Thematic – Economic implications of the US election

With most pundits seeing the outcome of the US elections on 5 November as a coinflip, we look at the implications of a win by either Presidential candidate in several areas which are important to the macro environment – fiscal policy, immigration, the conduct of monetary policy and trade.

Harris' proposals would probably offset the fiscal contraction under current law to leave fiscal policy broadly neutral, while Trump's could be stimulatory, leaving the fiscal stance further unmoored from the economic backdrop of robust growth. Beyond the fiscal stance, Trump's economic policies will tend to be negative for growth and put upward pressure on inflation, though the implications for the rates outlook will depend on the extent demand is hit by a pullback in business and consumer confidence.

Key points

- A Harris win is likely to see a great degree of policy continuity regarding trade (and, more broadly, industrial policy), immigration and Federal Reserve independence. A Trump Presidency in contrast would pursue substantially different policy in these areas, although a divided Congress would impede some of his agenda.
- Fiscal policy is set to turn contractionary under current policy due to expiring tax provisions. Harris' policies would probably broadly offset that, leaving the deficit little changed, whereas Trump's proposals most likely have a larger cost, and could make fiscal policy stimulatory. There, however, is a large degree of uncertainty around the cost of both platforms (as the fine print can be important).
- Even if there is a divided Congress, there is a good prospect that the projected fiscal contraction would be substantially wound back due to bipartisan support for various tax measures (principally relating to extending some expiring tax provisions).
- Fiscal policy settings have become increasingly unmoored from the economic environment and are not sustainable. A correction will be needed at some point in the future but doing so over the next four years is not on the radar of either candidate.
- The President has far more discretion on trade policy and on enforcing (existing) immigration laws.
- Trump has flagged large increases in tariffs, increased border security as well as 'mass' deportations, although we think the latter will be difficult in practice. While these may represent negotiating positions and could be scaled back, these policies would reduce economic growth, although there could be an offset if fiscal policy was to turn stimulatory. Inflation will likely rise, but as some of the increase would be temporary (tariffs) and, as the net impact on growth is uncertain, how the Fed would adjust interest rates is unclear and also depends on the overall economic environment at the time. The timing and sequencing, of the various policy changes will also matter.
- Trump's desire to have a role in the conduct of monetary policy is possibly highly consequential – and risks a permanent shift higher in inflation (and interest rates). While we think the likelihood that he will be able to carve out such a role is low, even the attempt to do so could be damaging. The Fed could react to any doubts over its independence by being more hawkish than it otherwise would.

Implications of proposed polices

Summary

The table below summarises some of the short-term impacts of the proposed policies. For Harris, we only look at fiscal policy, as it is not clear that trade and immigration policy will materially change (noting immigration already appears to have slowed this year). Monetary policy arrangements are also unlikely to change.

Short-term impacts of policy proposals*

	GDP growth	CPI	Fed rates	Bond yields	USD
Harris					
Fiscal	↑	↑	↑	↑	↑
Trump					
Fiscal	↑	↑	↑	↑	↑
Immigration	↓	?	?	↑	?
Trade	↓	↑	?	↓	↑
Fed independence	↓	?	?	↑	↓

* Relative to baseline and limited to polices which are could materially differ from those currently in place. '?' indicates direction of change unclear or it may be unchanged. For the fiscal scenario assume can implement all promises. Immigration scenario based on lower population growth but not mass deportations.

Harris's campaign promises suggest that fiscal policy will be stimulatory relative to what will happen absent policy action

Tony Kelly, Senior Economist

(the 'baseline' underpinning the table). However, fiscal policy is currently set to turn contractionary in coming years, so Harris may simply offset this. Our forecasts for the US economy have, from 2025, been based on a roughly neutral fiscal policy so a Harris election would leave this assessment in place.

On the fiscal front Trump may go even further (subject to Congress). While this may provide a short-term boost to growth, other parts of his program – trade, immigration, and the threat to Fed independence, could have the opposite impact on growth.

The overall impact on growth will depend on the timing and the scale of implementation of each part of the program. Some elements are more likely to be implemented than others, particularly those that do not require Congressional approval (tariffs and stricter immigration law enforcement) suggesting a greater downside risk to growth than upside from the Trump platform.

