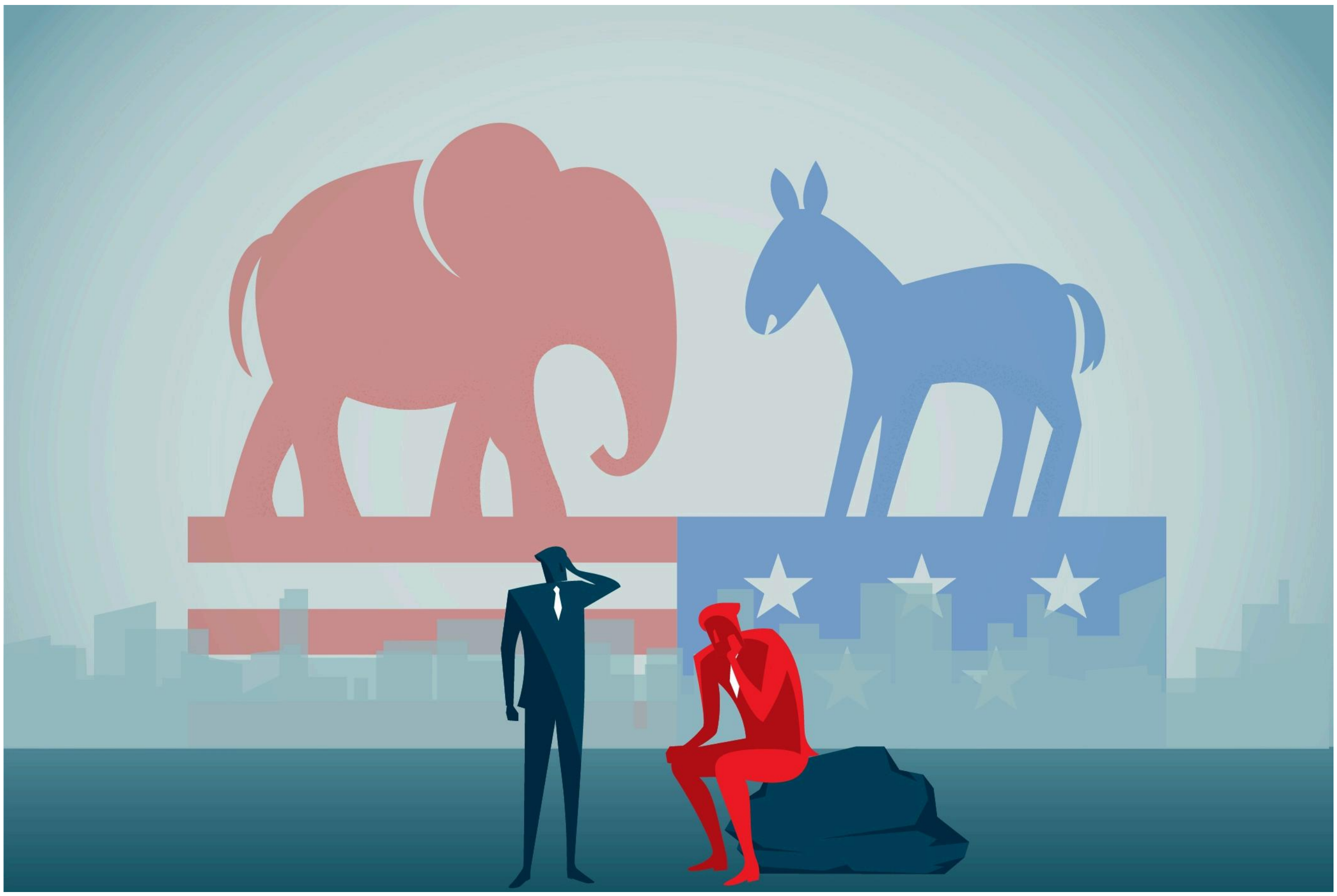
COSTAR ECONOMY

Policies of Presidential Parties May Yield Similar Economic Results

But Some Forecast Long-Term Trends To Diverge



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With the national political conventions underway or coming in a few weeks, some efforts have been made to understand how the policies promoted or planned by each party might affect the outlook for economic growth, inflation and interest rates. This is especially salient as the federal government's budget deficits widen and the national debt soars to levels not seen before.

Indeed, the ink was barely dry on the estimates of the 10-year federal budget deficits released by the Congressional Budget Office in February before the agency produced revisions — and these were not in the right direction. Congress approved a $95 billion foreign aid package primarily for Ukraine and Israel, as well as humanitarian assistance for Gaza, in April, necessitating an update of the CBO's budget outlook. Any future policy changes emerging from a new or continued administration will likewise affect the economic and budget outlook.

For example, the 2024 Republican Platform calls for, in part, making permanent the provisions of the 2017 Tax Cuts and Jobs Act, which are set to expire in 2025, levying a "baseline" tariff on all imports and deporting unauthorized immigrants. The 2024 Democratic Platform focuses on tax increases for corporations and the wealthiest households, expanding the Childcare Tax Credit and spending on climate-related infrastructure and investments. The success of any of these policies being implemented will depend on the division of power in Washington, D.C.

Oxford Economics recently completed a series of analyses using its in-house macroeconomic models to review economic conditions in upcoming years under a future Biden or Trump administration. It finds that economic growth will likely accelerate no matter the election results if each can enact some of their preferred policies. In both environments, inflation will accelerate, and the Federal Reserve may be more cautious about easing rates.

Over the longer term, supply-side impacts are likely to be dominant. Under a Trump presidency, higher — or broader— tariffs and tighter immigration policies would raise prices domestically and slow economic growth. Under Biden, should the Democrats sweep the elections, family support policies allowing more women to join the labor markets, along with looser fiscal restraint, are projected to boost GDP without pushing inflation higher. Still, if that administration is divided, restraint on federal discretionary spending would prevent the economy from growing.

A recent Wall Street Journal survey of economists supported some of these findings, with most expecting higher inflation, deficits and interest rates under a Trump administration. Still, the policies of both candidates, either focused on tax cuts or spending increases, would worsen federal budget deficits and add to the national debt, which the CBO is expecting to reach 122% of GDP by 2034, before considering any new legislation enacted by the next administration.

What We're Watching ...

A welcome surprise came last week as the consumer price index fell by 0.1%, when rounded, in June, its fifth consecutive month of showing inflation easing, but its first outright decline in almost two years. On a year-over-year basis, inflation has cooled to 3.0% from its peak of 9.1% in June 2022.

For most of the past two years, the Federal Reserve has been focused on its mandate to tame the inflation that skyrocketed due to pandemic-related disruptions across markets. The Federal Reserve's second mandate to achieve maximum employment seemed fulfilled as the unemployment rate fell to 50-year lows.

However, keeping rates higher for longer threatens to upend the labor markets. Job gains have been cooling, job openings have come down from record highs, layoffs are drifting higher and the unemployment rate has increased over the past year — all signs the labor market is weakening. Should constrained lending conditions and more costly borrowing rates continue, the economy could see a downturn and job losses mount.

Chair Jerome Powell noted his worries about his second mandate in recent testimony to congressional committees, commenting, "... we need to be mindful of where the labor market is…" signaling a pivot in the policymaking committee's attention and raising the probability of a rate cut to come in September.

CoStar Economy is produced this week by Christine Cooper, CoStar's managing director and chief U.S. economist.
