WEEKLY ANALYSIS

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TRUMP'S POLICIES ARE KILLING GROWTH

Economic momentum halted. Trump and DOGE break confidence. Complicated dilemma for the Fed. 15% tariffs and +1.5% inflation. Fixed-income markets benefit from recession risks. Dollar and equities under pressure.

Key points

- U.S. economy slows down since Trump
- Growth halted in the first half of 2025
- Leading indicators point to a slowdown
- DOGE's action affects jobs and confidence
- The Federal Reserve faces a difficult dilemma
- Tariffs at 15%: +1.5% impact on inflation
- Fixed income markets benefit from recession risks
- The context is no longer very favorable for the US dollar
- Equity markets under Trump's negative influence

U.S. economy weakens since Trump

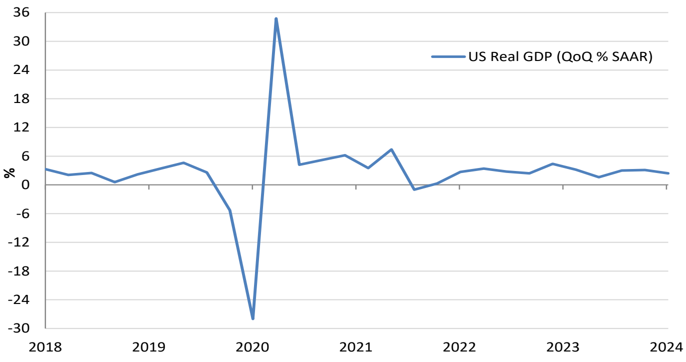
The US economy grew slightly better than initially forecasted in Q4 2024, recording a +2.4% annualized increase in GDP. At the same time, US companies also took advantage of this favorable situation to record an average +5.9% rise in after-tax profits, the strongest increase in two years. Consumer spending made once again a significant contribution to this result. However, there was a clear downturn in activity compared with the +3.1% growth rate recorded for the 3rd quarter, but the resilience of consumer spending, despite high key interest rates until September, is quite remarkable. Consumer spending in the services sector rose at an annual rate of +4.2%, while underlying inflation remained close to the Fed's target of +2.5%. Residential investment picked up a little, suggesting a stabilization in construction and real estate, while public spending advanced by +2.5%, driven by new spending in the defense sector. This factor will come under heavy pressure in 2025 as Trump's program gets underway.

However, since the beginning of November 2024, the Citi Economic Surprise Indicator has completely changed trend after five months of regular positive surprises. Indeed, the index, which until then had been showing a favorable and stronger-than-expected trend in the US economy, has since mid-November been suffering a series of disappointments that point to a very different dynamic at the start of 2025 than the one that the result for the 4th quarter of 2024 might have suggested.

GDP growth indicators based on higher-frequency data, such as the Atlanta Fed's GDPNow index or the Philadelphia Fed's Diffusion index, also recorded significant trend reversals during the first quarter, pointing to a marked slowdown in economic activity that was rather unexpected by the consensus of observers. The drop in February of the GDPNow indicator, from a GDP growth estimate of +3% annualized in January to a contraction of -2.8% in March, is a major surprise which in fact corroborates the trend of the Citi economic surprises indicator. The Bloomberg Nowcast indicator, already more cautious in December, has also been pointing to a deterioration in the US economic situation in recent weeks.

Growth forecasts for the 1st quarter have now been significantly adjusted downwards. The economist consensus now expects growth to slow from +2.2% to just +1.2%, with recession risks estimated at 30%.

Quarterly GDP growth-United States



Sources: Bloomberg, BBGI Group SA