

# US Economic Outlook

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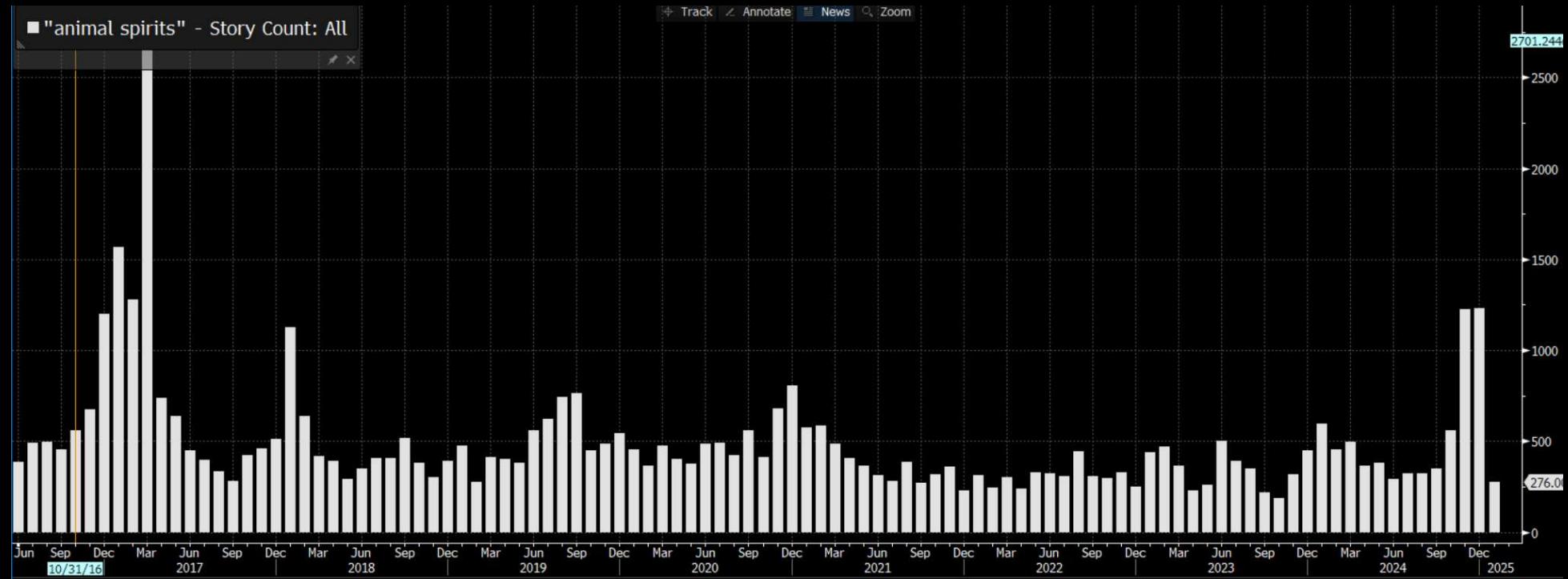
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# Post-Election

