Trump's whirlwind leaves the world breathless

US President Donald Trump is revelling in his return to the role of 'Dealmaker in Chief' as he pushes ahead with his low tax, light-touch, regulation-led growth agenda. Nonetheless, immigration controls, trade tariffs and government spending cuts pose challenges for the economy while re-shoring and regulatory changes will take time to gain traction

Quick out the blocks

President Trump's first few weeks in power have been a whirlwind of activity as he looks to push through with his promises of tax and spending cuts, trade tariffs, immigration controls and regulatory reforms. The sense that this policy mix would boost growth, but heighten the risk of more prolonged above-target inflation readings still holds, although views on the scale of the impact continue to evolve. So where do we stand right now?

Trump's policy thrust

Immigration: The President pledged to crack down on illegal immigration and his threat of tariffs has yielded a significant response from the Canadian and Mexican governments who are beefing up security at their US borders. Deportations have been increasing, but the primary way this is set to impact the economy is by deterring people from attempting to enter the US. In an environment of falling numbers of American-born workers, this may mean labour supply is constrained in some key sectors including construction, agriculture and leisure and hospitality. This could push up pay rates and prices.

Regulation: Trump believes that by halting and reversing a "regulatory onslaught" he can unshackle the economy and unleash growth. The most apparent way he is doing this is by making it easier to obtain permits for oil and gas exploration – "drill, baby, drill". However, the Dallas Fed reports that the "breakeven" cost for shale producers in the Permian basin is $65/bbl when oil prices are little more than $70/bbl, so there is little financial incentive to drill right now.

Tariffs: The perception that countries have been taking advantage of the US, costing jobs and damaging the social fabric of America runs deep in this administration. Tariffs will make domestic manufacturers more competitive in the local market, but those with international supply chains will face higher costs while US exporters will fear reprisals from foreign nations.

The bigger threat is to consumer demand, which has been the main engine of US growth. The value of US manufacturing output ($2.85tr full-year 2023) is less than the value of the goods imported into the US ($3.1tr in 2023), meaning that manufacturing output would need to double in size to remove the need for imports. This is unfeasible within the next decade, let alone the next few months. If/when tariffs are applied, the squeeze on spending power will be substantial even if businesses absorb some of the costs in their profit margins. The burden will fall disproportionally on low-income households who spend more of their income on physical goods relative to higher-income households who spend more on services and experiences, which aren't subject to tariffs.

Taxes: His primary goal is to extend his 2017 tax cuts, which expire at the end of this year. This should pass easily, but it will be very costly and contribute to an ongoing deterioration in government finances over the next decade. Remember though an extension will not boost household spending power – it merely maintains the status quo. Consequently, he wants to go further and has stated that tariffs incentivise manufacturing reshoring, but they also provide revenue that can fund tax cuts elsewhere. Among his proposals to eliminate taxes on tips, social security benefits, and overtime pay, the one concerning tips is the most likely to pass, as it is the least expensive and enjoys bipartisan support.

Government spending: Trump's aspiration of cutting government spending by $2tr is ambitious, but more than two million employees have been offered voluntary redundancy while plans to shut the US Agency for International Aid (USAID) show clear intent to carry through. However, to deliver the scale of cuts to spending that would put US government finances on a stable footing would require the trimming of government entitlement programmes surrounding health and social security. Congress will be immensely reluctant to sanction that.

Too far, too fast?

Combining these factors we see near-term strength in economic activity continuing. Robust consumer demand remains the main theme with evidence suggesting many households have started bringing forward spending to avoid tariffs. The jobs market remains solid while manufacturing appears to be recovering after languishing for the past couple of years.

Nonetheless, the rise in Treasury yields has pushed mortgage rates higher while credit card and auto loan borrowing costs have failed to drop despite 100bp of Federal Reserve interest rate cuts. Higher government borrowing costs remain a key call for us with tariffs keeping inflation more elevated and fiscal sustainability fears fuelling investor demand for higher returns for the risks they face. Dollar strength is also a headwind, making exports less competitive in international markets.

In the second half of 2025, tariffs look set to erode spending power, and with tax cuts not materialising before 2026 and government spending being cut immediately, we expect to see cooler growth. The will-they-won't-they nature of the tariff strategy and the lack of clarity on which countries are impacted, what carve-outs there may be and what the tariff rate will be is going to leave US manufacturers uncertain about what to do. This lack of clarity may hinder investment and hiring until more certainty is provided.

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