

Economic Outlook: Policy Clouds Roll In

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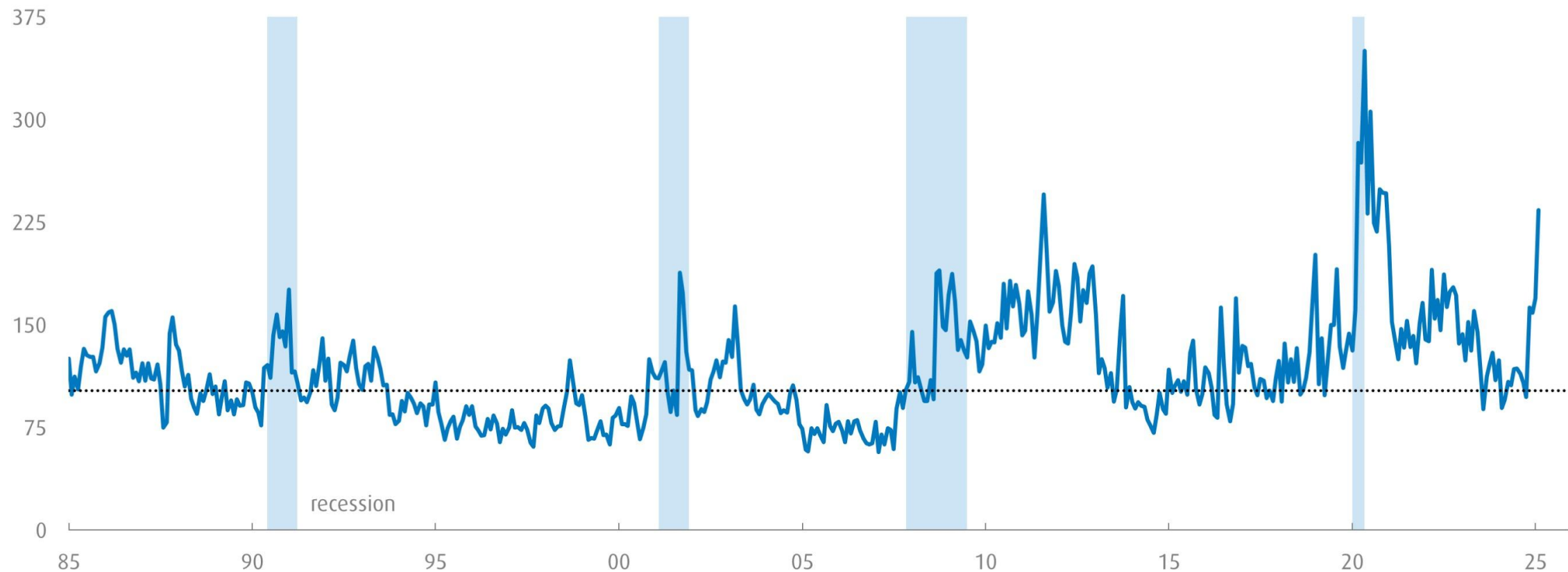
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Policy uncertainty spike only surpassed by pandemic period

United States

Economic Policy Uncertainty Index¹



¹ (Index: 1985-2009 = 101.06535)

Mixed risks for economic growth

United States



Donald Trump, President of the United States

Trade policy:

Tariffs

Fiscal policy:

Tax cuts and spending cuts (DOGE)

Immigration policy:

Deportations

Regulatory policy:

1 new regulation added = 10 old ones removed

Net risks of larger deficits, faster inflation, higher rates, stronger dollar

Tariffs' tale: Part 1



February 4: 10% on Chinese goods

March 4: 25% on Canadian goods except 10% on energy and critical minerals (postponed from February 4)

25% on Mexican goods (postponed from February 4)

Another 10% on Chinese goods

March 7: USMCA compliant goods carved out (until April 2)
Canadian potash lowered to 10% from 25%

March 12: 25% on steel and aluminum

Tariffs' tale: Part 2



Coming after April 1:

Reciprocal tariffs

Sectoral tariffs:

- Copper

- Lumber

- Autos

- Semiconductors

- Pharmaceuticals

- Oil and gas

Global supplementary tariff

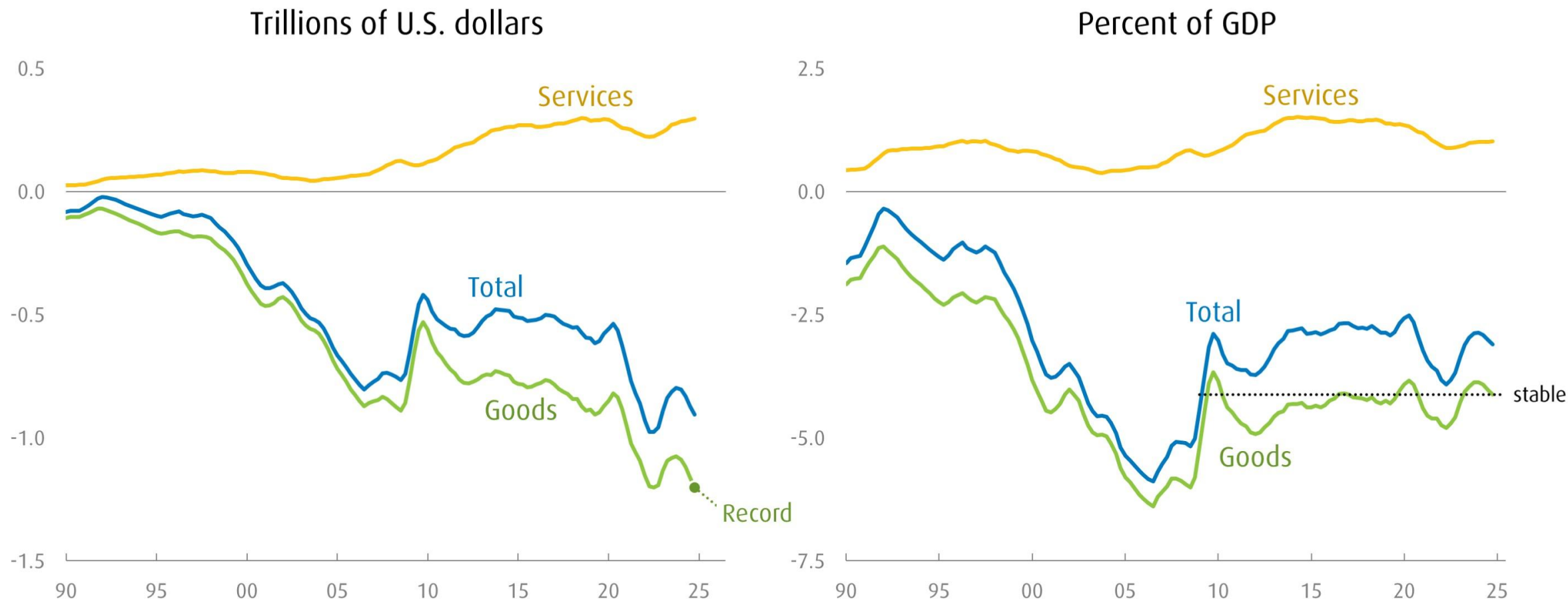
U.S. bilateral trade flows

U.S. goods trade balance with select regions – January 2025 (US\$ blns : 12-mth m.s., unless otherwise indicated)

	Trade deficit	Share of total (%)	Exports	Imports	Exports/Imports (ratio)
China	303.4	23.9	141.4	444.8	0.32
European Union	242.1	19.1	371.5	613.6	0.61
Mexico	174.0	13.7	335.5	509.5	0.66
Vietnam	126.8	10.0	13.2	140.0	0.09
Taiwan	76.6	6.0	42.6	119.2	0.36
Japan	68.4	5.4	80.0	148.4	0.54
Canada	68.2	5.4	349.5	417.7	0.84
South Korea	65.6	5.2	65.6	131.2	0.50
Switzerland	59.0	4.7	24.0	83.0	0.29
India	46.5	3.7	42.1	88.7	0.47
Thailand	46.1	3.6	18.1	64.2	0.28
Malaysia	25.3	2.0	28.3	53.6	0.53
Indonesia	18.4	1.5	10.2	28.6	0.36
World	1,267.6	100.0	2,068.6	3,331.0	0.62

Trade tally

United States – Net Exports (4-qtr m.a.)



