

## THINK Ahead: D'oh! The tariff and deficit wedding we almost forgot

Just when we thought it was all quiet on the tariff front and we'd all started worrying again about the US deficit, boom! Trump threatens the EU with bucketloads more. Brace yourself! Here's what's to come next week...



'D'oh!', Homer Simpson's most recognisable catchphrase

I kid you not, the draft of this week's article started with the line "Good news, folks, no tariff chat this week!". Sadly, that was before the President threatened 25% tariffs on iPhones and [50% on everything from the EU](#). Doh!



Donald J. Trump

@realDonaldTrump

The European Union, which was formed for the primary purpose of taking advantage of the United States on TRADE, has been very difficult to deal with. Their powerful Trade Barriers, Vat Taxes, ridiculous Corporate Penalties, Non-Monetary Trade Barriers, Monetary Manipulations, unfair and unjustified lawsuits against Americans Companies, and more, have led to a Trade Deficit with the U.S. of more than \$250,000,000 a year, a number which is totally unacceptable. Our discussions with them are going nowhere! Therefore, I am recommending a straight 50% Tariff on the European Union, starting on June 1, 2025. There is no Tariff if the product is built or manufactured in the United States. Thank you for your attention to this matter!

Donald Trump's Friday Truth Social post threatening increased tariffs on the EU

## Investors have found a new thing to worry about...

I'll stick to my word, though, because if tariffs weren't enough, this week investors found yet another thing to worry about: the US deficit.

For a brief period on Wednesday, US assets – government bonds, stocks, the dollar – started selling off again in unison. The “Sell America” narrative seems to be creeping back in.

Of course, the US deficit is nothing new. It has been north of 6% of GDP for some time, and President Trump has been burnishing his tax-cutting credentials for months now.

So why are investors suddenly so worried? Part of the answer is President Trump's tax and spending bill, which passed through the House this week.

It's not that it dramatically pushes up the deficit, because frankly, it doesn't. Trump's 2017 tax cuts, which the bill makes permanent, by definition, aren't new. And tax cuts on tips, overtime and social security are offset by proposed cuts in Medicaid and tax credits from the Inflation Reduction Act. The tariffs bring in some extra cash, too.

No, what's unnerved investors is that this bill represented a rare opportunity for Congress to get on top of the deficit. It's an opportunity that's unlikely to present itself again before the end of the President's term in office. It's an opportunity that has largely been missed.

Admittedly, this bill still needs to go through the Senate, which could yield some market-friendly

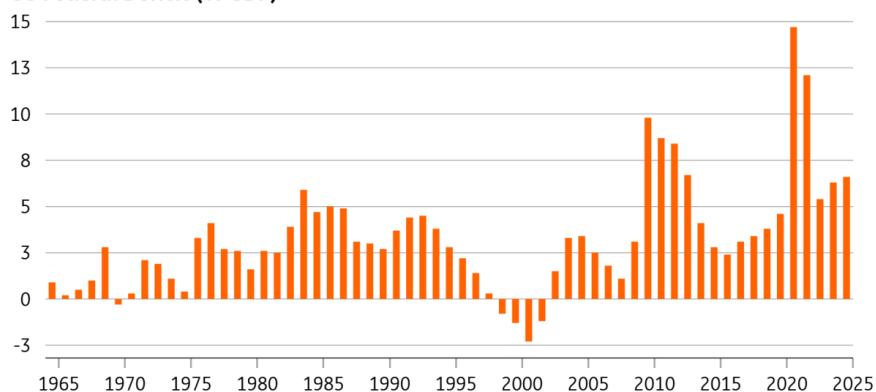
edits. But the mid-term elections in November 2026 are drawing ever nearer. As James Knightley, our US guru, put it to me this week, few House members, up for re-election, are going to be keen on pushing through an austerity budget before then. And after that, well, the risk is that Congress ends up much more divided and gridlock ensues.

None of this has been lost on investors. Nor, I suspect, has the fact that tax cuts billed as temporary, like those on tips/overtime, which will expire in 2028, have a habit of being made permanent later down the line.

There's a bigger problem here too, which is that the US economy is set to slow considerably this year, based on James K's [forecasts](#). Lower growth could be much more consequential for the size of the deficit than the tax bill. The fact that the US has been running a 6% deficit when the jobs market has been strong and the economy growing 2-3% annually, doesn't bode well if – or when – conditions worsen.

## Chart of the week: The 6%+ Federal deficit

US Federal Deficit (% GDP)



Source: Macrobond

2024 is estimated

In short, concerns about US borrowing [aren't going away](#). And for all the angst about the tax and spending bill, the irony is that it will make little tangible difference to economic growth rates over the next couple of years.