Fiscal

New fiscal decisions (spending/taxation) are largely the preserve of Congress, although the President does have veto powers (subject to some constraints). Polls suggest that control of the Congress could well be divided (e.g. Democrats controlling the House and Republicans the Senate). In this event, the ability of the winning candidate to deliver their platform would be highly constrained. Even if the President's party controls both houses of Congress, the President's campaign promises may not be implemented in full. This is particularly so if the majorities in Congress are small, as some members may have other priorities. The Senate filibuster (which allows legislation to be blocked unless there is a three-fifths majority in favour) is also a potential issue but 'budget reconciliation' means changes can be made even with a simple majority, although it comes with constraints such as no increase in the deficit beyond a 10 year window.

While it is possible that the President may not be able to fully deliver on their platform, the fact that both campaigns are pushing to extend (at least in large part) the tax provisions of the Tax Cuts and Jobs Act (TCJA) suggests it is unlikely that they will all expire. This means that that any negative fiscal impulse (centred on early 2026) is unlikely to be large. Exempting tips from income tax also has bipartisan support and so potentially could also be legislated if Congress was split.

While this still leaves a risk of some fiscal pull back in 2026, it is unlikely to be large, and there is even a risk that fiscal policy ends up being stimulatory.

The campaign promises of both candidates are far broader than the TCJA. The Committee for a Responsible Federal Budget (CFRB) central estimate for the Harris and Trump campaign promises, is that they will increase the budget deficit, on average over a ten-year window, by around 1.1% and 2.2% of GDP respectively.

This is relative to a baseline which has an around 1% pull back in the budget (due to the expiring TCJA provisions), so potentially the Harris plans would result in a relatively neutral fiscal policy. However, under Trump, if he can implement all his policies, fiscal policy could be stimulatory and, in isolation, provide a short-term impetus to growth.

With the economy proving to be resilient – and inflation still on the high side – there is no pressing need for stimulatory fiscal policy in the US right now.

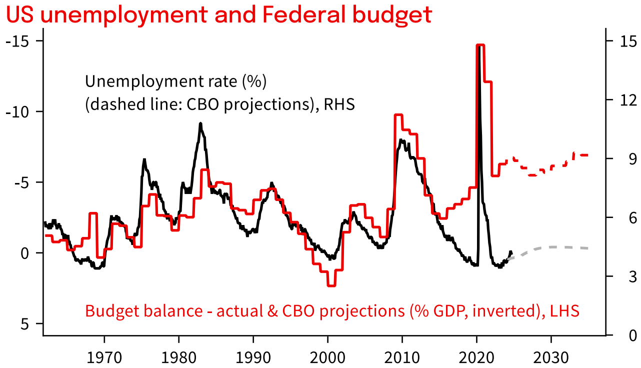
Fiscal policy should not permanently affect the size of the economy unless it changes productivity, growth in the working age population or workforce participation. Analysis by the Penn Wharton Budget model – released in late August – estimated that Trump's promises would increase GDP (relative to baseline) during the first part of the next decade but by 2034 GDP would be 0.4% lower. The Harris plans were estimated to be even more negative, lowering GDP by 1.3% by 2034.

The Penn Wharton estimates do not cover all the campaign promises, so we should not make too much of the less negative outlook in their Trump estimate. The key take-away is that neither campaign is proposing changes that would lift GDP in the long-term.

The other, longer term, concern is that both candidates' proposals would increase the deficit (relative to current law) when it is already high and the economy is in relatively good shape. This indicates that US fiscal policy settings are likely to continue to be out of tune with the broad economic environment.

Historically, there has been a loose, inverse relationship between the size of the budget deficit and the unemployment rate. This makes sense – a weaker economy increases budget pressures (unemployment benefits) and lowers revenue and the converse is true when the economy is strong. However, both pre and post COVID the budget deficit has been rising even with unemployment rates at historically low levels.

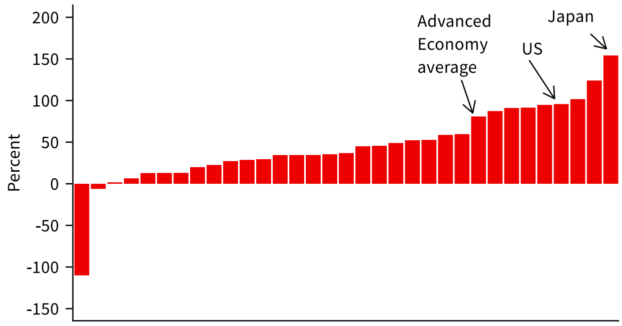
US unemployment and Federal budget



Source: Macrobond, NAB Economics

The campaign promises will leave the already problematic trajectory for government debt in place, if not make it worse. Federal government debt is currently projected to rise to record levels (and well above anything seen outside major wars). While US government debt is high by global standards, this does not raise any immediate financial stability or other concerns – there are other countries that have been able to sustain higher debt levels (e.g. Japan even with its weaker long-term growth outlook) and the US, given the size of its economy and its role in the international economy, probably has even more leeway.