# Sentiment has lifted



Source: Bloomberg

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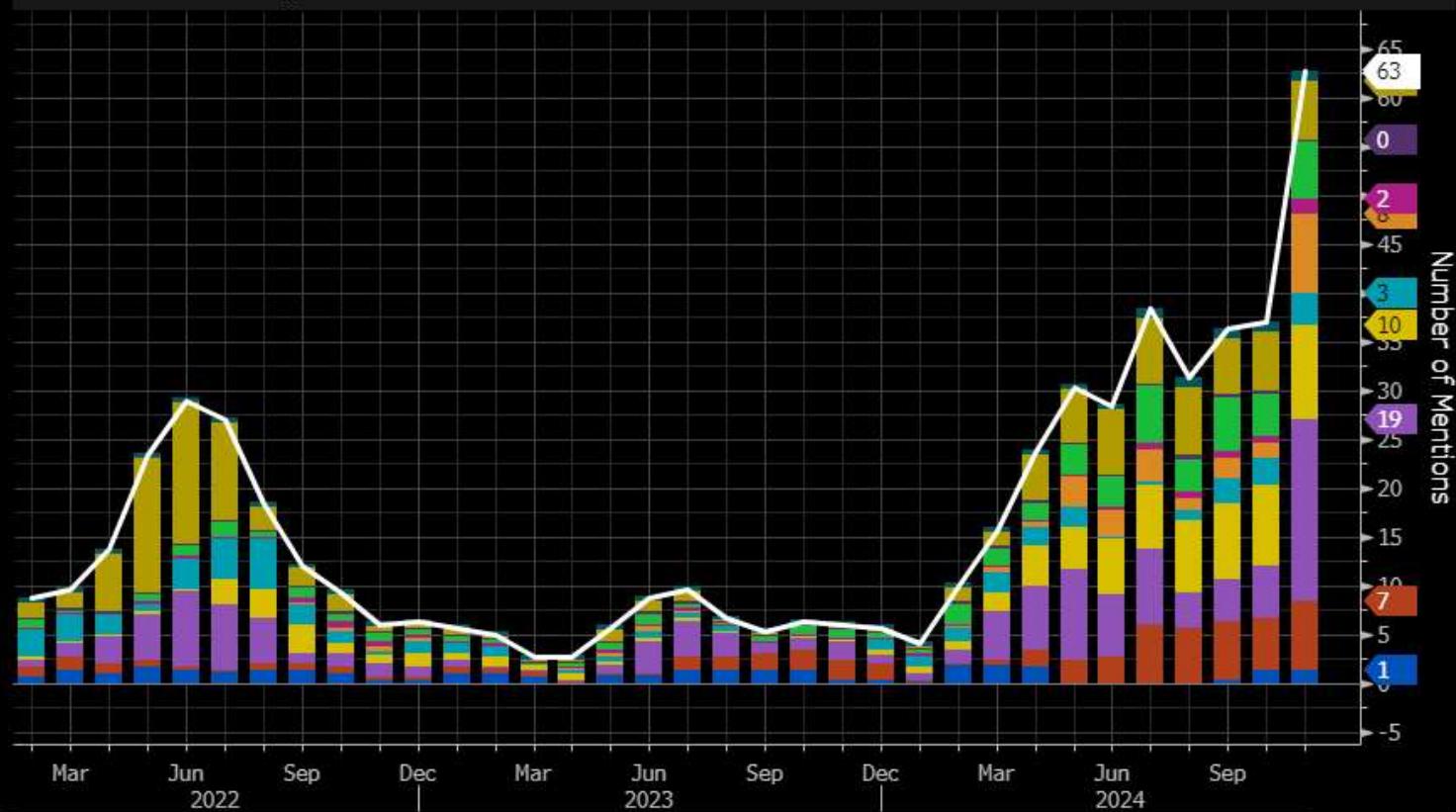
# Tariffs anxieties

AI-Identified Mentions of Tariffs in S&P 500 Transcripts (3M MA)