Tariffs' toll



Prices rise (with some offsets):

- Margin compression
(domestic importers, foreign exporters)

- U.S. dollar appreciation

- One-time impact

GDP growth slows:

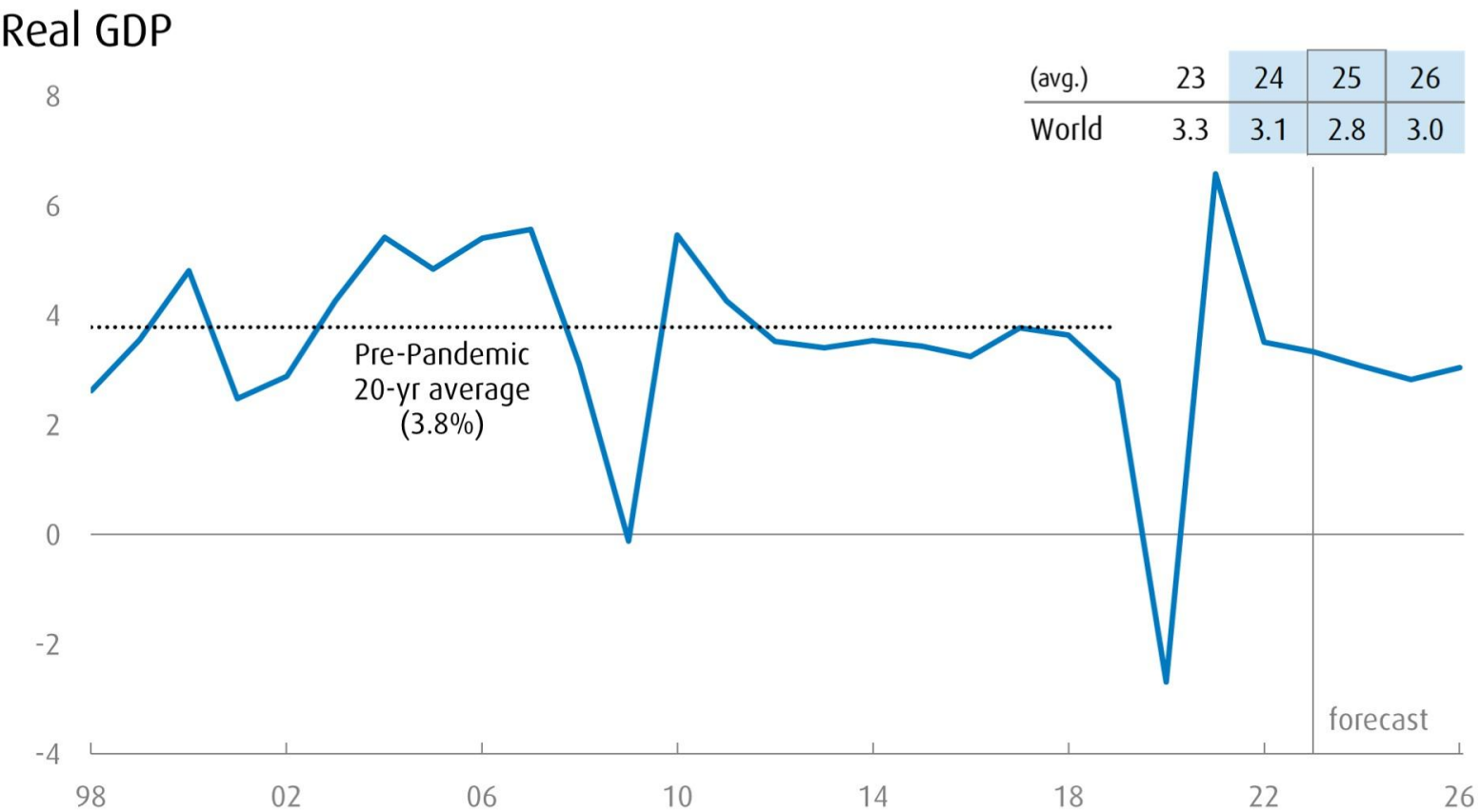
- Higher prices erode purchasing power

- U.S. exports weaken (stronger USD, retaliation)

- Policy uncertainty headwind

Global growth... a new challenge

Global (% chng)

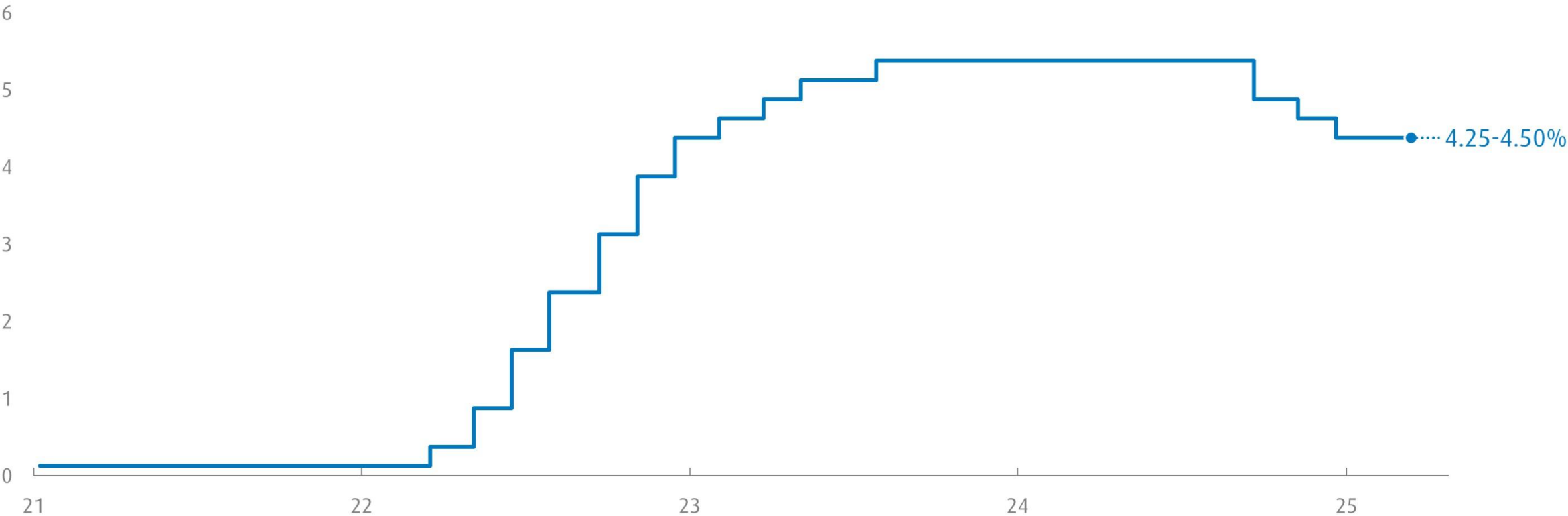


‘Law of unintended consequences’

Fed pauses

United States (% : as of March 12, 2025)

