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Economic Briefing

US economy – is the honeymoon over?

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The new US administration's aggressive approach is causing considerable unrest. Sentiment indicators have already taken a hit. There is a growing risk that hard economic indicators will weaken as well. It remains to be seen whether these short-term costs will be offset by longer-term benefits for the US economy. We provide an overview of the relevant data.

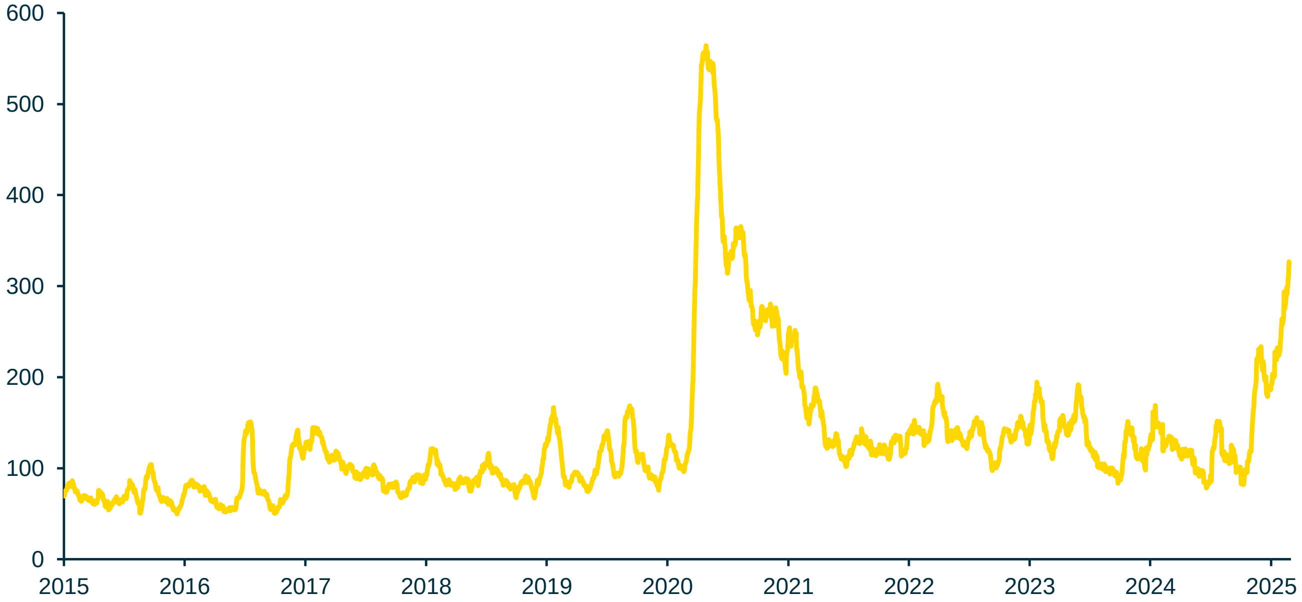
In the few weeks since taking office, President Trump has subjected the US political and economic system to shock therapy. It will take some time before the success or failure of this approach is reflected in the real economic data. The situation is different for sentiment indicators. These are showing some strong movements.

Economic policy uncertainty is rising sharply…

The Economic Policy Uncertainty (EPU) index for the US is available on a daily basis. This index is based on an analysis of US newspapers for certain keywords, for example the combination of “economy” and “uncertainty”. The long-term average is 100. Since Donald Trump's election on November 5, 2024, this index has risen sharply, to an average of almost 330 in the last 30 days. Only during the coronavirus crisis was this index at a higher level (Chart 1). Sub-indices for trade policy uncertainty have risen even more sharply and are at a record high.

