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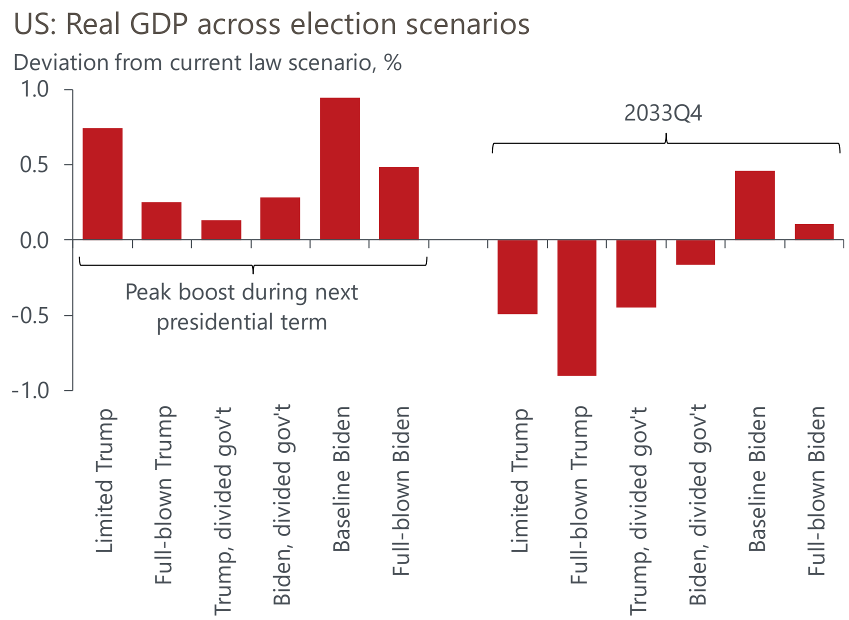
Research Briefing | US

Summarizing our election scenarios

- **During the next presidential term, the economy will receive a net boost from federal policymaking, and inflation will come in stronger, leading to a more cautious easing cycle by the Federal Reserve. This is the takeaway no matter the president and the political balance of power in Congress. It's only the degree to which GDP and inflation are higher under the next president that differs depending on the political configuration.**
- **Beyond the next presidential term, meaningful differences open up across our election scenarios. GDP is lower and inflation stronger across the Trump presidency scenarios due to lower immigration and higher tariffs. In the Biden presidency and divided government scenario, GDP and inflation are lower on account of fiscal restraint. The baseline and full-blown Biden scenarios, which are premised on a Democratic trifecta, stand out as GDP is larger but inflation is not faster. This speaks to the positive supply side response to the collection of family support policies, which are modeled in the Biden scenarios.**
- **The federal debt-to-GDP ratio is lowest in the full-blown Trump and Biden scenarios. Higher tariff revenue and a repeal of the Inflation Reduction Act's climate policies contribute to a lower debt burden in the former scenario, while tax hikes that largely match spending increases and positive macroeconomic feedback effects explain the reduced debt load in the latter scenario.**

Chart 1: How the economy fares in short and long run across election scenarios



Source: Oxford Economics

Our latest US election analysis on a Biden presidency and a Democratic Congress marks the third and final research briefing detailing our modeling of the macroeconomic impact of various post-election scenarios. It's therefore an opportune moment to take stock of the economy's performance across our six scenarios – two each for Trump, divided government, and the two most recent simulations for Biden.

Because these scenarios are based on different vintages of the baseline forecast, it has not been possible to compare them to one another. However, we have recreated our Trump and divided government scenarios using a current law scenario, based on the June vintage, as a starting point. This current law scenario removes our baseline assumption that a bare minimum of expiring provisions under the Tax Cuts and Jobs

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Act (TCJA) of 2017 will be permanently extended next year. By doing so, we can finally perform an apples-to-apples comparison of our election scenarios.

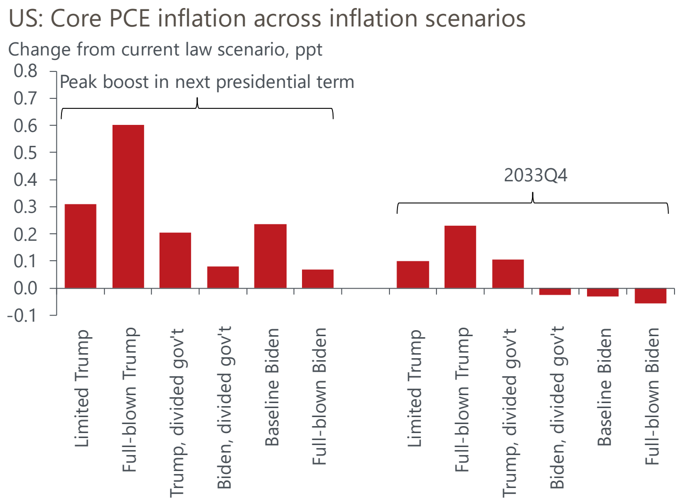
Growth and inflation are stronger early on but differences emerge longer term

No matter the election result, the economy will receive a boost, on net, from the changes to current law that the next president and Congress will enact (**Chart 1**). In the next presidential term, the strongest lift to the economy occurs under the baseline Biden and limited Trump scenarios; the Child Tax Credit expansion drives the GDP boost in the former scenario, while the TCJA extensions and higher spending levels produce a larger economy in the latter scenario. In the limited Trump scenario, the net GDP impact would be greater if not for the onset of tariffs targeted against the European Union and China.