2023 advanced economy net debt (% GDP)



Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

One possible consequence is that, given the size of the budget problem, Congress may feel constrained in how they can respond in the event of a major negative shock. Rising debt levels can also put pressure on interest rates, impacting business investment.

Deficits at projected levels cannot be sustainable indefinitely, so ultimately must change. At a simple level, this will either be through a conscious decision by US policy makers to wind back the size of the structural US deficit or, eventually, discipline will be imposed on the US by financial markets (through higher risk premia). The former is not a focus of either party and the only blessing is that the latter could be many years away.

The country's poor institutional fiscal arrangements are also reflected in regular 'debt ceiling' showdowns, which are likely to continue into the next Presidential term. The debt ceiling is currently suspended until January 2025, so the issue will re-emerge early next year.

Trade

We have previously covered the trade policies and possible implications in detail.

In the event of a Harris victory, the scale of possible future tariff measures is likely to be limited. While the Biden administration imposed a range of tariffs on Chinese imports earlier this year, they covered only a small share of imports (4% of imports from China and less than 1% of total imports). Harris is likely to continue this targeted approach, as well that of providing support to certain industries – Harris is promising tax credits, and other measures, for 'critical' industries.

In contrast Trump has flagged potentially major increases in tariffs – well beyond what he did in his first term. These include tariffs of 10-20% on all imports other than those from China, where he has discussed tariffs of 60% or more, and auto imports (100% and perhaps higher for cars from Mexico). In his first term the tariffs imposed by Trump were less than threatened during his campaign. To some extent they likely represent a starting point for negotiations – leverage to gain a better deal (for the US) – and it is quite possible what is implemented could be a scaled back version.

Nevertheless, even if scaled back, a sizable increase in tariff barriers (with retaliatory measures imposed on US exports) appears likely in the event of a Trump win.

To summarise our early findings, major tariff increases would lower growth and increase the USD. Inflation would rise but, if inflation expectations remain anchored, only temporarily. The Fed could react either way (higher or lower rates than they would otherwise have been given competing pressures on their inflation and labour market mandates and depending how it balances the various risks) but the broader cyclical backdrop will be an important determinant of the interest rate path.

Immigration

With a Harris administration, immigration, and therefore, population growth is likely to be more moderate than recent years, as border enforcement/controls already having tightened this year and with Harris promising to further improve border security.

Trump is threatening major changes to the way immigration laws are enforced including 'mass deportations'. If mass deportations were to occur, with estimates pointing to 11 million people at risk in this scenario, it would be highly disruptive to the economy. That said, in our view, legal action (which would take time to resolve) and practical constraints are likely to limit how much can be done, and how quickly.

Nevertheless, a lower level of population growth is likely under a Trump administration than a Harris one.

At a basic level, a lower population growth rate suggests a lower level of overall economic growth, although not necessarily a worse per capita outcome. However, immigration adds both to supply (a larger workforce) and to demand (as they are also consumers and businesses need to invest to accommodate a larger workforce) so whether there is any impact on the unemployment rate or inflation is far less clear.

Analysis by the Dallas Federal Reserve[1] suggests that an increase in population growth, due to an increase in migration similar to that seen recently, leads to a small rise in inflation (and larger increases in GDP and employment). It

[1] Surging population growth from immigration may have little effect on inflation - Dallasfed.org (https://www.dallasfed.org/research/economics/2024/0709)

also cites evidence from Spain and Norway as supporting these findings. That said, other modelling (McKibbin, Hogan, Noland this year) indicates large scale deportations would be inflationary, and modelling by the IMF (October World Economic Outlook) reaches the same conclusion.

Earlier this year the Chair of the Federal Reserve, Jerome Powell, indicated that he considered the long-run impact of immigration on inflation is neutral but that the surge in immigration (at the time of speaking) may have reduced inflation in the short-run as it helped to loosen the labour market. However, the labour market is now more balanced than it was during much of the period when immigration was high, so these comments don't automatically mean that the Fed Chair would consider there are inflationary impacts from reducing immigration in the future.

Fed independence

Harris has proposed no changes to how the Federal Reserve operates but Trump has made clear his desire to have a say in monetary policy.

