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Election Economics

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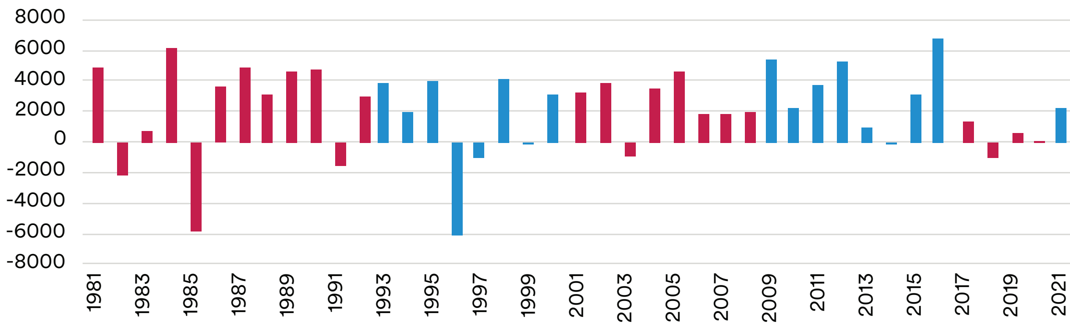
A resounding victory sweeps President (and President-Elect) Trump back to the White House. The substantial-for-modern-times majority in the Senate along with the popular vote means that the second Trump administration has more of a mandate than the first one.

With the Republicans also securing control of the House of Representatives, this means that a fair number of Trump and/or Republican priorities could be realized. Below are three that we believe will have the largest economic effects.

Regulations are Costly

Chart 1 | Smaller Increases Under Trump 1.0: Change in Number of Pages in the Federal Register



Source: Code of Federal Regulations 2023, MIM.

Accumulated regulations since 1980 have reduced GDP by as much as 0.8 percentage points per year by 2011. Some regulations may be worth a hit to GDP—for example, workplace safety requirements, healthcare data privacy—but costs to GDP remain.

Generally, administrations add significant new rules towards the end of their time in office—likely because they were unable to accomplish their priorities via legislation.

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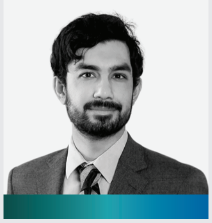

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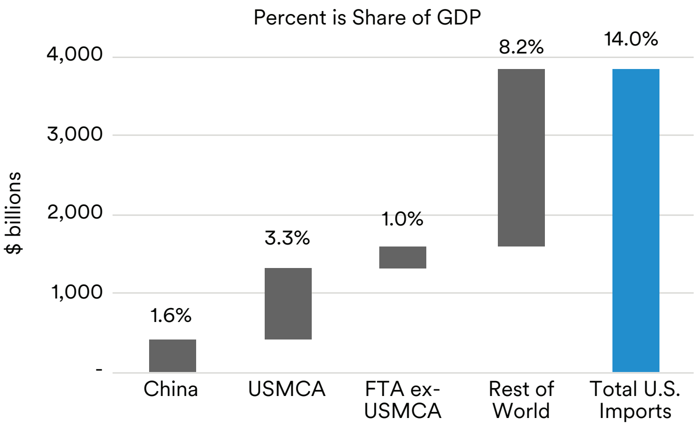
Trump has been forcefully against new regulations. During his first administration, there were fewer net increases to regulations than under other recent presidencies. A "2 for 1" rule was implemented during his presidency, where two regulations had to be eliminated to add a new one. As President Trump's second term begins, we expect fewer regulations to be passed especially given that the Republicans have also retained the house.

The overturning of the Chevron deference means federal courts no longer must defer to government agencies in cases where a statute is ambiguous, and that is also likely to reduce the number of regulations. A new issue to contend with as a result of this change is a potential proliferation of burdensome and complicated state level regulations.

Trade: Taking on the World?

We expect Trump to place substantial tariffs on a wide range of Chinese goods. Raising tariffs on China to 60% is expected to have a moderate one off shock of 0.4-1.3% on U.S. inflation. We expect the effects to be toward the low end as U.S. consumers are becoming increasingly price sensitive.

Chart 2 | U.S. Imports From Other Partners Are Much Greater Than From China



Source: U.S. Census, BEA, MIM. Data for 2023.

Putting across-the-board tariffs on other countries is legally trickier, particularly for countries with Free Trade Agreements (FTAs). Assuming 10% tariffs on most countries aside from China, estimates of one-time inflation shocks are larger, ranging from 1.8-3.2%. GDP effects would be modest at about 0.1 to 0.5%.[1]

We would expect significant retaliatory tariffs by China and other countries on U.S. exports, but concrete economic effects of retaliation remain highly speculative.