Longer term, the economy is diminished across the Trump scenarios due to a smaller working-age population that results from lower immigration and the negative effects of higher tariffs. The economy in the divided government scenario with Biden as president is also reduced due to the restraint imposed on nominal growth in federal discretionary spending. The Biden scenarios therefore stand out as the only ones where real GDP is larger in the long run due to the constructive policy impacts on maternal labor supply.

Turning toward consumer prices, we find that inflation during the next presidential term is highest in the limited and full-blown Trump scenarios due to the imposition of tariffs and looser fiscal policy (**Chart 2**). Inflation is also noticeably higher in the baseline Biden scenario due to the immediate demand-side boost from the CTC expansion.

Chart 2: How inflation compares across election scenarios



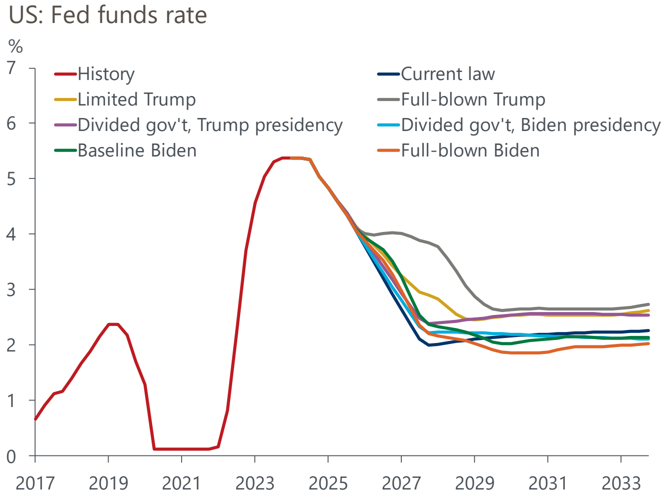
Source: Oxford Economics

Longer term, inflation is strongest in the Trump presidency scenarios due to the additional impact from a tighter labor market that arises from lower immigration. In contrast, long-run inflation is lowest in the Biden presidency scenarios.

In the Biden presidency and divided government scenario, inflation ends up slightly lower by 2033 due to the demand-side drag from lower federal spending in real terms. In the baseline and full-blown Biden scenarios, inflation is moderately softer as the tax increases ramp up. Also, the main thrust of the Biden policies – government support for families – produces a bigger economy in a mostly noninflationary way by boosting the nation's potential growth rate, or the rate at which the economy can grow without creating excess inflation.

The various inflation dynamics lead to differences in monetary policy. Higher inflation across the Trump scenarios leads to a permanently elevated fed funds rate (**Chart 3**). In the Biden scenarios, short-term rates are only higher compared to current law during the next presidential term, but lower thereafter due to modestly softer inflation in the long run.

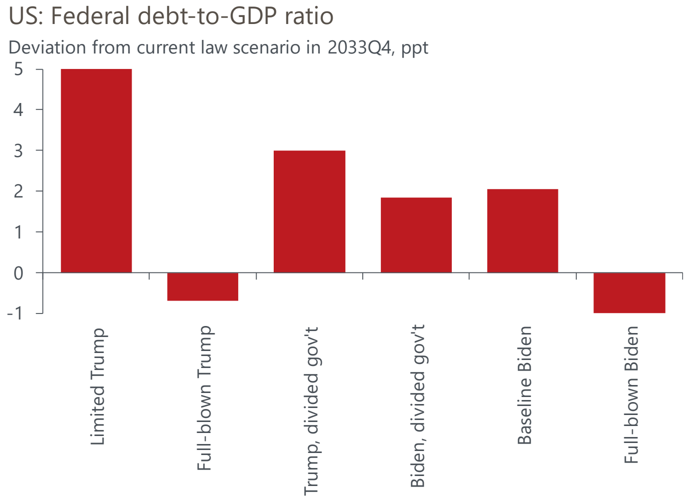
Chart 3: Fed is more cautious in cutting interest rates under second Trump presidency



Source: Oxford Economics/Haver Analytics

Relative to current law, the federal debt-to-GDP ratio ends up lower in certain election scenarios and higher in others (**Chart 4**). The federal debt burden is largest in the limited Trump scenario as targeted tariffs are not enough to cover the cost of expansionary tax and spending policy. In the full-blown Trump scenario, across-the-board tariffs and a repeal of the Inflation Reduction Act's clean energy tax credits more than pay for tax cuts and higher discretionary spending.

Chart 4: Differing debt dynamics



Source: Oxford Economics

The debt-to-GDP ratio is the lowest in the full-blown Biden scenario. On a static basis, the policies in this scenario add less than $300bn to deficits through FY2033. However, when accounting for the positive macroeconomic feedback effect of these polices on tax revenue and entitlement spending, they lead to a lower debt load on a dynamic basis.

Up next

Though we have now modeled the macroeconomic impact of all possible political configurations next year, our election coverage is not over. We will re-publish these scenarios if the leading presidential candidates propose any major new fiscal, trade, or immigration policies.

Of note, we did include the former president's latest proposal to exempt tips from federal taxes in this update of the full-blown Trump scenario. We assume it will cost $140bn through FY2033, though there's considerable uncertainty around the eventual cost, which will depend on the extent to which workers and businesses recategorize ordinary income as tip income.

We also plan to update our presidential election models and will bring our methodology for forecasting the Electoral College down to the county level in key battleground states.

Finally, run files associated with the six election scenarios, discussed in this analysis, are available to model clients upon request.