Outside obtaining large majorities in the House and Senate (and maybe not even then), we expect legislation giving the President a role is unlikely to pass both houses of Congress. It is possible he may argue that he already has the power to direct policy, under the constitution, but that would likely go to the courts (who may not ultimately side with him).

This would leave the President with the normal levers to influence the Fed, such as through appointments. However, what he can achieve this way, in one term, is limited.

Even if Trump attempts, but is unsuccessful, in inserting himself into monetary policy, then this could have negative impacts on asset markets and confidence, albeit only temporarily.

Undermining the independence of the Fed would likely spook financial markets as politically driven policy rate decisions would, most likely, eventually lead to a higher level of inflation and with it, higher nominal interest rates.

In the short-term, however, the path is less clear. At the time it became clear that the President was indeed seeking to insert himself into monetary policy making (and even before it takes effect), then markets would likely react negatively, and broader business and consumer confidence would fall. This could include large falls in equity and bond markets (higher yields/longer-term interest rates), and in the USD. This could slow economic growth and reduce immediate inflationary pressures (although a lower USD would work the other way). How quickly inflation expectations change (and by implication business price and wage setting) would be crucial for the short-term inflationary impacts.

Higher inflation expectations would also mean monetary policy has effectively eased with no changes in the fed funds rate. How the Fed would react given this, and the possibly competing pressures on its dual price stability/full employment mandate, is unclear. It is possible that it moves in a hawkish direction as it seeks to establish its independence (at least for as long as it can).

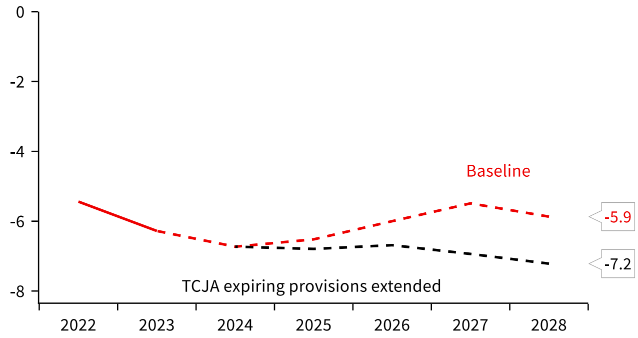
In short, we think that the Fed is likely to remain independent during a Trump Presidency, even if he does tries to dilute it. However, any attempt to dilute the Fed's independence – even if ultimately unsuccessful – could well be met with major disruption to the economy and financial markets. The Fed may react to doubts over its independence by being more hawkish than it otherwise would.

Detailed Policy background

Fiscal

Current projections for the US Federal government budget position point to ongoing, high deficits over coming years. Based on current legislation, the deficit is projected to narrow over fy 2025 and fy 2026. This principally reflects the expiration of various tax provisions (in most part at the end of calendar 2025) of the December 2017 Tax Cuts and Jobs Act (TCJA). These mainly relate to individual income taxes, but there are also provisions relating to gift and estate duties and business depreciation arrangements.

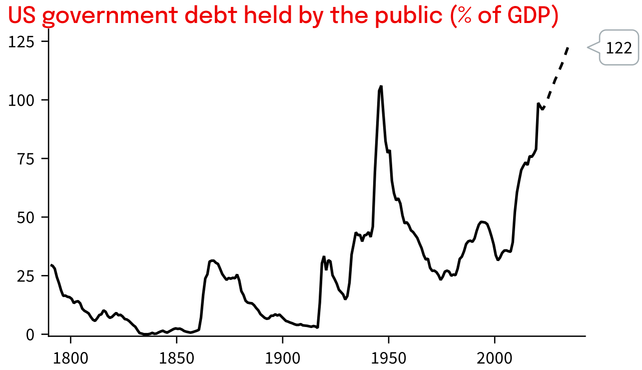
CBO budget balance projections (% of GDP)



Source: National Australia Bank, U.S. Congressional Budget Office (CBO), Macrobond

The expected change in the budget balance, as a share of GDP, is a bit over 1% of GDP, mainly in fy 2025 and fy 2026. The deficit would reach a low point of 5.50% in fy 2027, before it then begins to worsen as the longer-term pressures – such as population aging – take over. As a result, government debt is projected to rise to an historically high level.