Source	Inflation Effect	Notes
Peterson Institute	1.8%	0.8% effect from China, 1.0% from rest of world. Assumes no retaliation
KIEP	1.9/3.2%	Without/with retaliation. Both exclude FTAs.
Bloomberg	2.5%	Without retaliation; 0.7% effect China tariffs only
UBS	0.4-1.3%	China tariffs only

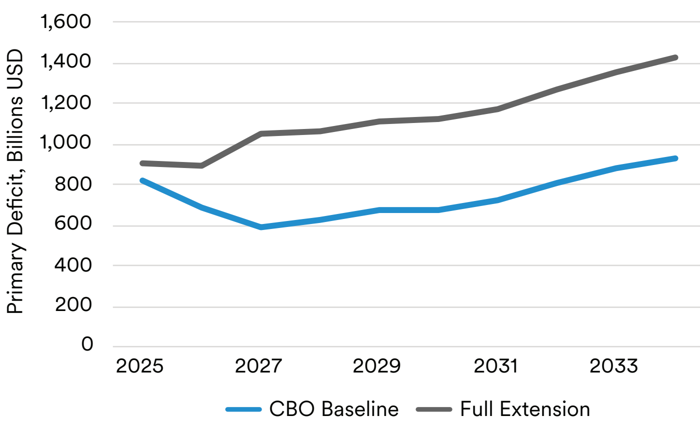
Note: Researchers assume 60% China and 10% rest-of-world tariffs except where noted.

"McKinley tariffs"—tariffs that would substitute for income tax revenue—would have to be substantially higher than current proposals. Given 60% tariffs on China, they would have to be *at least* 44% on the rest of the world including countries with whom the U.S. has trade agreements, and would have substantially greater ramifications on supply chains, inflation, and GDP.

Fiscal Policy: No Discipline in Sight

We expect Republican leaders to push for at least a partial extension of the Tax Cuts and Jobs Act (TCJA). A full extension of the TCJA is expected to cost $3-4 trillion, while a partial extension is estimated to cost $2-3 trillion. Effects on GDP are estimated to range from 0.15-1.1% over the next 10 years.[2]

Chart 3 | Extensions of the TCJA Have Significant Deficit Impacts



Source: CBO, MIM. As of November 11, 2024.
Note: Baseline assumes no extension.

The provisions of the TCJA that are expiring are weighted towards personal tax cuts, meaning they are less economically significant for future productivity growth and will not pay for themselves: research estimates that renewing these expiring provisions would pay for only 1-14% of their own cost.

Regardless of exactly which portions of the TCJA get extended, the GOP sweep means that we expect higher issuance, higher debt levels, and upside risk to yields going forward as they work to pass their priorities. The Penn Wharton Budget Model estimates President Trump's policies to raise primary deficits by $4.1 trillion over the next ten years, although estimates may change rapidly as serious workable proposals emerge.

On a more positive note, although the debt ceiling is suspended until January 2, 2025, we do not anticipate a debt ceiling fight in 2025. Historically, debt ceiling debates/crises have taken place under a Democratic president and a Republican House of Representatives. We expect Republicans to raise or suspend the debt ceiling to smooth the way for their own budgets.

U.S. Outlook Summary

We expect growth in 2025 to be roughly on par with that of 2024, avoiding a recession and remaining at or slightly above long-term trend growth.

On the positive for growth side, with election uncertainty largely behind us, policy uncertainty has reduced, and we expect some improvements in corporate decision-making and investments as a result. Corporate profits remain robust, and could support an increase in investment. The BEA's recent annual NIPA revisions show consumers are stronger than initially thought. Wages growth has remained stable.

On the negative for growth side, we expect the Trump Administration to begin implementing tariffs, which would likely be inflationary. We would expect government spending—a major supporting player in the recent growth story—to be pared back over the next 6 to 18 months.

On balance, these forces lead us to retain our pre-election forecast with no change.

We expect the Fed to continue to move slowly toward the neural rate by cutting approximately three times by year-end 2025. A deliberate pace fits with the Fed's considerable uncertainty about where the long run neutral Fed Funds rate is, even as we expect inflation will take longer to converge toward 2%.

MIM Forecast

U.S.	2023*	2024	2025
GDP	2.5	2.0	2.0
CPI	3.2	3.1	2.8
10 Year	3.88	4.25	4.00
Policy rates (upper bound)	5.50	4.75	4.00
Unemployment	3.7	4.4	4.3

Note: GDP is annual average growth rate, CPI is Q4 year/year, 10 year is year-end, policy rate is the upper bound year-end rate. Our core PCE forecast for 2024 is 2.8%.

*Actual; other data are forecast.

Source: BEA, BLS, U.S. Treasury, Federal Reserve, Bloomberg, MetLife Investment Management. As of November 2024.

Risks

Risks to our forecast include the possibility of fewer cuts by the Fed, and that the 10-year yield remains elevated substantially above 4%. Our key concerns here include inflationary signals from tariffs causing the Fed to move more slowly, and expectations around greater inflation or stronger growth raising long term yields.

Endnotes

1 As calculated by Korea Institute for International Economic Policy.

2 Estimates of deficit and GDP effects from Penn Wharton Budget Model and the Yale Budget Lab. Baseline and full extension from the CBO.

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