

US ECONOMY AT THE BEGINNING OF TRUMP 2.0 ADMINISTRATION

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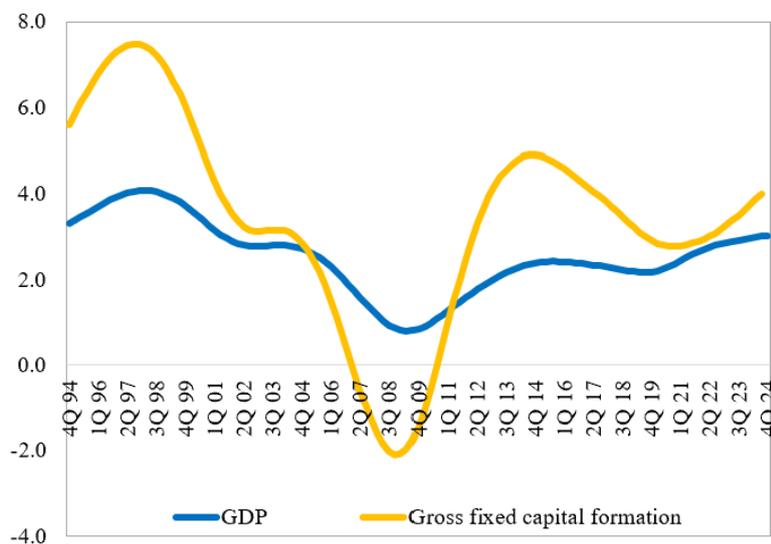
On 20th of January 2025 Mr. Donald Trump was sworn in as President of the United States of America, the largest economy in the world, with a nominal GDP of almost USD 30tn at the end of 2024, according to the estimates of the Bureau of Economic Analysis.

The beginning of the Trump 2.0 Administration is characterised by a positive macroeconomic climate in the US economy, as reflected by the recent developments of the macro-financial indicators.

For instance, the indicator that measures the business climate across the small business (estimated by the National Federation of Independent Business) continued to increase by a strong monthly pace in December 2024, to 105.1 points, the highest level since October 2018.

Furthermore, according to the econometric estimates elaborated using the quarterly data of the Bureau of Economic Analysis, the annual potential growth pace in USA presented an upward trend in the recent years, to almost 3% at the end of 2024. This is the highest level since 2001, as can be noticed in the following chart.

Figure 1. The annual potential pace for GDP and gross fixed capital formation in USA (%)



Source: representation of the author based on the econometric estimates, using the database of the Bureau of Economic Analysis from USA, February 2025

This improvement of the potential growth pace in USA was mainly determined by the dynamic of the gross fixed capital formation, given the incorporation of the technological progress (the Digital Revolution, and the Artificial Intelligence Revolution) with a strong pace, and the positive climate on the financial markets (the stock markets are trading at record high levels).

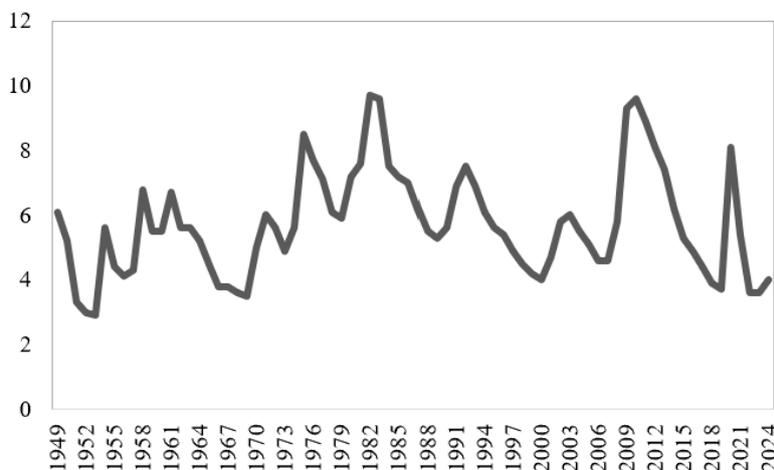
Furthermore, the low level of the corporate tax and the implementation of several programmes (including Inflation Reduction Act), in the context of the trade tensions among the main economic blocks in the world, supported the upward trend for the fixed investments in USA in the recent years.

At the end of 2024 the annual potential pace for the gross fixed capital formation in USA was estimated at around 4%, the highest level since 2Q 2017, as can be noticed in Figure 1.