Chart 1 - Economic policy uncertainty was only higher during the Corona crisis

Index of economic policy uncertainty for the US, moving 30-day average



Source: Bloomberg, policuncertainty.com, Commerzbank Research

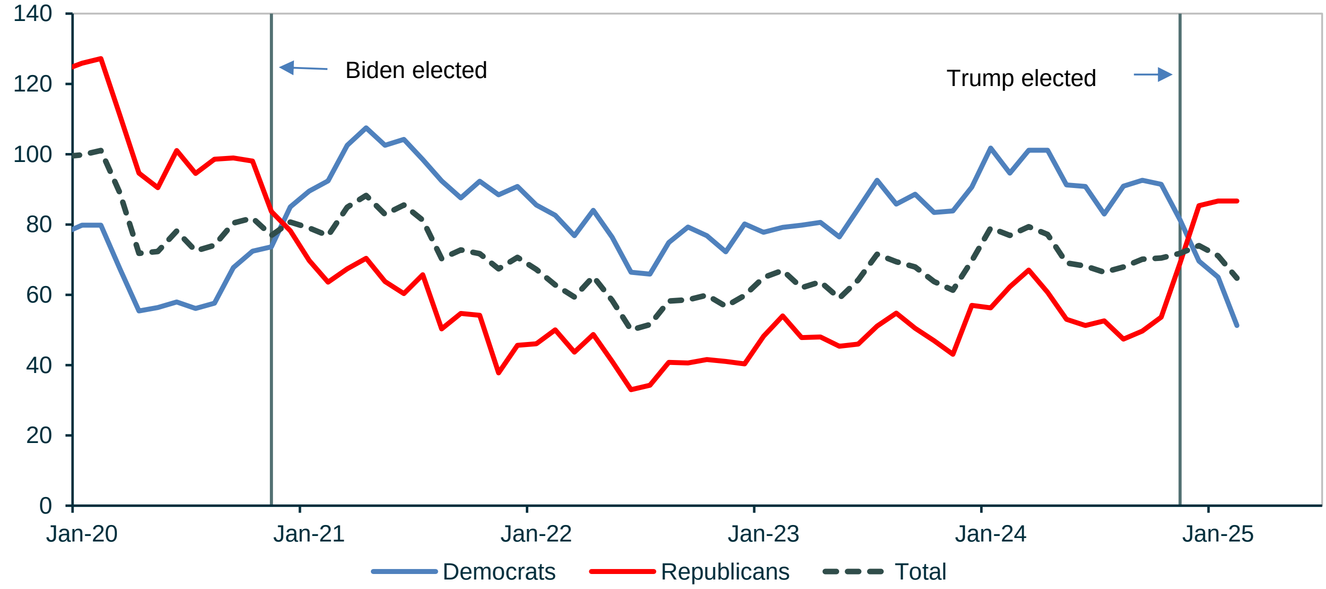
… and consumer sentiment is down

US consumer sentiment is measured by various surveys:

- The **Conference Board** Consumer Confidence Index fell by 7 points to 98.3 in February, an unexpectedly sharp decline. Since the interim high of 112.8 in November 2024, the election month, it has fallen by 14.5 points.
- The corresponding **survey by the University of Michigan** fell by 6.4 points to 64.7 in February, the lowest since November 2023. Particularly interesting is the partisan polarization of sentiment. Since Trump's election, consumer sentiment among consumers who lean Democratic has fallen the most. By contrast, sentiment among Republicans has improved (Chart 2). A mirror-image development was observed with the election of Biden in November 2020. The informative value of consumer confidence for economic development should therefore be treated with caution.

Chart 2 - Consumer sentiment: Democrats' confidence plunged

Consumer sentiment, total and Democrat- and Republican-leaning consumers



Source: University of Michigan, Bloomberg, Commerzbank Research

Inflation expectations are rising...