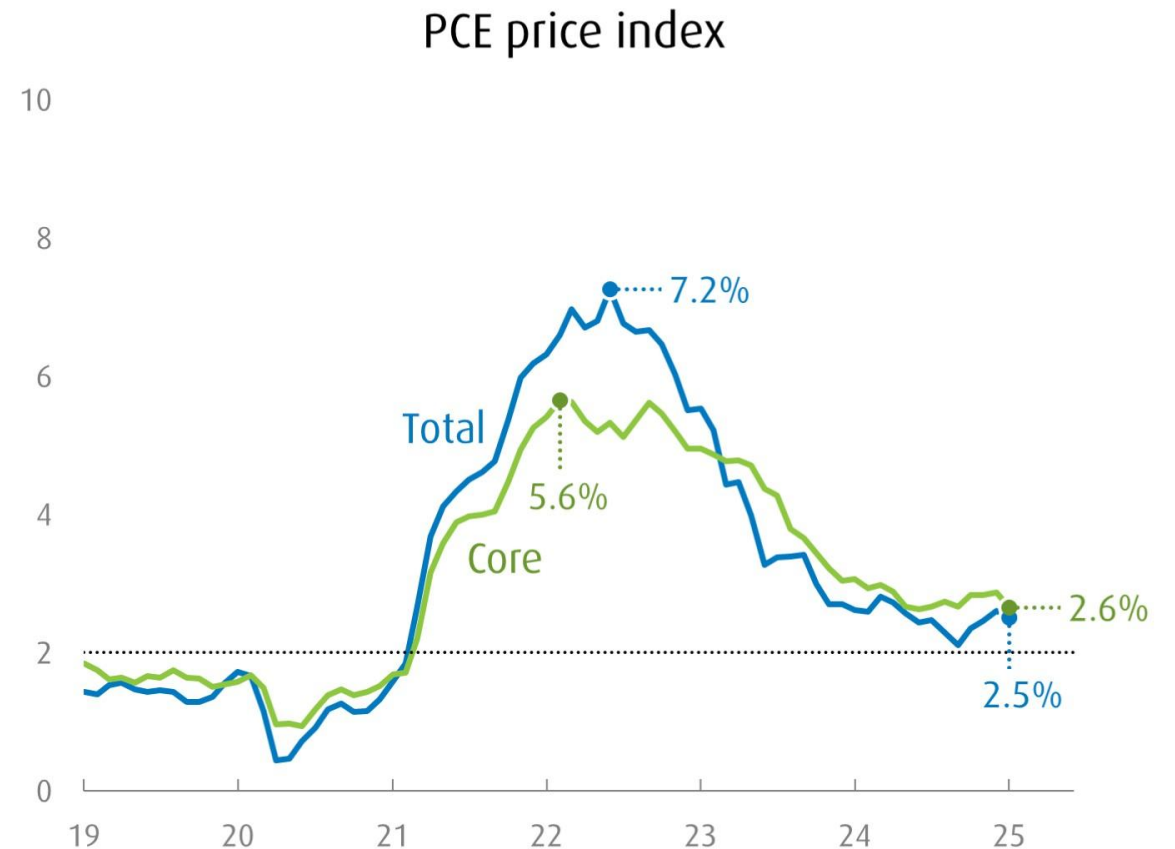
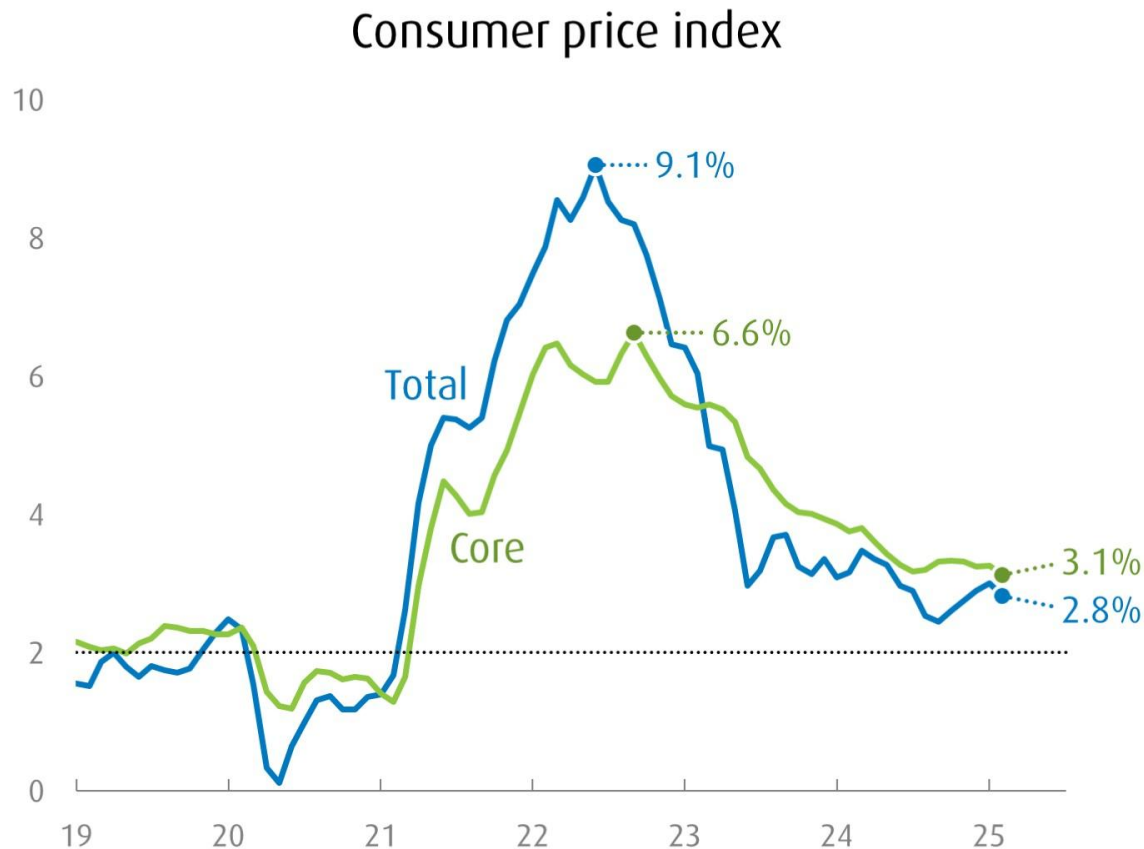
Fed funds rate (midpoint of target range)



Government policy uncertainty + Sticky inflation

Powell: "For additional cuts, we're going to be looking for further progress on inflation"

United States (y/y % chng)



"As long as the economy and the labor market are solid, we can be cautious"

Last mile to 2% a “bumpy road”

United States (ann. % chng)

Consumer price index

February 2025	3 mo	6 mo	12 mo
Total	4.3	3.6	2.8
Core	3.6	3.6	3.1
Core services ex. housing	4.8	4.5	3.8

PCE price index

January 2025	3 mo	6 mo	12 mo
Total	2.9	2.6	2.5
Core	2.4	2.6	2.6
Core services ex. housing	3.1	3.3	3.1

Progress markers:

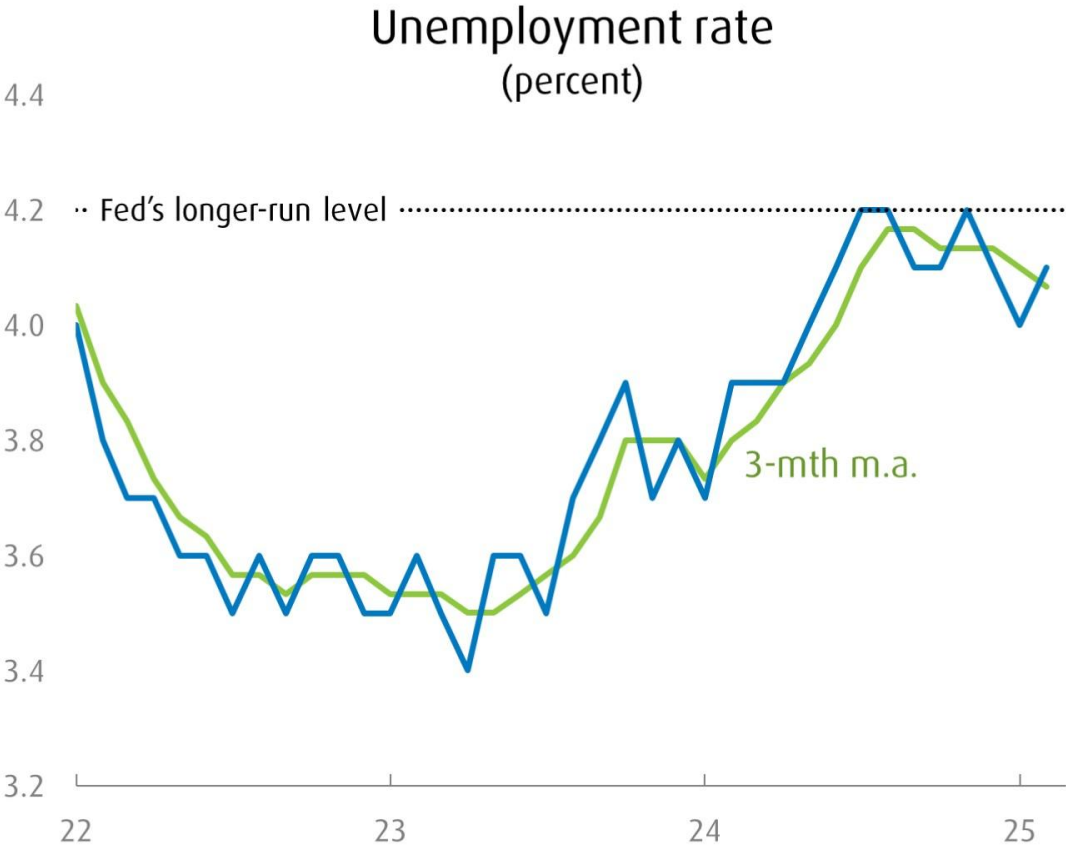
None >3% range

Most <3%

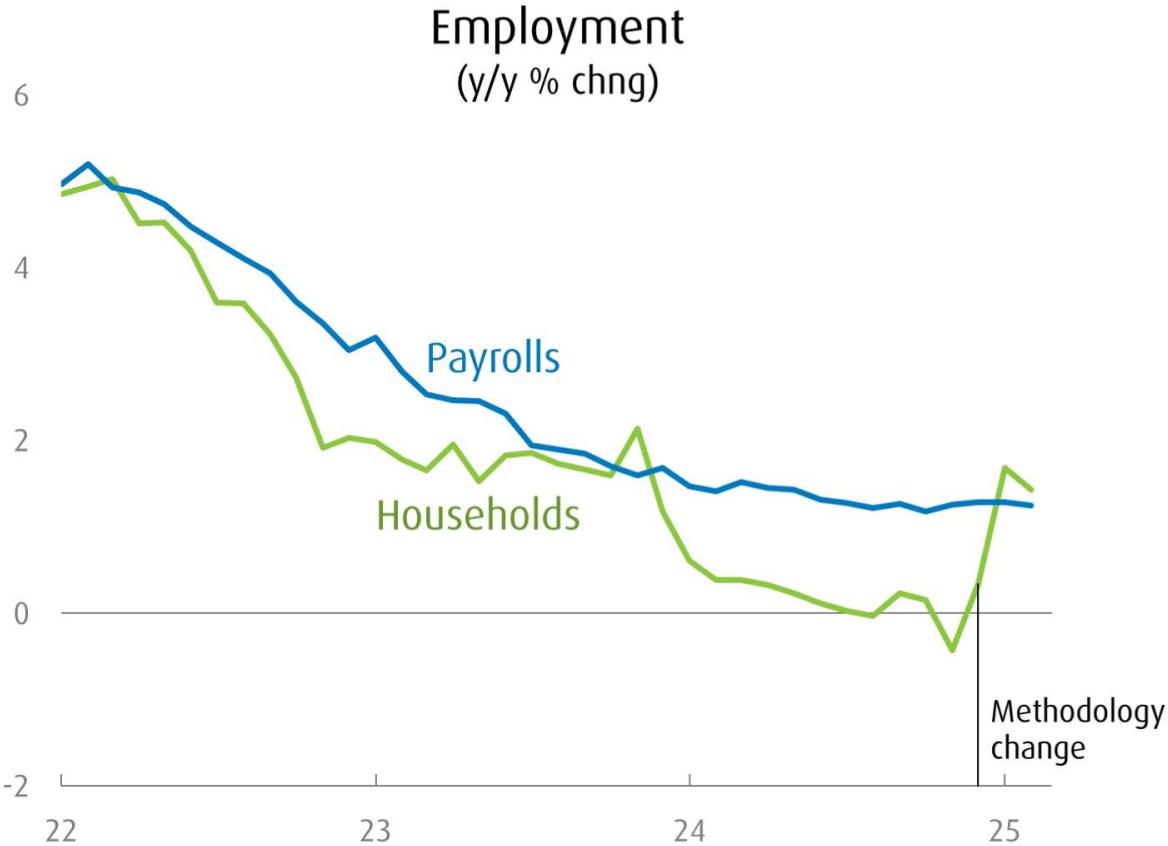
3 mo ≤ 6 mo ≤ 12 mo

Labor market still sturdy despite slackening/slowing

United States



Underemployment rate 8.0%

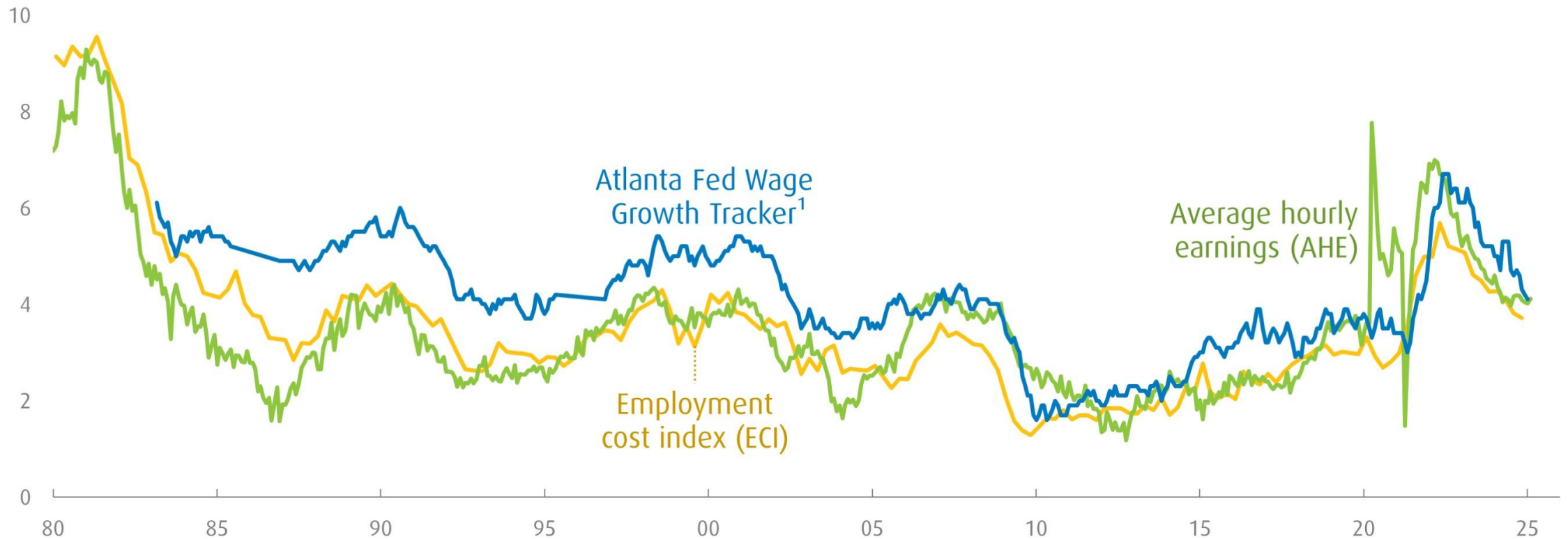


Jobs only contract around recessions

Wage growth grinding down but still elevated

United States (y/y % chng)

Wages



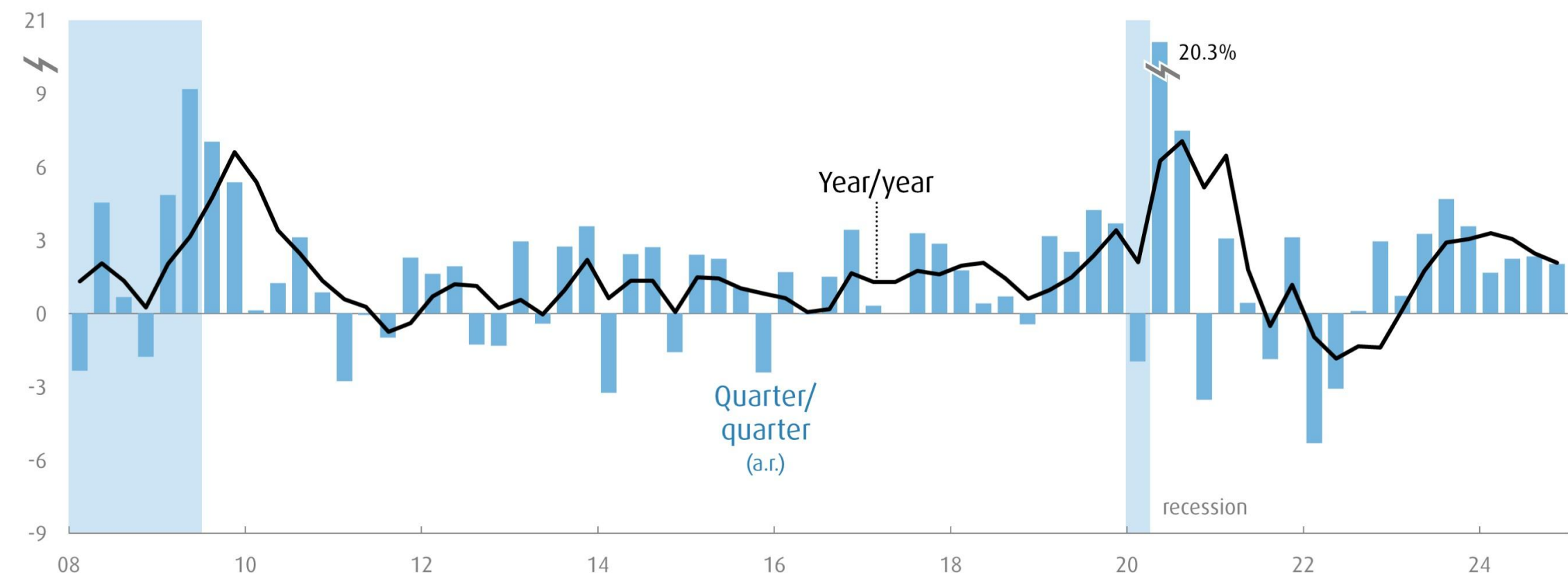
Countered by increased productivity (2.1% y/y in Q4)