US government debt held by the public (% of GDP)



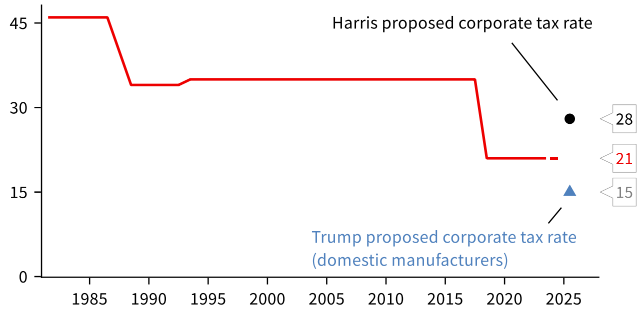
Source: Macrobond, NAB Economics. CBO Projections

Both Harris and Trump are promising to extend many of the expiring TCJA provisions, although in a more limited way in the case of Harris; e.g. she proposes limiting the income tax provisions to households earning less than $400,000. Both candidates are proposing reductions in other individual and business taxes. One area of agreement is to make income from 'tips' tax free.

Harris has a range of revenue raising measures, including increases in taxes on capital income, the Medicare payroll tax and changes in international taxation arrangements. Trump has not proposed many revenue raising measures, with the flagged potential large changes in tariffs (60% or more for imports from China and 10-20% on all other imports) being the exception.

Harris is also proposing an increase in the corporate tax rate to 28%. The current corporate tax rate is 21% and in contrast, Trump has proposed a 15% rate for companies that make their products in America. In 2024, the OECD average statutory rate was 23.7% so the Harris proposal would see the US move towards the high end of current statutory rates in OECD countries but still below where it was before the 2017 change. Apart from any broader implications for the economy, the proposed change by Harris (as well as the changes to the treatment of capital income) may weigh on equity markets, although the total impact of all policies on the economy will be a key driver.

US Corporate tax rate (%)



Source: National Australia Bank, OECD (Organisation for Economic Co-operation & Development), Macrobond

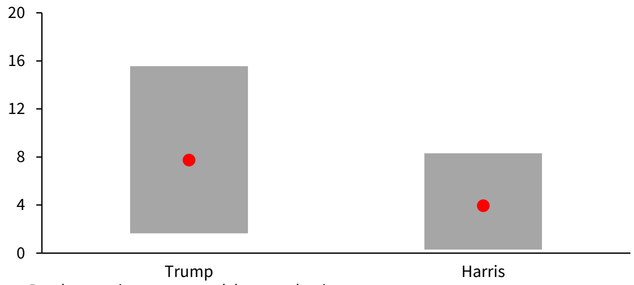
On the spending side, Harris has proposed expanding health insurance coverage and medicate, affordable housing, and improving border security, supporting manufacturing, research and small businesses, expanding child and long-term care access, establishing national paid parental and medical leave, and further supporting education.

For Trump, securing the border is a priority as is defence, but also have promises relating to housing reform and health and long-term care. He also has (albeit only somewhat) more of a focus in spending reductions, including possibly ending renewable energy-related tax credits and other unspent amounts from the Inflation Reduction Act as well including 'reducing waste' and ending the Department of Education.

As many of the proposals flagged by the two campaigns are vague, or there is limited detail available about how they would be applied, estimating the total budget cost of the two platforms is difficult. That said, the Committee for A Responsible Federal Budget (CRFB) has an estimate of the costs of each candidates promises.

The CRFB central estimate was that, over a 10 year period, Trump's plans would have a $7.8 trillion cost while Harris's plans would cost $4.0 trillion. Given the lack of policy detail, the uncertainty around the central estimate is wide – $1.7 to $15.6 trillion for Trump and $0.3 to $8.3 trillion for Harris.

10yr budget impact of Trump, Harris plans ($ trillion)

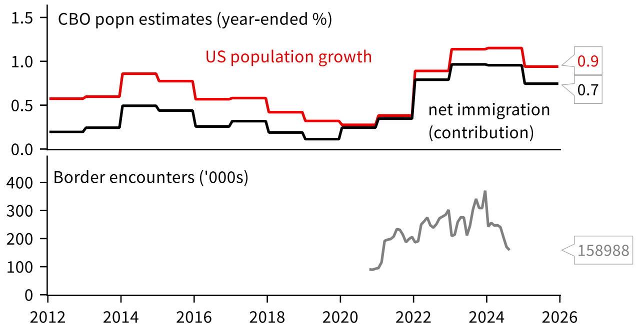


Bar shows estimate range, red the central estimate.
Source:Committee for a Responsible Federal Budget

Immigration

Border security and immigration has been a prominent issue in this presidential campaign.