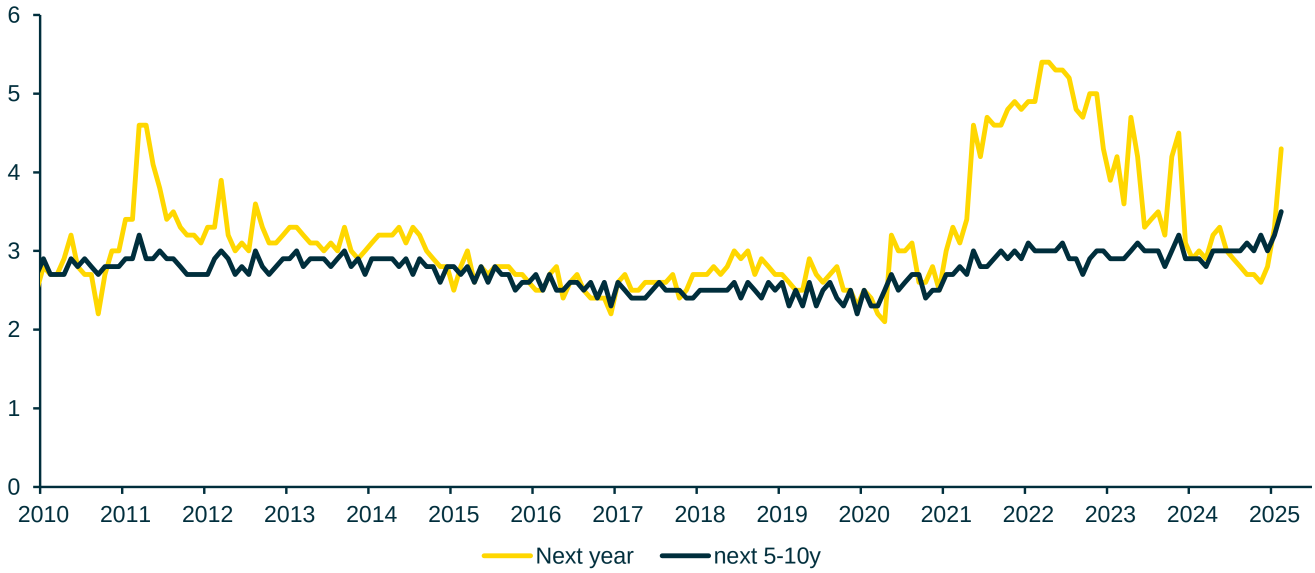
Consumer surveys also ask about inflation expectations. These have recently risen significantly. According to a survey by the Conference Board, consumers expect inflation to rise to 4.8% (median) over the next year, after expectations had remained in a narrow range between 4.0% and 4.2% in the previous six months.

The University of Michigan survey confirms this picture. It is particularly worrying that long-term inflation expectations – respondents are asked about their expectations for the next five to ten years – have also moved upwards. In the last survey, consumers assumed a long-term inflation rate of 3.5%, 0.3 percentage points more than in the previous month and the highest value since the 1990s (Chart 3).

Consumers seem to be increasingly losing faith in Trump's election promises to rapidly lower inflation further. However, special effects may play a role here, such as the widely reported sharp rise in egg prices due to the outbreak of bird flu. Nevertheless, the view that Trump's tariff policy and other measures are driving up prices seems to be gaining ground.

Chart 3 - Consumers' inflation expectations are on the rise

Consumer sentiment survey: median inflation expectations 1 year and 5-10 years ahead, in %