AHE = Production & nonsupervisory employees • ECI = Private-sector wages & salaries • ¹ (3-mth m.a.)

Strong capex pace paying off

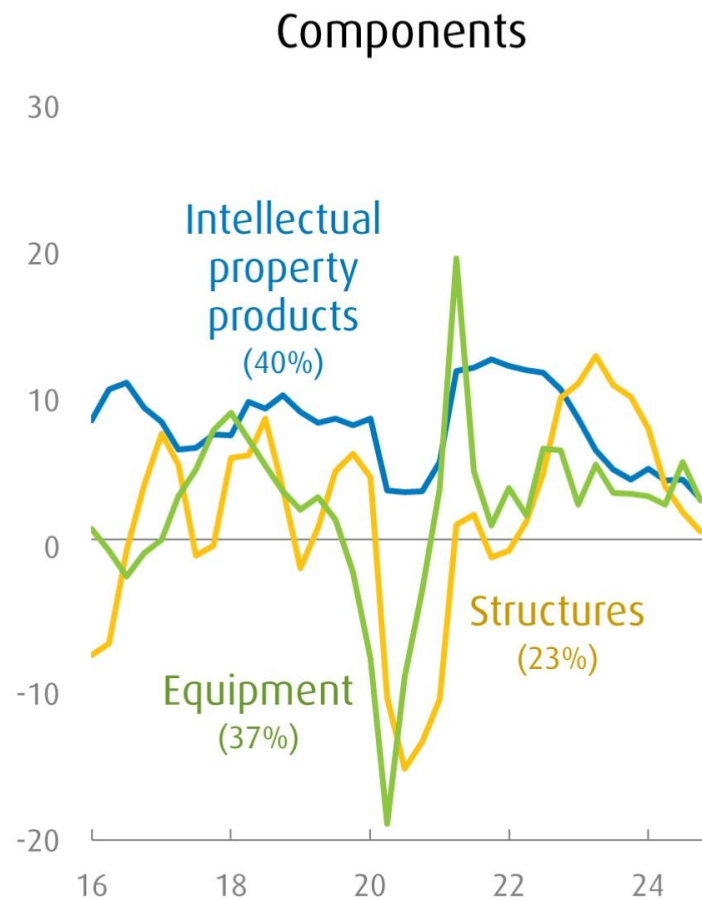
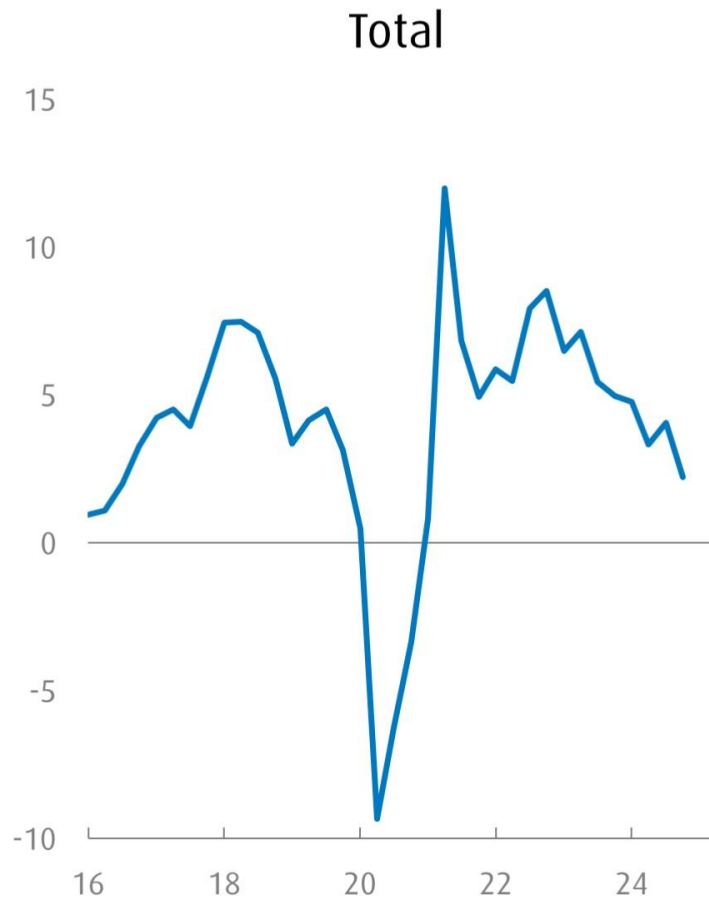
United States (% chng)

Business sector productivity



Industrial policy 'triple play'

United States – Real business fixed investment (y/y % chng)



Policies:

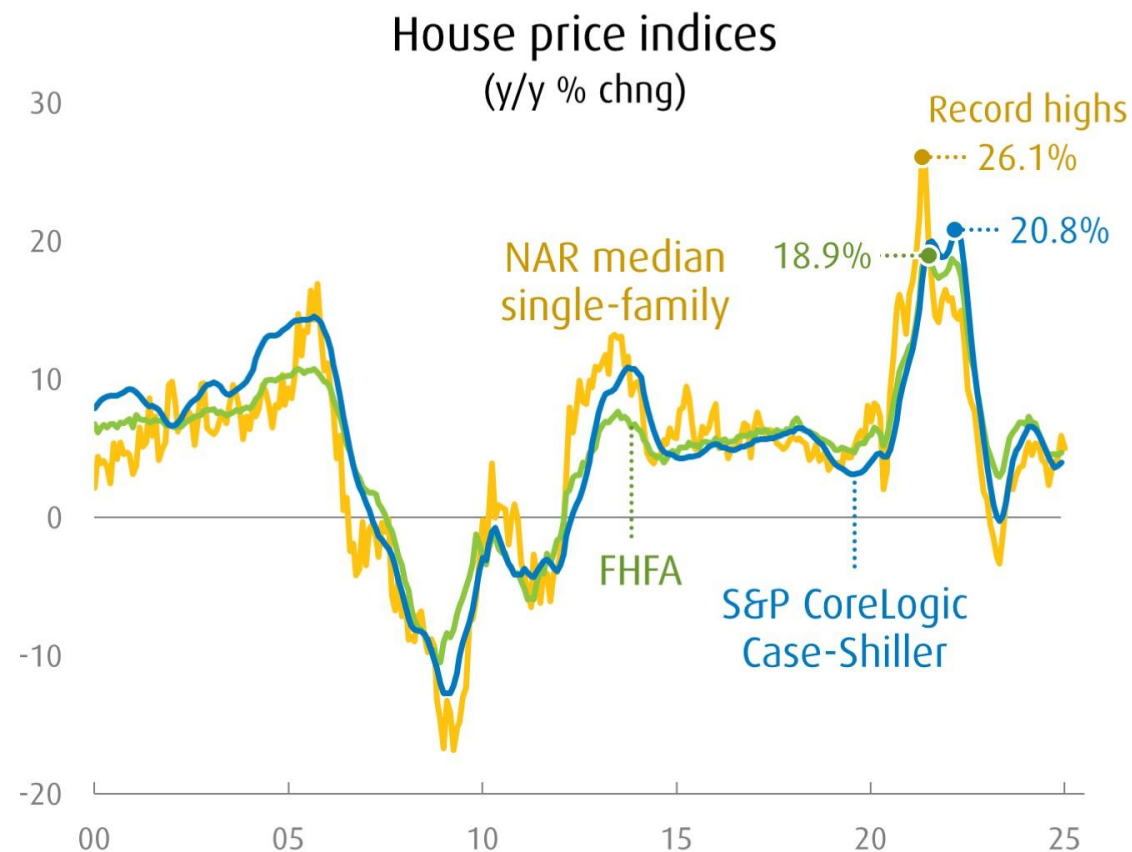
Infrastructure Investment and Jobs Act

CHIPS and Science Act

Inflation Reduction Act

Home sales hit by worst affordability since 1980s

United States

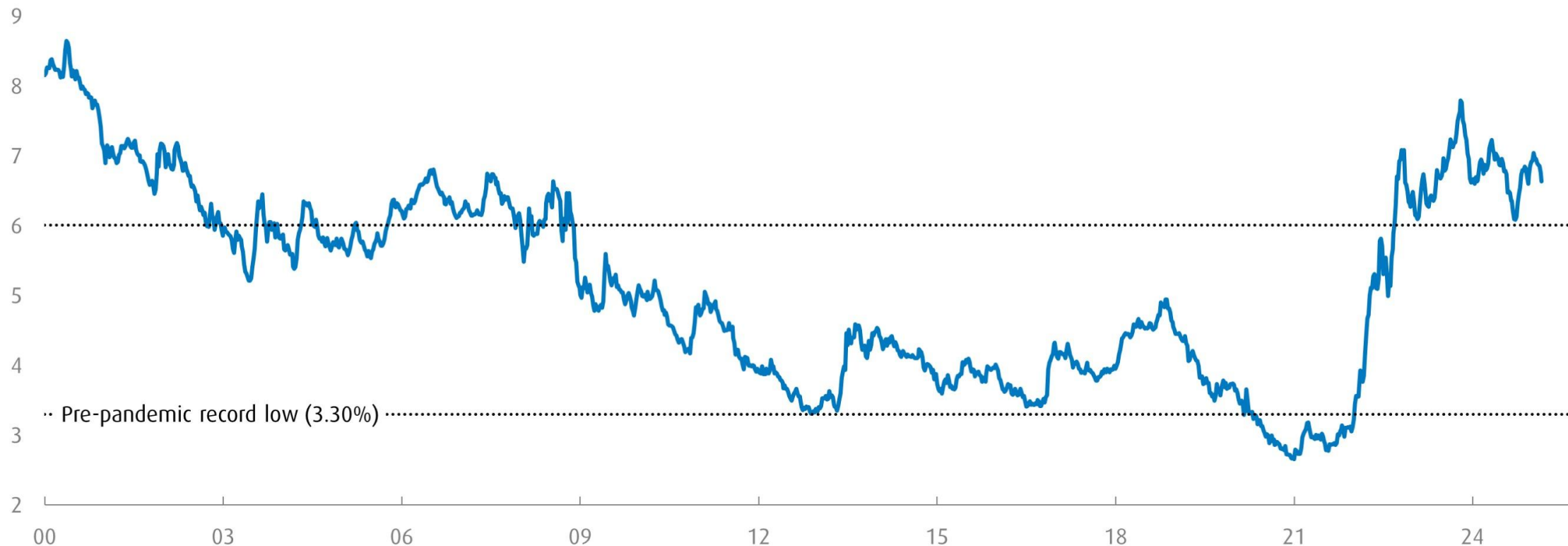


But prices hung in there, partly owing to the 'lock-in effect'

Record low levels locked in

United States (percent)

30-year fixed-rate mortgages

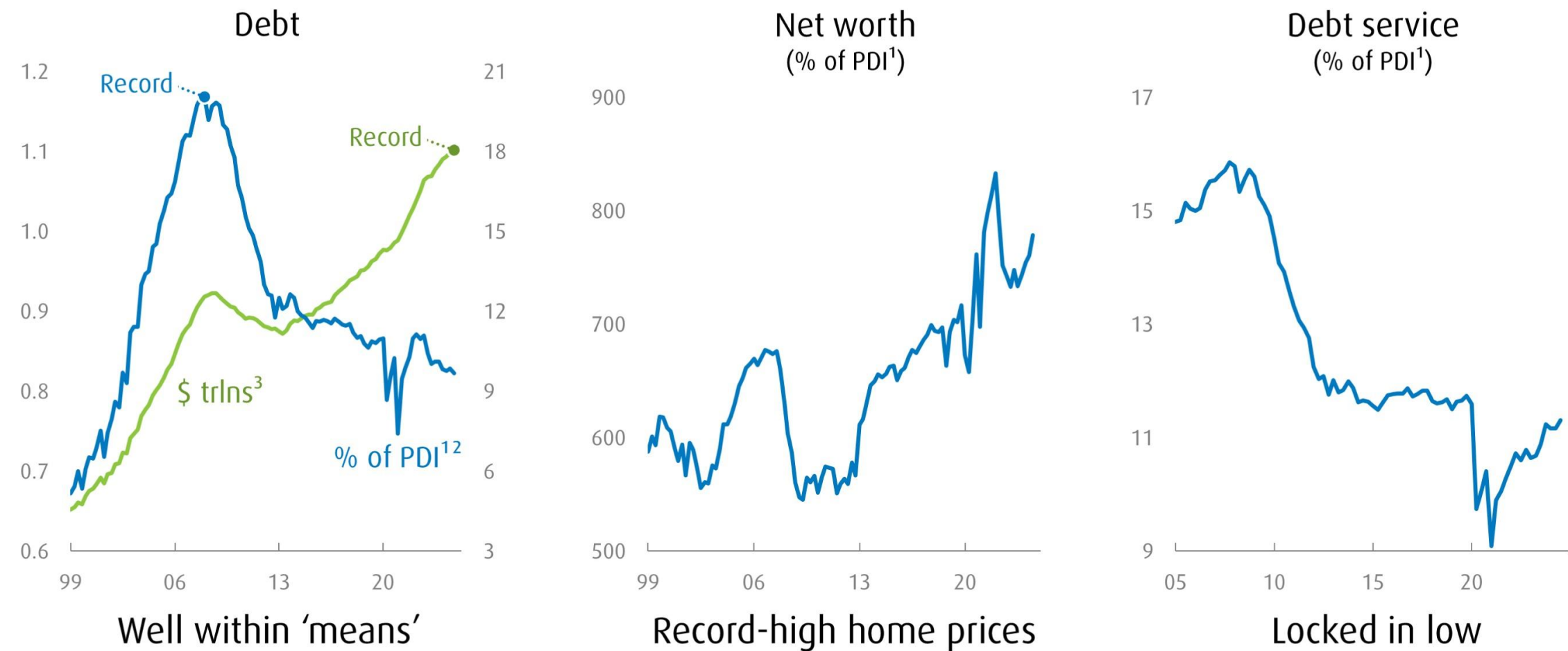


Redfin¹: 83% of mortgages have rates <6%, 73% have <5%, 55% have <4%

¹ February 6, 2025; based on 2024Q3 data

Healthy household balance sheets (in aggregate)