That is a contrast to recent years, where fiscal policy has been a key driver of the US exceptionalism narrative. Covid-era stimulus catalysed a remarkable period of consumer spending growth. And the Inflation Reduction/CHIPS Act sparked big increases in factory investment (even if investment more broadly stayed more muted).

I bring this up is because the story in Europe looks pretty different. European governments – well Germany, anyway – are genuinely ramping up fiscal support this year. There will be a material boost to economic growth, though more so in 2026 than in 2025. And in sharp contrast to the US, investors appear much less fazed about what this all means for debt sustainability.

German Bund yields have been going down since the start of April, while US Treasuries have risen considerably. Within Europe itself, the spread between Italian and German debt, a traditional gauge of borrowing angst, is at its lowest level since 2021.

Is Europe benefiting from US Treasuries' loss of attractiveness? My colleagues wrote [a big report](#) on exactly that just the other day.

That's a longer-term story, of course. And for now, there's a more basic explanation: European deficits are much lower than in the US. Eurozone governments ran an aggregate deficit of close to 3% last year.

Even in Germany, where the government is in the process of translating its landmark defence pledge and infrastructure fund into concrete numbers, the European fiscal rules – mandating a maximum 3% deficit – are hanging over budget talks.

Chatting to Carsten, though, he is sceptical that Europe can remain a supposed beacon of fiscal stability for long. Long-term pressures from ageing and a loss of competitiveness – and a need to ramp up investment – are only increasing. And away from Germany, the budgetary space to address those challenges is limited. A fractured European political system will make it ever harder to match these long-term spending needs with potentially painful expenditure cuts elsewhere. France is a case in point.

Carsten warns that Europe isn't totally immune to the investor angst currently reverberating around US markets. In fact, it is becoming a real problem for the Treasury here in Britain.

Not only are UK bond yields proving more correlated with the US than elsewhere in Europe right now, rising yields directly reduce the amount of 'headroom' available to the Treasury under its fiscal rules. In practice, that means the more investor concerns build over in the US, the more likely it is that the UK has to raise taxes.

On that uplifting note, do get yourself [signed up](#) to our upcoming webinar on 3 June. We'll talk all things central banks ahead of their June meetings. And yes, I'm afraid that also mean we'll have to talk about tariffs...

## THINK Ahead in Developed Markets

### United States (James Knightley)

Escalation – de-escalation and now re-escalation of President Trump's war on trade is going to be the theme that drives markets next week. The prospect of 50% tariff on EU imports into the US from 1 June along with tech and pharma companies increasingly being the focus of his ire means fears of large price hikes and weaker economic activity need to be priced by financial markets.

In terms of the data, consumer confidence readings should rebound given the temporary China trade agreement that saw tariffs cut from 145% to 30% and the rebound in equities, but that is old news now, given the President's social media posts on Friday. Consumers will once again be fearful of what this means for their spending power so reaction to the data should be limited. Moreover there will be heightened concern that 30% tariffs for Chinese imports won't be the end point and we could see those rise.

This all probably means that a benign core PCE deflator inflation print will also not move markets. Based on the PPI and CPI reports we are looking at a 0.1%MoM increase in the Fed's favoured measure of inflation, but if tariffs are going to spike again this situation may not last as companies pass costs onto customers.

Boeing recorded 8 aircraft orders in April, down from 192 in March and this will drag durable goods orders sharply lower.

## THINK Ahead in Central and Eastern Europe

### Poland (Adam Antoniak)

- **Retail sales (Mon):** These most likely bounced back in April after a decline in March, mainly because of the timing of Easter (April this year vs March last year). That weighed down on annual sales growth in March and should support it in April, particularly for food and fuel sales as consumers celebrated and travelled.
- **Flash CPI (Fri):** Headline May CPI should be broadly similar to April, while core inflation probably increased slightly. Upward pressure from core inflation was compensated for by even deeper declines in fuel prices in annual terms.

### Hungary (Peter Virovacz):

- **Rate-setting meeting (Tue):** We expect the National Bank of Hungary to keep interest rates on hold at its May meeting. While the economic outlook is deteriorating, the latest inflation print caused a rather unpleasant surprise. Following the release of higher-than-expected price pressure data, the government introduced a new measure to curb prices on selected household goods, with the potential for pharma products to be next in line. In this environment, we believe that the central bank would prefer to stabilise the markets by maintaining not just an unchanged interest rate, but also an unchanged monetary policy stance. Therefore, we expect to hear the same hawkish lines as in previous months.