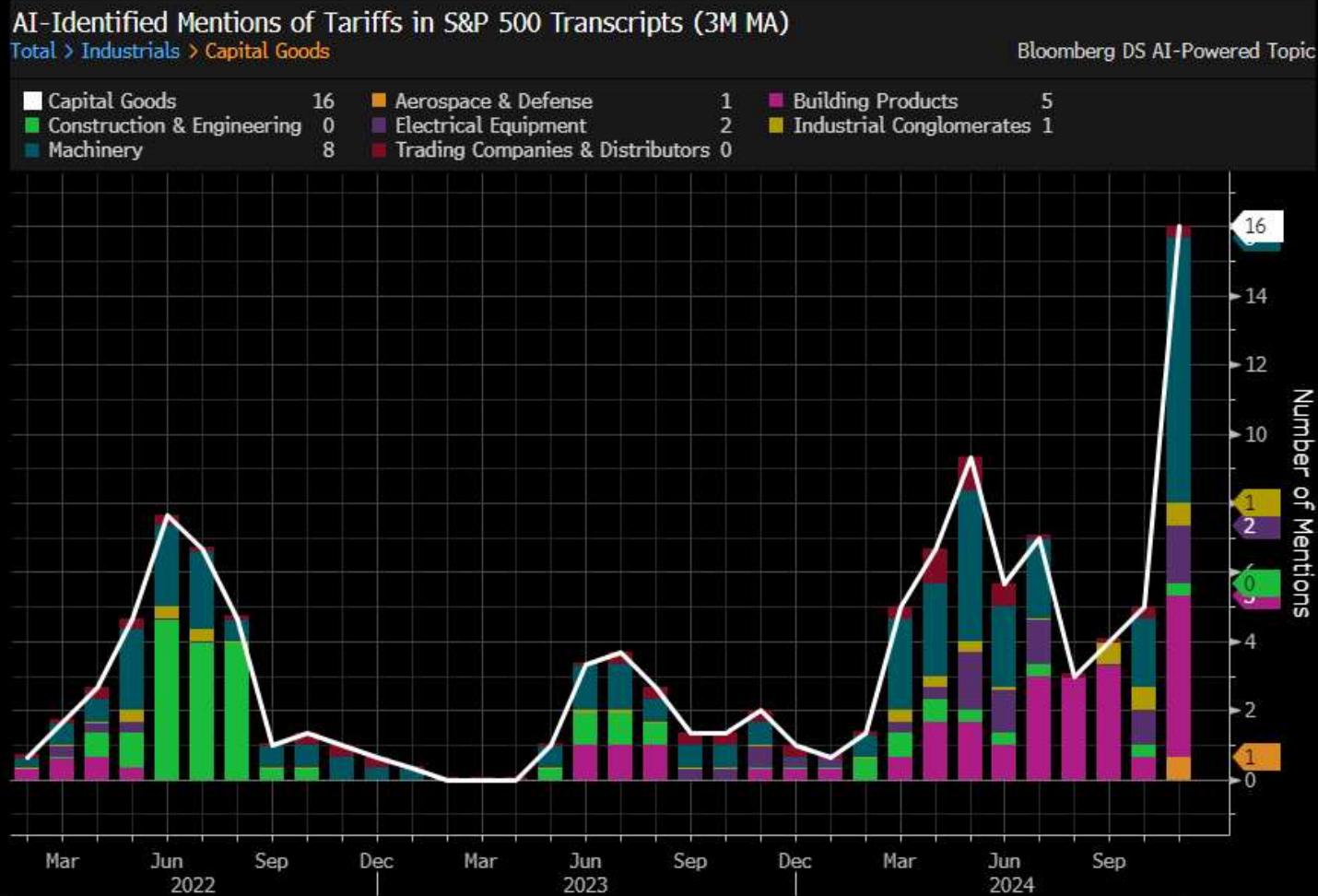
Total

Bloomberg DS AI-Powered Topic

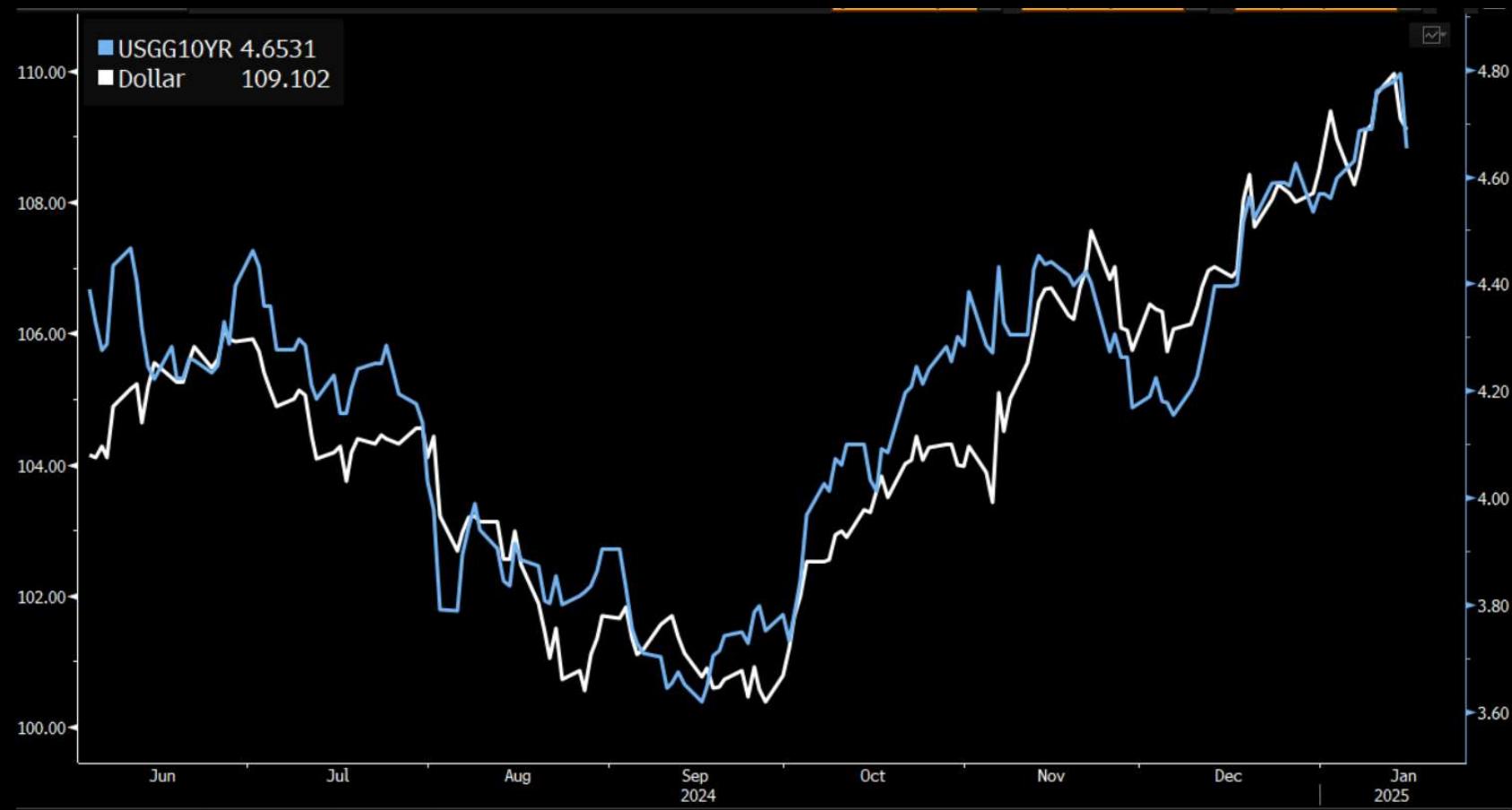
Total	63	Energy	1	Materials	7	Industrials	19
Consumer Discretionary	10	Consumer Staples	3	Health Care	8	Financials	2
Information Technology	6	Communication Services	0	Utilities	6	Real Estate	1



