

Flash Economics

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Donald Trump will not like the developments in the US economy

There will be two significant developments in the US economy:

- Due to the return to full employment, a gradual decline in growth towards the low level of potential growth (1.8% per year);
- As a result of the expansionary fiscal policy at full employment, a marked increase in the external deficit.

Donald Trump will not like these developments, as he has announced vigorous growth and as he wants to obtain a reduction in the US external deficit.

To try to revive growth, US fiscal policy will probably be made even more expansionary; and since the United States is at full employment, the result will be an even larger external deficit, which Trump will blame on unfair competition from China and Europe, leading to an even greater temptation toward protectionism, whereas this external deficit is a result of the expansionary fiscal policy he himself has implemented.

Patrick Artus

Tel. (33 1) 58 55 15 00

patrick.artus@natixis.com

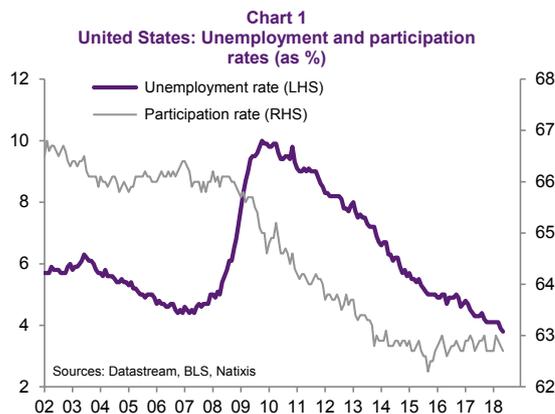
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Two significant developments in the US economy

1 - Declining growth

The United States is close to full employment; the unemployment rate is very low and the participation rate is stable (Chart 1).

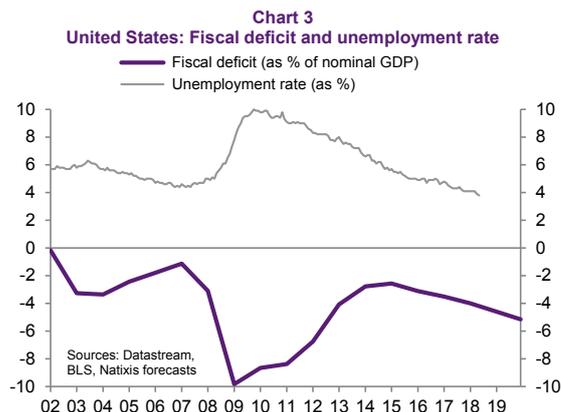


At full employment, growth can at best be equal to potential growth, i.e. 1.2% per year in the United States, (Chart 2), which would imply a substantial decline in growth.

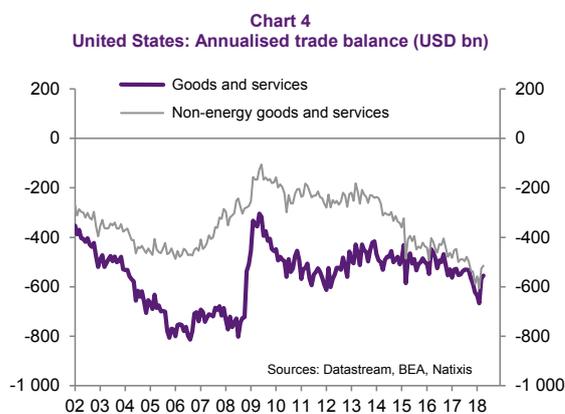


2 - Increasing external deficit

The Trump administration has implemented an expansionary fiscal policy at full employment (Chart 3).



The result of this policy will inevitably be an increase in the US external deficit (Chart 4).



Trump will not like these developments; how will he react?

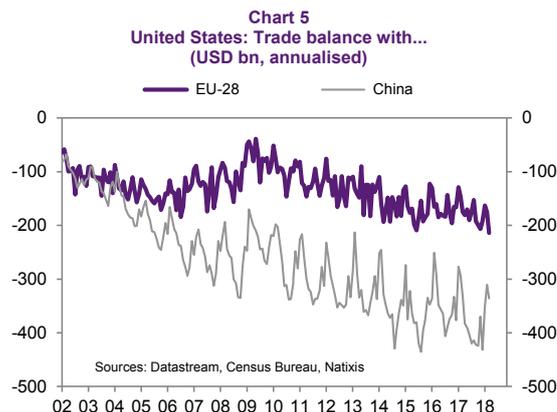
Donald Trump:

- Has announced very strong growth in the United States (Table 1);
- Wants to reduce the US external deficit (Chart 4), particularly with China (Chart 5).

Table 1: United States: administration's growth forecasts (associated with the budget)

Year	2017	2018	2019	2020
As % per year	2.2	3.0	3.2	3.1

Sources: OMB U.S. Government, NATIXIS



The slowdown in growth and the increase in the external deficit will therefore not be well received by Trump, probably leading to:

- An even more expansionary fiscal policy;
- An even greater temptation toward protectionism.

Conclusion: A paradox

The inevitable slowdown in US growth, due to the return to full employment, will probably lead to an even more expansionary fiscal policy, leading to an even greater increase in the US external deficit.

The paradox is that Trump probably will blame this trade deficit on unfair Chinese and European trade practices, leading to increased temptations toward protectionism, while in reality it is due to the expansionary US fiscal policy that he himself has implemented.

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