United States - population growth



Source: National Australia Bank, U.S. Department of Homeland Security, Macrobond

Analysis by the CBO suggests that a surge in immigration has led to strong population growth in the US over recent years. This was driven by the 'other-foreign-national category' which includes people who entered illegally. This is can also be seen in data on border encounters which rose strongly over this period, but have declined this year.

The fall-off likely reflects action taken by the Biden administration this year. Harris has committed to extra funding for border security, although her platform also calls for an 'earned pathway to citizenship' so there is no focus on removing people who have already entered the country.

Trump is promising to "seal the border, and stop the migrant invasion" and to "begin the largest deportation program in American history." Mass deportations of illegal migrants is potentially of enormous significance – with a 2022 estimate putting the number of people in the US at 11 million. Any actions to move on the latter commitment are, however, likely to be quickly taken to the courts and also face practical constraints which would limit their scale.

Nevertheless, it does suggest population growth will be lower if Trump was elected rather than Harris. This is consistent with the experience of Trump's term as president where, in the final year, net immigration was the lowest it had been since the GFC.

Monetary policy arrangements

A win by Harris would almost certainly mean a continuation of existing arrangements for how the Fed and, by implication, monetary policy, operates.

The situation is far less clear with a Trump victory – while Trump has a clear desire to have a say on monetary policy, practical (including legal) constraints may limit how much change he could make.

An April Wall Street Journal report indicated that Trump advisors were looking at proposals to give the President greater sway over monetary policy, including the Fed informally consulting on rate policy, or even replacing Powell with a Chair who would steer policy on the President's behalf.

While this had no official campaign status, in an August interview Trump stated that the President should a role: "I feel the president should have at least (a) say in there…I feel that strongly. I think that, in my case, I made a lot of money. I was very successful, and I think I have a better instinct than, in many cases, people that would be on the Federal Reserve or the Chairman."

Also worth noting that Trump has indicated (in February) that he would not re-appoint Powell but did indicate (in July) that he would let him complete his term, subject to the caveat of Trump believing that Powell was doing the right thing. Whether a President can remove a Fed Governor from his position is, in any event, unclear. This suggests that Powell will continue as Chair until May 2026.

For Trump to have a formally defined role in the setting of monetary policy would either require legislative change, or he could argue that the constitution already gives him this power (e.g. the unitary executive theory holds that the President has sole authority over the executive branch). However, legislation that seeks to water down independence would be unlikely to pass; some Republican Senators did push back on some of his proposed Fed nominees last term and a major change to how the Fed operates could lead to even more dissents. Even if he could get majority Senate (and House) support, it is unlikely to be enough to overcome the filibuster. Alternatively, trying to claim authority under existing laws would quickly get bogged down in the courts.

Presidential influence over monetary policy currently comes more through the appointment process or through applying pressure – either in private meetings or through public criticism – the Fed.

An example of the latter is in 1970s where the Fed Chair is perceived as having acquiesced to President Nixon's wishes. President Johnson also tried to pressure the Fed in 1965, but the Fed Chair did not back down. President Trump had no shortage of advice for the Fed during his term as President, and while some commentators consider that the rate cuts in 2019 were the result of this pressure, it is not our view.

Member	Term
Powell (Chair)	31 January 2028 As Chair, May 2026
Jefferson (Vice Chair)	31 January 2036 As Vice Chair, September 2027
Barr (Vice Chair supervision)	31 January 2032 as Vice Chair, July 2026
Bowman	31 January 2034
Cook	31 January 2038
Kugler	31 January 2026
Waller	31 January 2030

Trump's ability to influence the Fed through the appointment process is going to be limited. Absent a Governor resigning, the first opportunity will not be to January 2026, with the next opportunity not till 2028 when Powell's term ends (although he could resign his position earlier if not re-appointed as Chair in 2026). It is also possible that the Vice-Chair of Supervision (Barr) will resign in the event of a Trump presidency – the previous two vice-chairs, supervision have resigned early in the terms of a new President. While Fed Governors can be removed, there needs to be cause (such as misconduct).

Moreover, as noted above, appointments need to be approved by the Senate and there may be push back on appointees with unorthodox views or if perceived as being closely aligned with the President, even with a Republican senate majority. Regional Fed Presidents are appointed by the regional Fed boards of directors, but subject to Federal Reserve board approval. So potentially, Trump's appointments to the Fed can exercise influence here but, as noted above, the number of appointments Trump makes is likely to be limited.

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