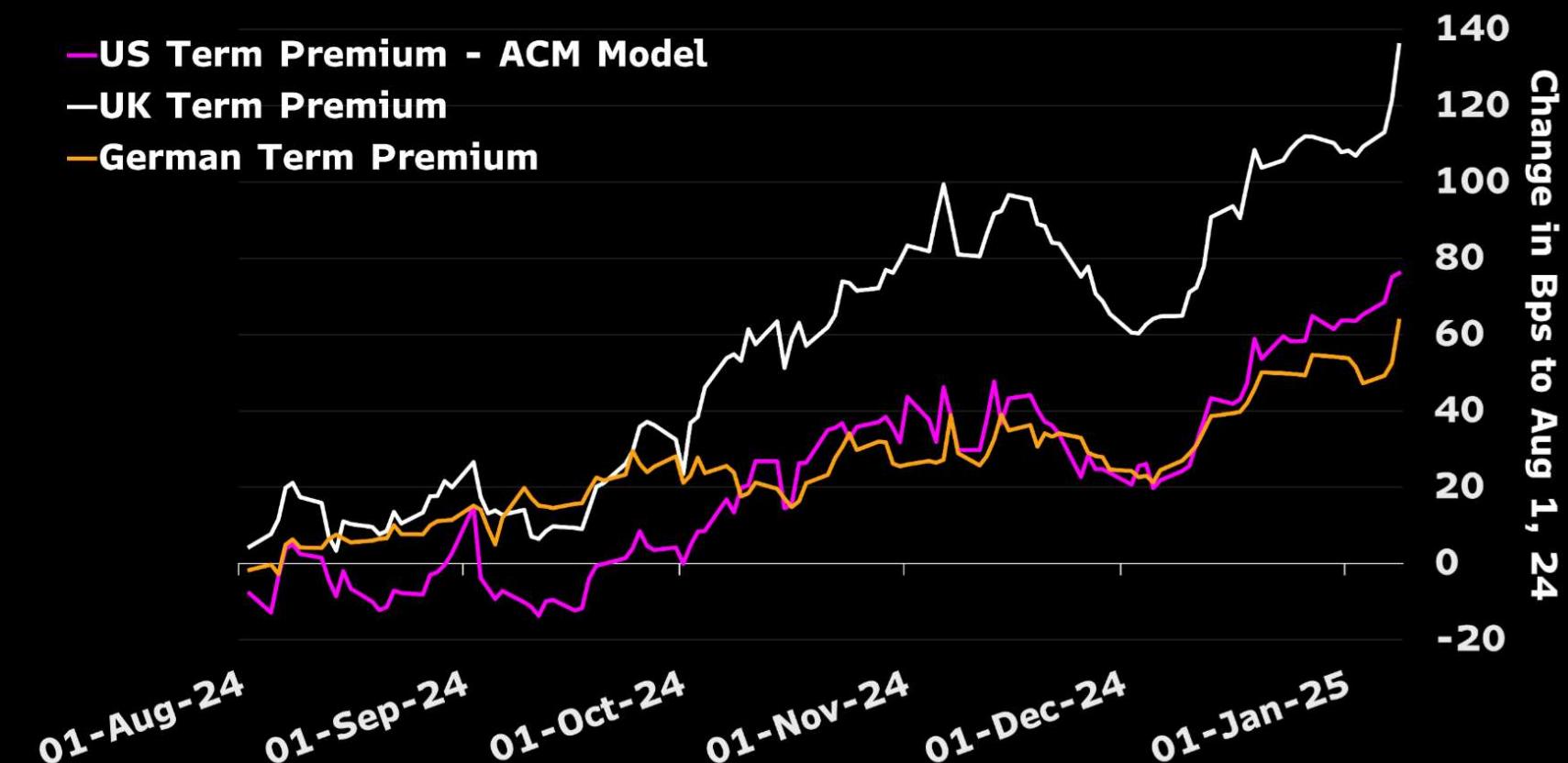
# Tariffs anxieties



## Relentless Climb in Long-Yields



