented in the Supreme Court.

**In short, until the next midterm elections at the end of 2026, there are few obstacles that could prevent Donald Trump from implementing his program.** The main restraint could come from financial markets if they were to conclude that his policy will cause more harm than good.

**During his first term in office,** Donald Trump's achievements were numerous, although they were often overshadowed by his tantrums and intense political tensions (including two impeachment proceedings). A vast tax cut plan was adopted in 2017. The following two years were mainly devoted to the tariff war with China and the overhaul of the North American Free Trade Agreement.



In 2020, the Trump administration quickly launched a vast public-private partnership to develop, produce, and distribute a COVID-19 vaccine. During the pandemic, the budget deficit increased significantly. Regarding domestic affairs, barriers aimed at preventing illegal immigration at the Mexican border were built, with limited success. It is worth noting that no major foreign military operations were launched.

**What are Donald Trump's priorities for his second term? Broadly speaking, they are an extension and an amplification of the main policy lines he pursued during the first term.**

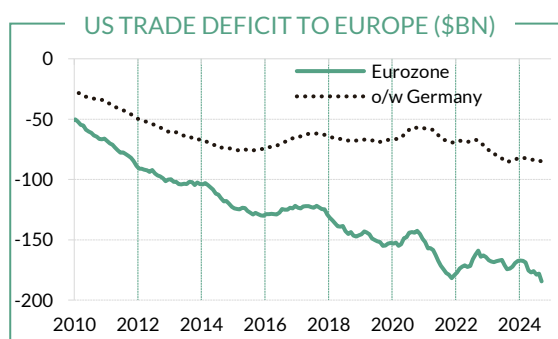
- **On economic and fiscal matters**, the objectives set include the extension of the tax cuts expiring at the end of 2025, new tax reductions—particularly for corporations—and measures to deregulate and disengage the federal government.
- **On the trade front**, Trump plans a significant increase in tariffs on all imports of foreign products and the intensification of technological restrictions against China. For the Eurozone, which has a trade surplus of nearly \$200 billion with the United States, this represents a direct threat to its growth (see graph). **Such a shock would be particularly damaging for Germany, a country both highly open to international trade and heavily dependent on U.S. markets.** In recent years, Germany managed to offset the decline in its exports to China with increased sales to the United States.
- **On immigration**, Trump is considering the mass deportation of illegal workers.
- **On geopolitical matters**, Trump wants to use all his influence to bring about a rapid resolution of the conflicts underway in Ukraine and the Middle East.

**Donald Trump will start his term with a robust economy.** Unemployment is low, as is the household savings rate. Asset prices are high. Inflation has almost gone back to normal after several years of drift. This economy doesn't need strong reflationary measures. Yet, Trump's program pushes in this direction through various channels.

First, fiscal measures could increase the federal budget deficit by about 1.5 percentage points of GDP annually over the next decade. In 2024, this deficit already hovered around 6.5% of GDP. Second, restricting migration flows would cause labor shortages, as was already seen after the covid lockdowns were lifted. This has previously resulted in wage pressures. Finally, raising tariffs would elevate price levels. One may dream, as Trump does, that exporters will absorb the extra cost in their margins, but historical data shows that the end consumer bears the brunt. This chain of events is bad enough it could jeopardize a future electoral success.

None of these matters are encouraging signs to the central bank to ease its monetary policy. The Federal Reserve has cut its key interest rates twice in recent months but remains cautious about the future. It says it will wait until measures are implemented before deciding if monetary policy needs to react. **To further complicate matters, Donald Trump never hide his skepticism about the Fed's independence.** Yet this is one of the principles that investors regard as essential. Any attempt to interfere with the central bank's decisions would be destabilizing. The Fed Chair has reiterated that the law leaves no room for his dismissal and that he is set to remain on duty until the end of his term in May 2026.

**To sum up, it makes no doubt that Donald Trump plans to implement his program. He has the means to do so. What might lead him to certain compromises is that his policy, though aimed at stimulating growth, risks rekindling inflation. The consequences would then run counter to his desire for lower interest rates and a weaker dollar.**



Source : Thomson Reuters, ODDO BHF

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