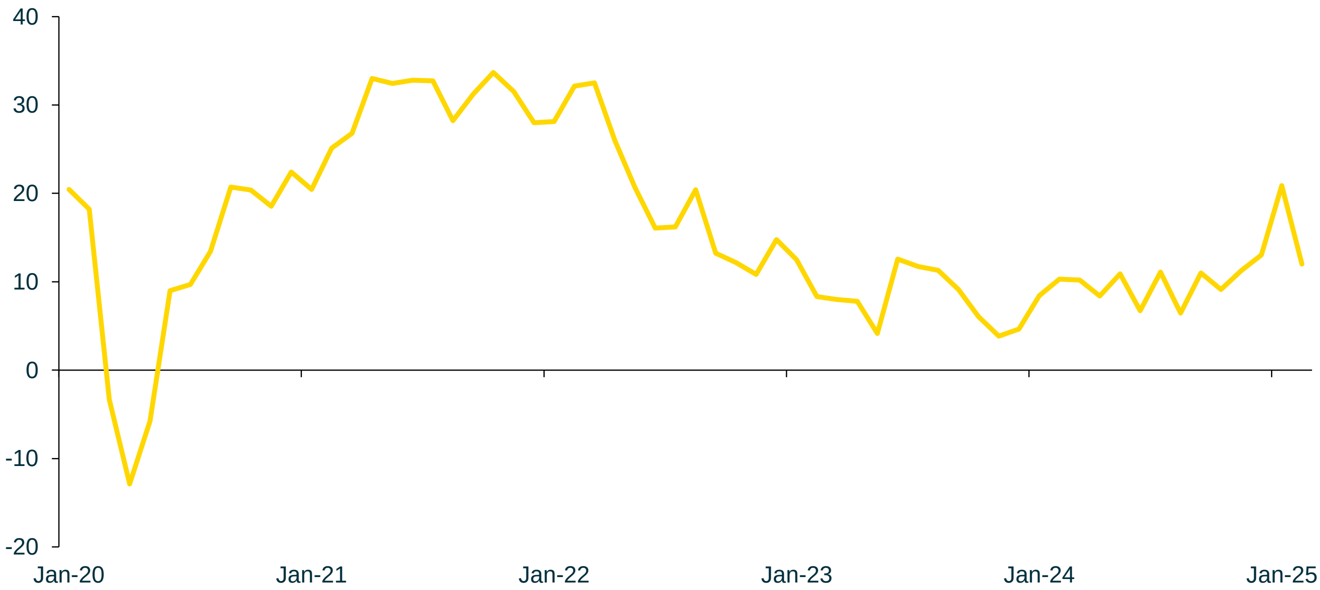
Source: University of Michigan, S&P Global, Commerzbank Research

… and the willingness to invest is dampened

At the same time, the initial enthusiasm among companies has apparently given way to a certain disillusionment. As recently as January, surveys indicated (we use an average of five regional surveys here) that significantly more companies wanted to increase capital expenditures. In February, however, this index plummeted again (Chart 4).

Chart 4 - Euphoria fades

diffusion index, capex spending higher/lower in six months, average of five regional surveys in manufacturing



Source: S&P Global, Commerzbank Research

For now, it's just the sentiment...

The few hard data we have on economic developments in the Trump era do not yet show any slump. The initial jobless claims, which are published weekly with a short lag, remain unchanged at a very low level.

Economic difficulties usually have a rapid impact on travel. However, passenger data from US airports, which are available on a daily basis, shows stable handling figures that are on a par with last year.

Finally, the stock markets remain fairly stable, with the US stock market above the level at the time of last year's presidential elections.

... but the risk is increasing

The Fed will view the rise in inflation expectations with suspicion. In any case, the hoped-for further decline in inflation is proving tougher than expected, and the Fed has suspended further interest rate cuts for the time being.

The question is when the administration's measures, for example in the area of deregulation, will have a positive impact on the economy. So far, they have mainly generated costs. The substantial increase in uncertainty is a problem for long-term investment planning. In this environment, consumers are likely to be less willing to spend money. Consumers who work for the federal government are also likely to keep their wallets closed in view of the current wave of layoffs.

The government could stabilize sentiment among consumers and businesses with tax cuts. However, these cannot be enacted by executive order like tariff policy. Rather, Congress must decide on them. One procedural obstacle is that Republicans want to push a number of proposals through the Senate without allowing Democrats to block them there. To do this, they are resorting to a procedure (budget reconciliation) that is not allowed to be used too often. They therefore want to combine various plans into one bill, which is complex and therefore takes time.

Against this backdrop, the recent downturn in sentiment reflects an increased risk with respect to the further economic trend. So far, we see no reason to abandon our baseline scenario of continued solid growth; the US economy still appears to have sufficient momentum. However, the real economic data for the coming months should be followed with great attention.

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