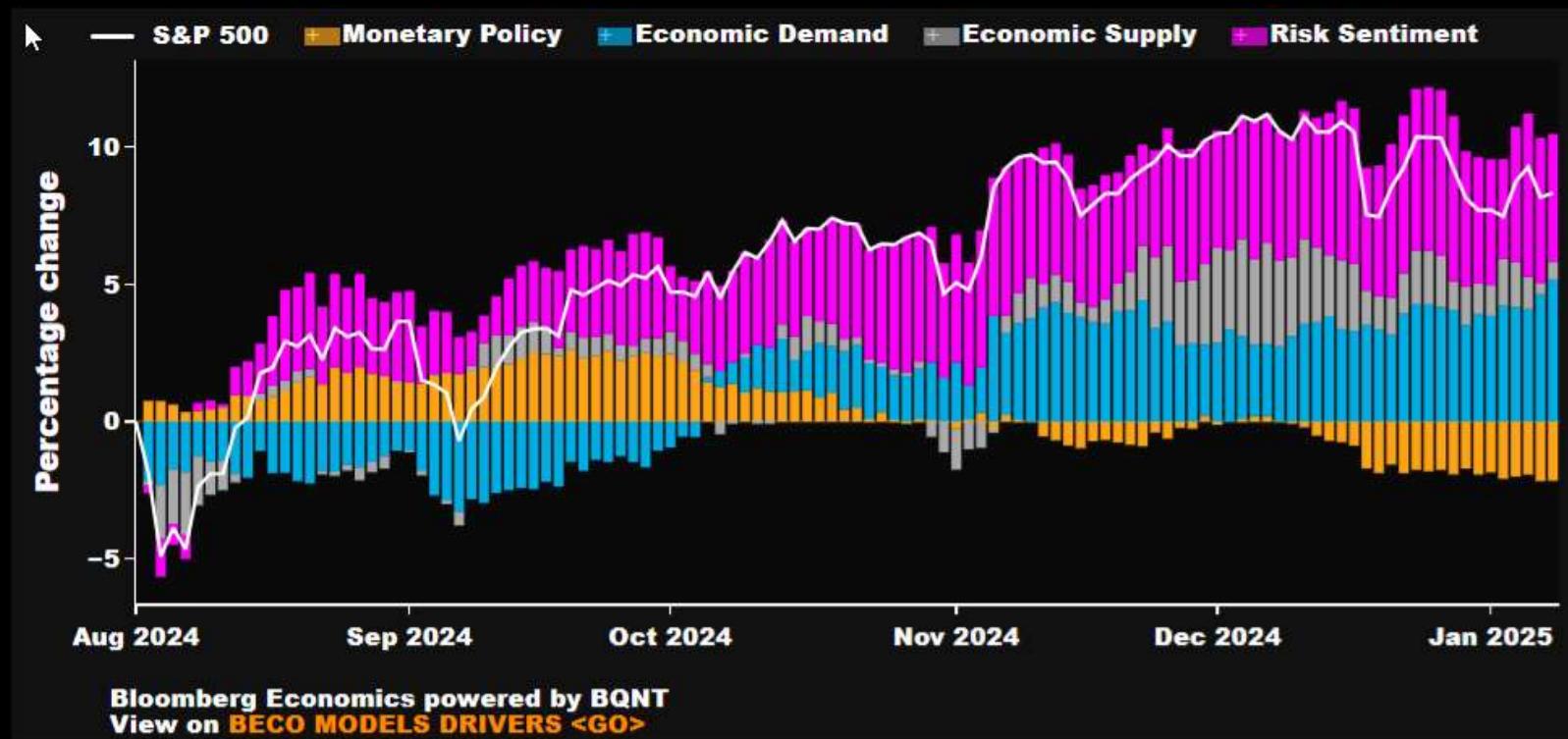
# Global Increase in Long Yields



Source: Bloomberg

Bloomberg

# Resetting of Monetary Policy