Households – United States

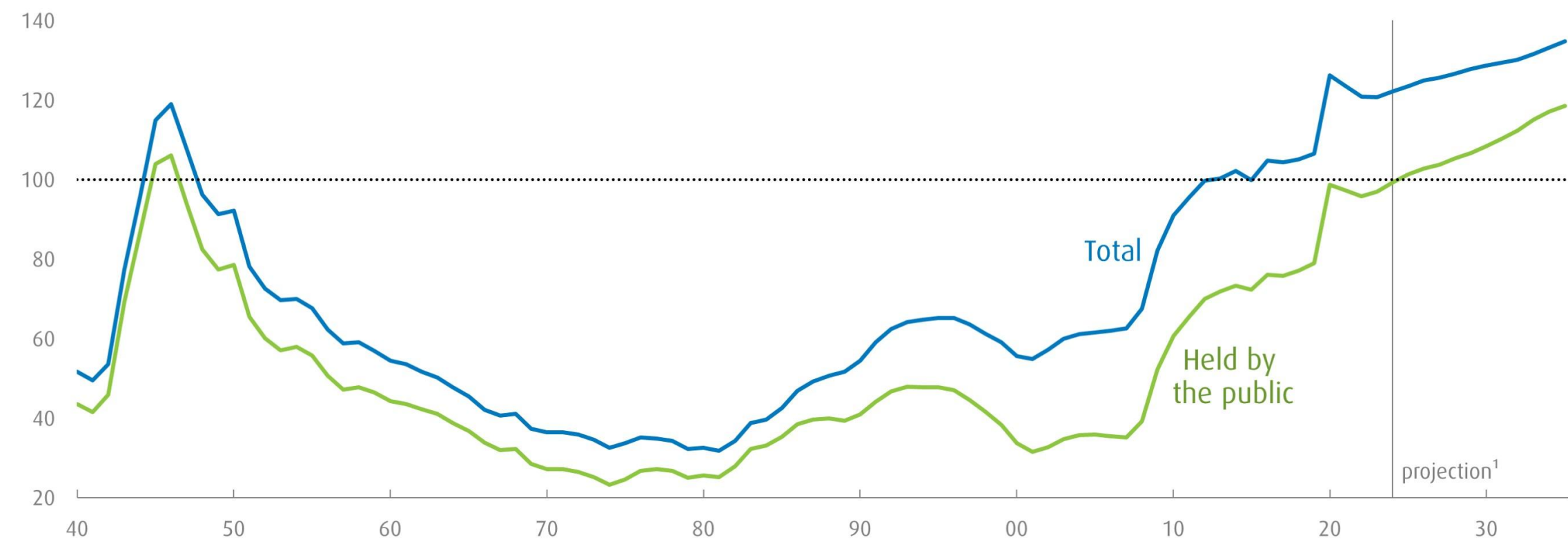


¹ PDI = personal disposable income • ² (lhs) • ³ (rhs)

Debt's discouraging dynamics

United States (% of GDP)

Gross federal debt



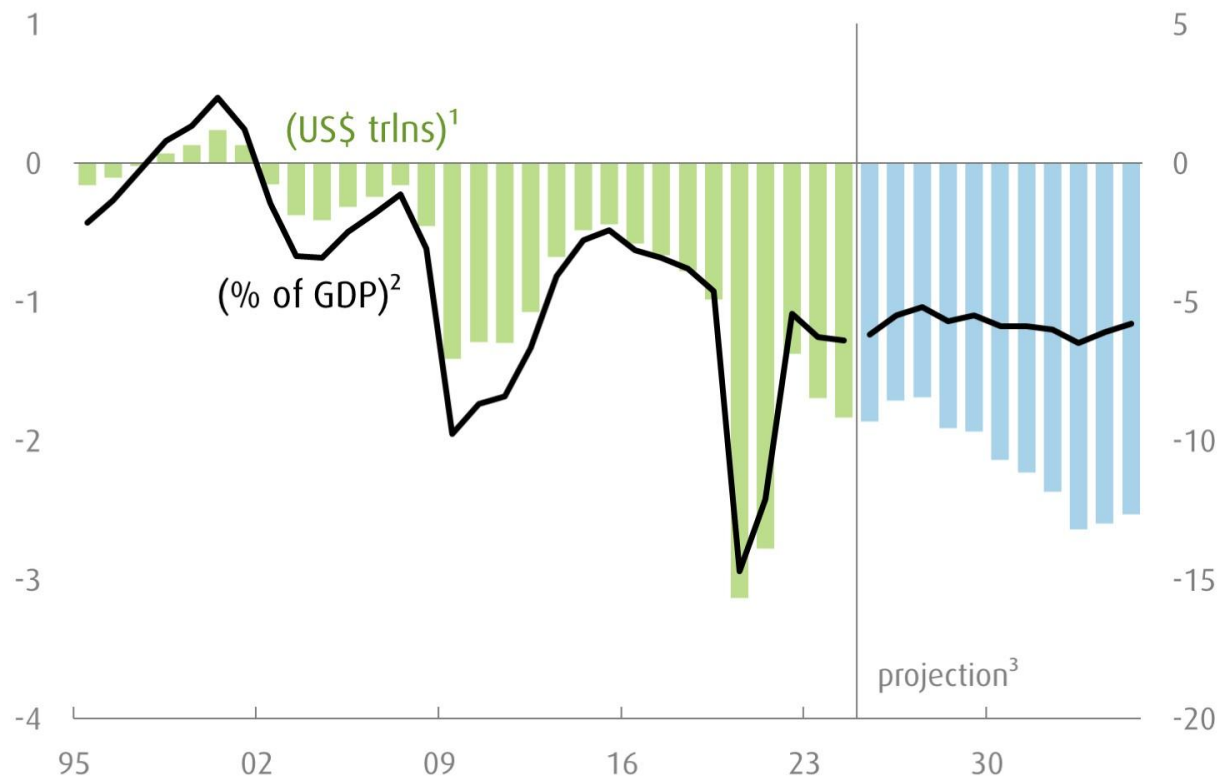
Debt held by public to hit 100% of GDP in FY25, first time since WWII

¹ CBO projection (January 2025)

Big deficits lie ahead

United States (fiscal years, reflecting legislation signed by May 12, 2024)

Budget balance



Fully extending expiring 2017 tax cuts = \$4.0 trln (over 10 years)

¹ (lhs) • ² (rhs) • ³ CBO projection (January 2025)

FY24:

Interest payments > defense spending

FY27:

Interest payments > non-defense discretionary spending

CY33:

Old-Age and Survivors Insurance (OASI) trust fund depleted (all Social Security trust funds by CY35, Medicare [HI] trust fund by CY36)

Fiscal follies



House budget resolution passed (10-year totals):

\$4.5 trln lower revenues

\$1.7 trln lower outlays

\$2.8 trln larger deficits

Must reconcile with Senate budget resolution

Other promised tax cuts difficult to fund

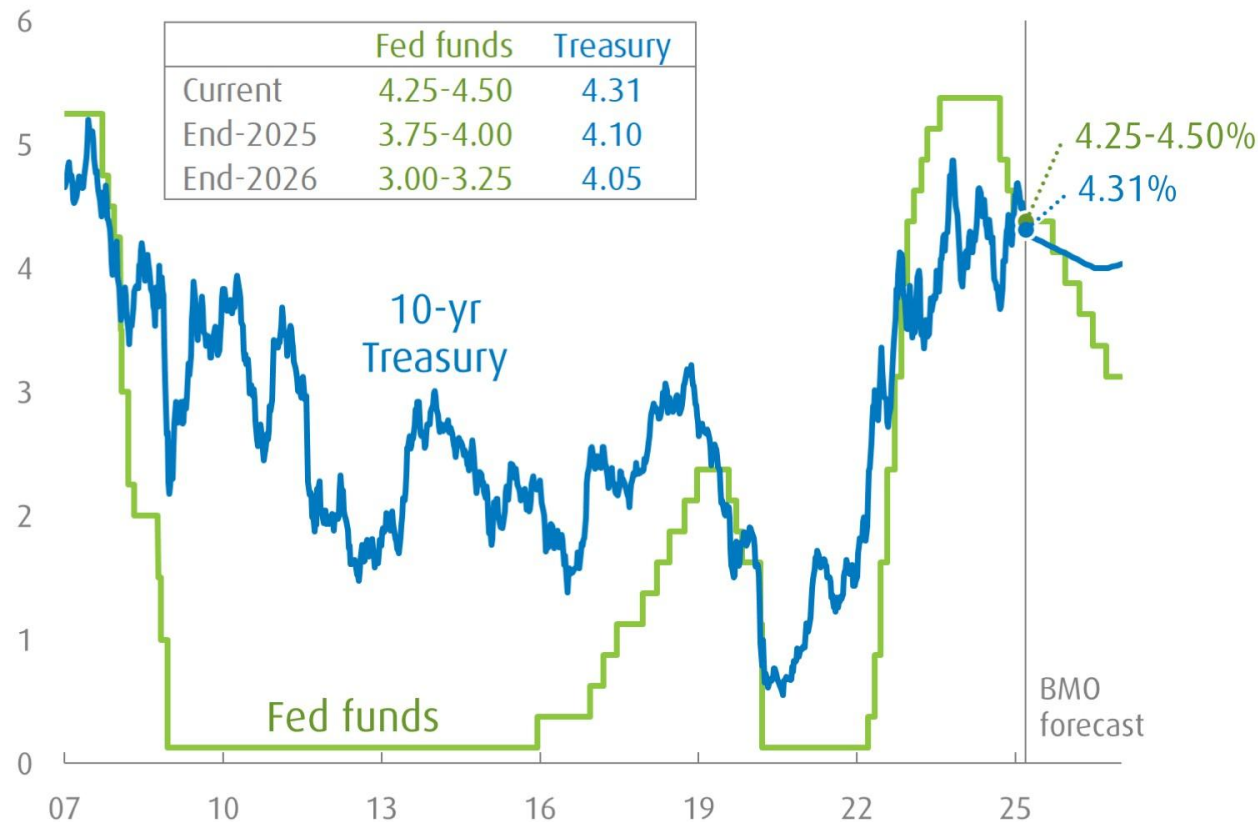
Government shutdown? (House passed, waiting for Senate)