### Czech Republic (David Havrlant):

- **Confidence (Mon):** Business confidence has likely been dragged down further in May by uncertainty about the global, and in particular the European, growth outlook. Demand from major European trading partners remains in tatters, while appetite to invest is muted. Meanwhile, consumer confidence may benefit from the tourist and construction season getting into full swing and lifting the jobs market, so we expect stabilisation or a marginal improvement on this front.
- **GDP revisions (Fri):** Improved statistics for the first quarter's economic activity will likely confirm the initial estimate of overall expansion and provide the expenditure breakdown. The consumer likely remained at the forefront of the economic rebound, while fixed investment remained rather dormant once again.

### Turkey (Muhammet Mercan):

- **GDP:** First quarter indicators showed continuing growth in services and construction. Other indicators for industry, such as capacity utilisation and the PMI, demonstrate some worsening. Accordingly, we expect GDP to increase by 2.1% YoY in 1Q, while there are signs of weakness for the second quarter, given downside risks are growing after the volatility in March. Meanwhile, we expect the foreign trade deficit to widen to US\$12.0bn in April from US\$9.9bn in the same month of last year, on the back of a 12.9% YoY rise in imports vs a 8.5% YoY increase in exports.

## Key events in Developed Markets

Country	Time (BST)	Data/event	ING	Prev.
<b>Monday 26 May</b>				
US and UK	-	Public holiday		
<b>Tuesday 27 May</b>				
US	1330	Apr Durable Goods (MoM%)	-10.0	9.2
	1400	Mar Case-Shiller 20 (MoM%/YoY%)	0.2	0.4/4.5
	1500	May Consumer Confidence	90	86
Germany	0700	Jun GfK Consumer Sentiment	-20	-20.6
France	0745	May CPI (MoM%/YoY%)	-/-	0.7/0.9
Eurozone	1000	May Business Climate	-	-0.67
	1000	May Economic Sentiment	-	93.6
<b>Wednesday 28 May</b>				
US	1900	FOMC Minutes	-	-
Germany	0855	May Unemployment Rate SA	6.3	6.3
France	0745	Q1 GDP Final (QoQ%/YoY%)	-/-	0.1/0.8
<b>Thursday 29 May</b>				
US	1330	Initial Jobless Claims (000s)	225	227
	1330	Q1 GDP 2nd Estimate (QoQ% ann.)	-0.3	-0.3
	1330	Q1 Core PCE 2nd Estimate (QoQ%)	3.5	3.5
<b>Friday 30 May</b>				
US	1330	Apr Personal Income (MoM%)	0.4	0.5
	1330	Apr Personal Consumption Real (MoM%)	0.2	0.7
	1330	Apr Consumption, Adjusted (MoM%)	0.0	0.7
	1330	Apr Core PCE Price (MoM%/YoY%)	0.1/2.5	0.0/2.6
	1445	May Chicago PMI	45	44.6
	1500	May Michigan Sentiment Final	53	50.8
Germany	0700	Apr Retail Sales Real (MoM%/YoY%)	-0.5/1.8	-0.2/2.2
	1300	May CPI (MoM%/YoY%)	0.3/2.0	0.4/2.1
Italy	1000	May CPI (MoM%/YoY%)	-/-	0.4/2
Spain	0800	May CPI (YoY%)	-	2.2
Canada	1330	Q1 GDP (YoY%)	1.6	2.36
	1330	Mar GDP (MoM%)	-	-0.2
Sweden	0700	Q1 GDP (QoQ%/YoY%)	-/-	0.0/1.1

Source: Refinitiv, ING

## Key events in Central and Eastern Europe

Country	Time (BST)	Data/event	ING	Prev.
<b>Monday 26 May</b>				
Poland	0900	Apr Retail Sales (YoY%)	3.8	-0.3
	0900	Apr Unemployment Rate	5.2	5.3
Czech Rep	0800	May Business Confidence	95.9	96.5
	0800	May Consumer Confidence	97.8	97.7
<b>Tuesday 27 May</b>				
Hungary	1300	NBH Base Rate	6.50	6.50
<b>Wednesday 28 May</b>				
Russia	1700	Apr Industrial Output	1.3	0.8
	1700	Apr PPI (MoM%/YoY%)	-/-	-1.5/5.9
Croatia	1000	Q1 GDP (YoY%)	3.6	3.7
<b>Thursday 29 May</b>				
Turkey	0800	Apr Trade Balance (USD bn)	-	-7.2
Hungary	0730	Apr Trade Balance (EUR mn)	1650	1768
<b>Friday 30 May</b>				
Turkey	0800	Q1 GDP (QoQ%/YoY%)	-/-	1.7/3
	0800	Apr Unemployment Rate	-	7.9
Czech Rep	0800	Q1 GDP 2nd Estimate (QoQ%/YoY%)	0.5/2.0	0.5/2
Poland	0900	May Flash CPI (MoM%/YoY%)	0.1/4.3	0.0/4.3

Source: Refinitiv, ING

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