I emphasize the fact that, in 2024 the annual pace of the fixed investments outpaced the annual pace of the private consumption (the main component of the GDP, and also the engine of the world economy in the past decades) in USA for the first time since 2019 (3.8% vs. 2.8%).

The robust investment climate in USA in the recent quarters has had positive impact on the labour market. In the recent years the unemployment rate in USA presented levels close to the record low, as can be noticed in the following chart. According to the data of the Bureau of Labour Statistics the average annual rate of unemployment stood at 3.6% in 2023 and 4.0% in 2024.

Figure 2. The unemployment rate in USA (%)



Source: representation of the author based on the data of the Bureau of Labour Statistics from USA, February 2025

On the other hand, the core inflation in USA has recently persisted at a high level, 2.8% in 4Q 2024 (considering the Personal Consumption Expenditure indicator), above the inflation target of the Federal Reserve.

Considering this favourable climate for USA economy at present, one can question if the measures signalled by President Trump in the electoral campaign would be efficient (would have a positive impact) or would determine an overheating of the economy followed by a hard landing. The later scenario is also supported by the deterioration of the public finance and by the upward trend for the US dollar.

The most important decisions of the Trump Administration at the international level are those regarding trade policy. The adoption of measures to increase trade tariffs signalled throughout the 2024 election campaign may determine the increase of the US tariffs in international trade relations to the highest level since 1960s.

In fact, at the end of January 2025 President Trump signed the increase of the tariffs on imports from Canada and Mexico by 25% (meantime he agreed to postpone this decision by 30 days) and on the imports from China by 10% from 1st February 2025. These three economies (China, Canada, and Mexico) contributed by over 40% to the total volume of the goods imported by USA in 2024.

According to the econometric estimates, recently developed by Peterson Institute for International Economics, the increase in trade tariffs in USA relations with Canada and Mexico will have an unfavorable impact on the three economies members of NAFTA, either in terms of economic growth pace, or inflationary pressures. For example, during the second term of President Trump (2025 – 2028) the GDP of USA could be lower by 200 billion dollars, that of Canada by 100 billion dollars, and the economy of Mexico could lose 2% if the new trade tariffs were implemented.

Furthermore, according to the estimates of experts from the Tax Foundation, the increase in trade tariffs in relations with Canada and Mexico by 25% and of those in relations with China by 10% from February 1, 2025 may lead to a decrease in GDP by 0.4% and an to the increase in tax revenues in USA by 1.2 trillion dollars between 2025 and 2034.

The impact of the increase in trade tariffs could be stronger for the international trade and for the macroeconomic climate in the partner countries of the USA, and lower for the American economy, given the ability of multinational companies to quickly adapt, by implementing measures to improve operational flows.

On the other hand, the US business environment (especially small and medium-sized companies) is looking for the implementation of decisions aimed at reducing and improving the degree of regulation, in a period characterized by high growth pace of the investments and unprecedented speed of technological progress.

Last but not least, NATO partners await with interest the decisions of the US Administration regarding the allocation of resources for military spending, especially since European countries face multiple challenges in the transition towards a new economic model, while the room for maneuver of fiscal policies is limited.

Perhaps the most important measure implemented in the first week of the Trump Administration 2.0 is the launch of the STARGATE programme (created by OpenAI, SoftBank and Oracle), which foresees significant investments (USD 100 billion at the beginning, with the prospect of reaching USD 500 billion in the coming years) for the development of artificial intelligence infrastructure in the US. The largest programme in this field in US history could generate approximately 100 thousand new jobs.

At the end of this analysis, I point out that the measures to be implemented by President Trump in the first weeks of his second term will determine the recalibration of financial markets' expectations regarding the monetary policy decisions of the Federal Reserve in the coming quarters.

In this context, I emphasize the risk for US economy to enter an overheating phase, which would determine an intensification of inflationary pressures and a recalibration of the monetary policy attitude. In turn, these aspects may, at a given moment, trigger extensive adjustments on the financial markets (especially in the context of the fast growth in the recent quarters) and a scenario of a hard landing in the largest economy in the world, with negative consequences for the world economy.

About the Author

Andrei Rădulescu is a Senior Expert in applied macroeconomic research and forecasting, fundamental financial analysis, and research on economic sectors. Andrei has Post-university studies and professional experience at top institutions in Portugal and Romania, in macroeconomic research and forecasting. Andrei is a constant presence at International Conferences on macroeconomic and/or financial topics (presentations at top business and/or academic events in 40 countries across the world) and is member of think tanks in several countries.