Debt ceiling's 'X-Date' by this summer

Rate cuts to resume after pause

United States (% : as of March 12, 2025)

Interest rates



Pressure on Treasury yields:

Persistent big deficits and burgeoning debt

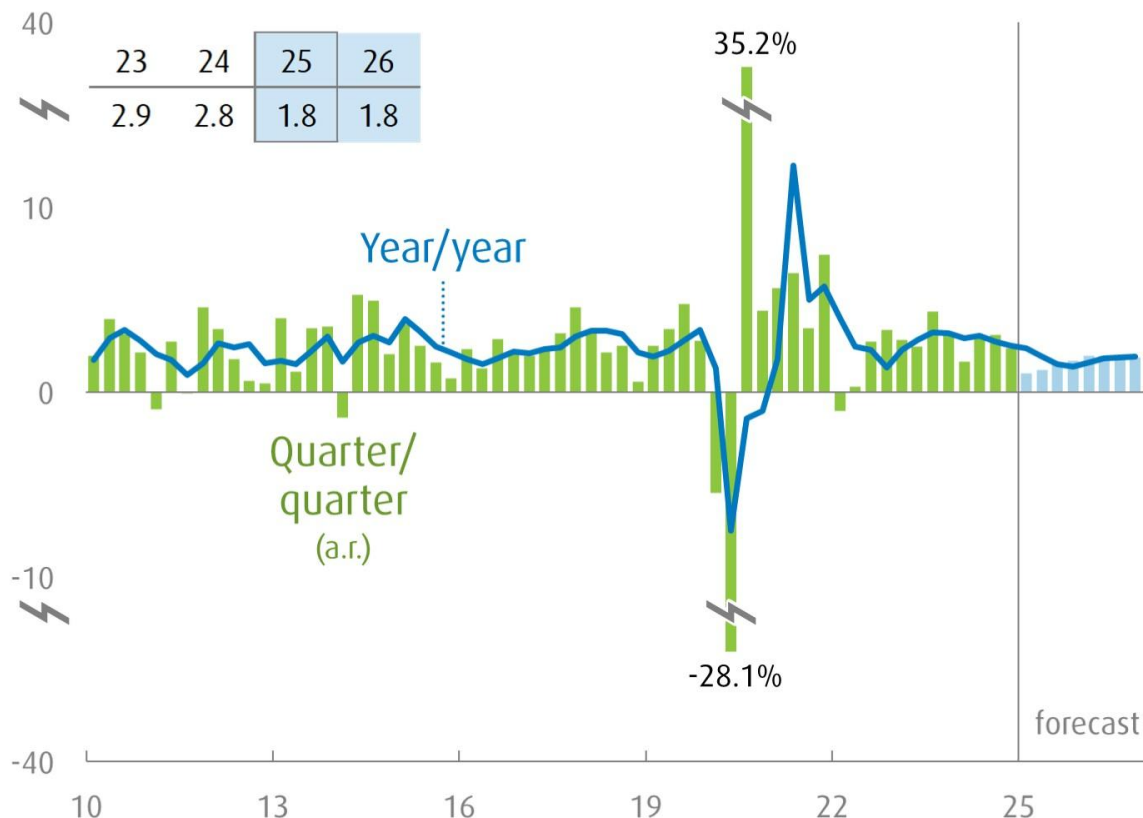
Higher and riskier inflation outlook

[history] weekly averages • [forecast] monthly averages

Tariffs, government spending cuts and uncertainty weigh on economy

United States (% chng)

Real GDP



Forecast downgrade:

2025: 1.8% (now) vs. 2.2% (previous)
(Q4/Q4 1.4% y/y vs. 2.0% y/y)

2026: 1.8% (now) vs. 2.0% (previous)
(Q4/Q4 1.9% y/y unchanged)

Growth supports:

Fed rate cuts

Legacy of stimulative industrial policy

Healthy household balance sheets

Expiring 2017 tax cuts extended

Slower economic growth will loosen labor market a little

United States (percent)

Unemployment rate



Forecast downgrade:

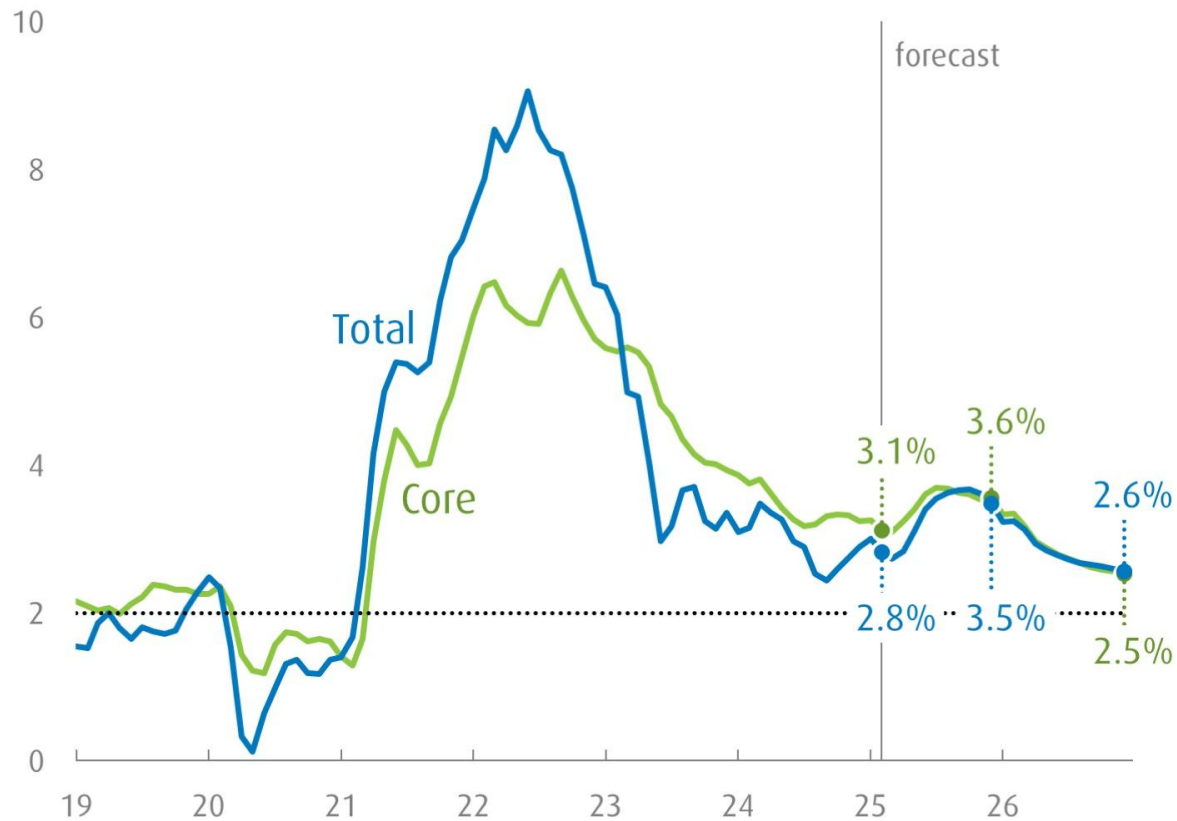
2025Q4	+0.2 pts
2026Q4	+0.1 pts

Federal government layoffs

... But inflation staying a bit sticky

United States (y/y % chng)

Consumer price index



Forecasts lifted:

Total:

2025Q4 +0.7 ppts

2026Q4 unchanged

Core:

2025Q4 +0.8 ppts

2026Q4 +0.1 ppts

But longer-term issues:

Deglobalization

Decarbonization

Key takeaway: Risks are rising



Trump Administration policies

Federal government finances

Geopolitics

Oil prices

Questions?

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