and Demand

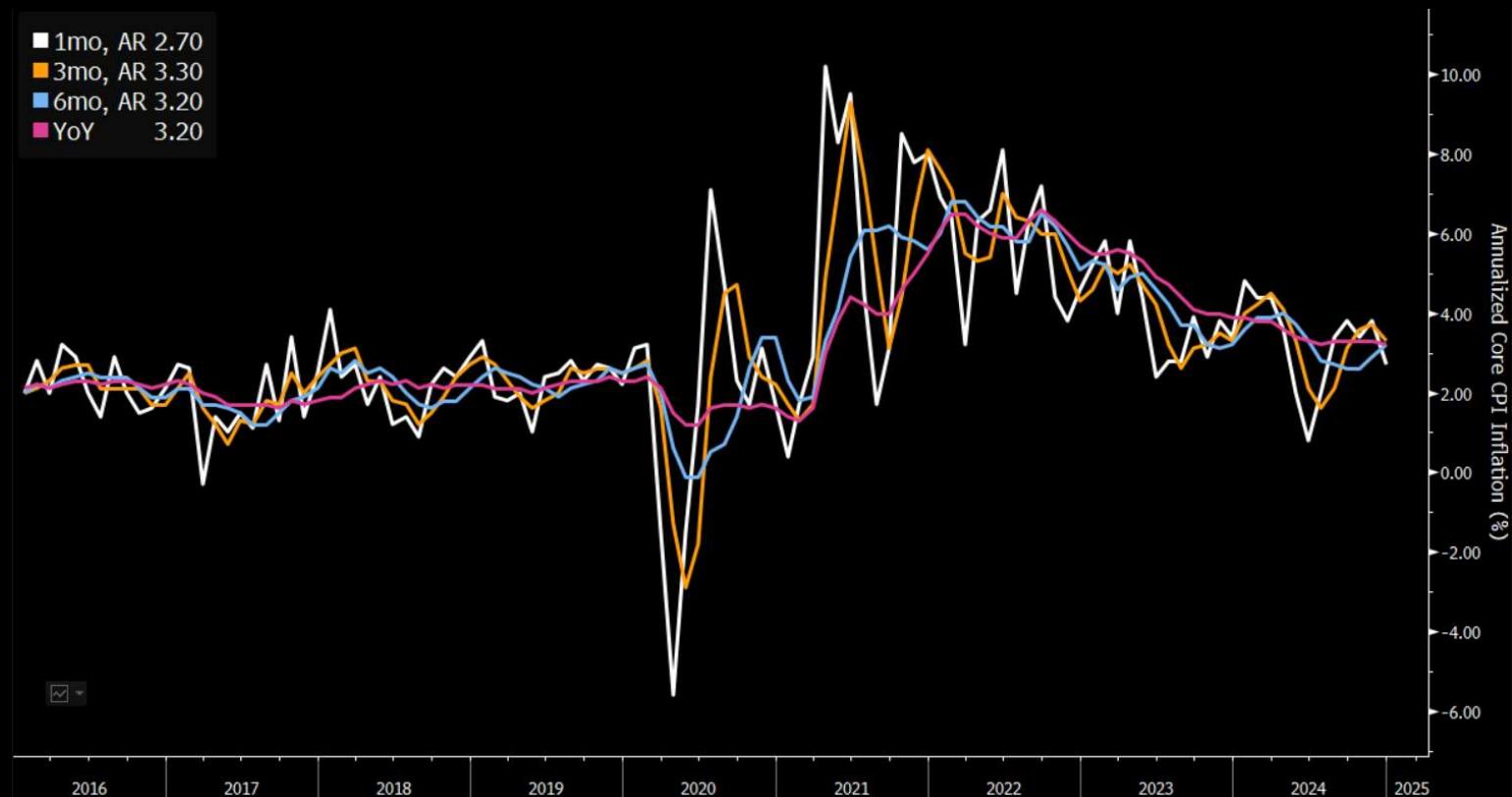


Source: Bloomberg

Bloomberg

# Inflation

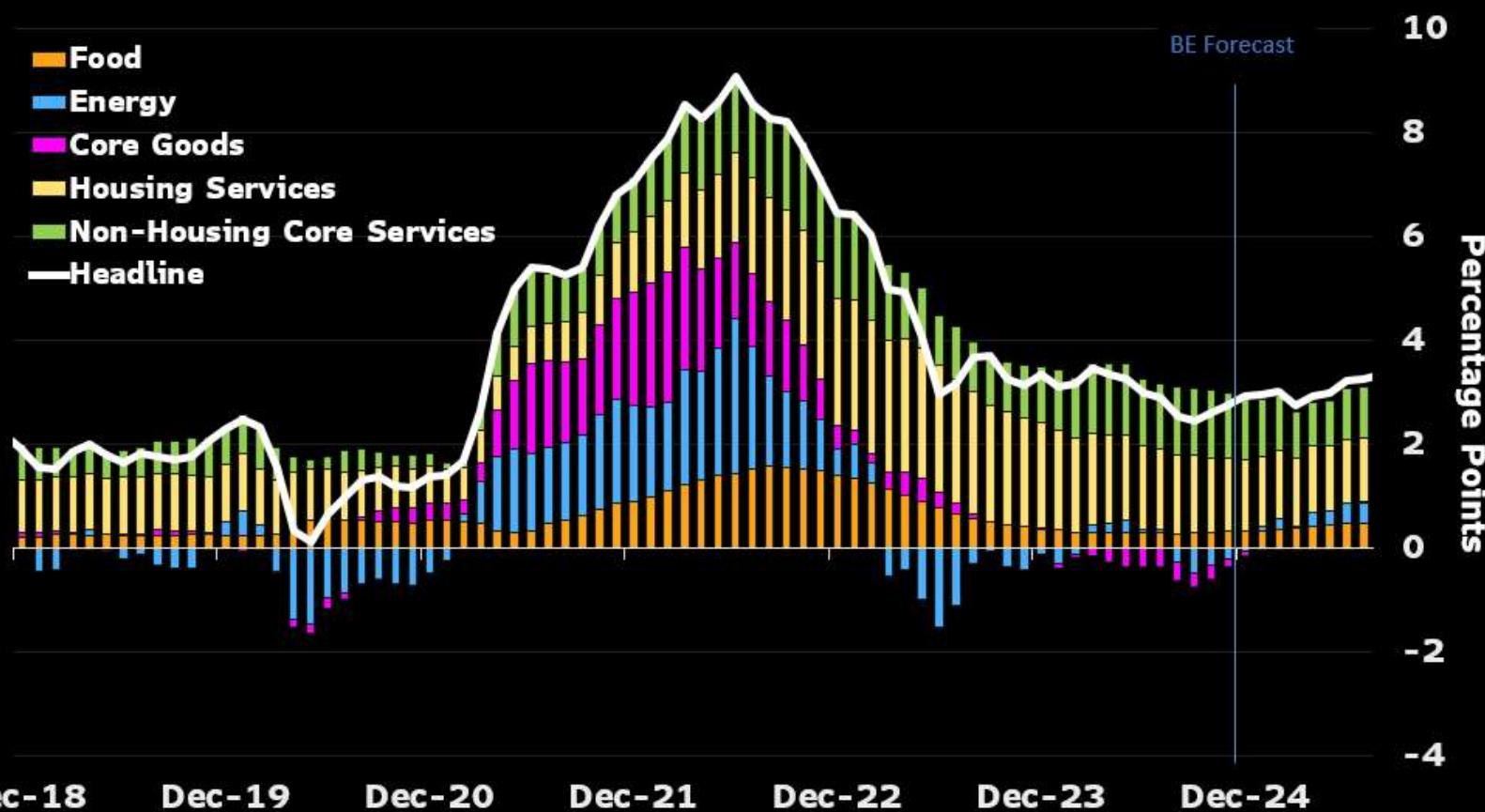
# Inflation On Its Sometimes Bumpy Down



Source: BLS, Bloomberg

Bloomberg

# CPI To Top 3% In 2025

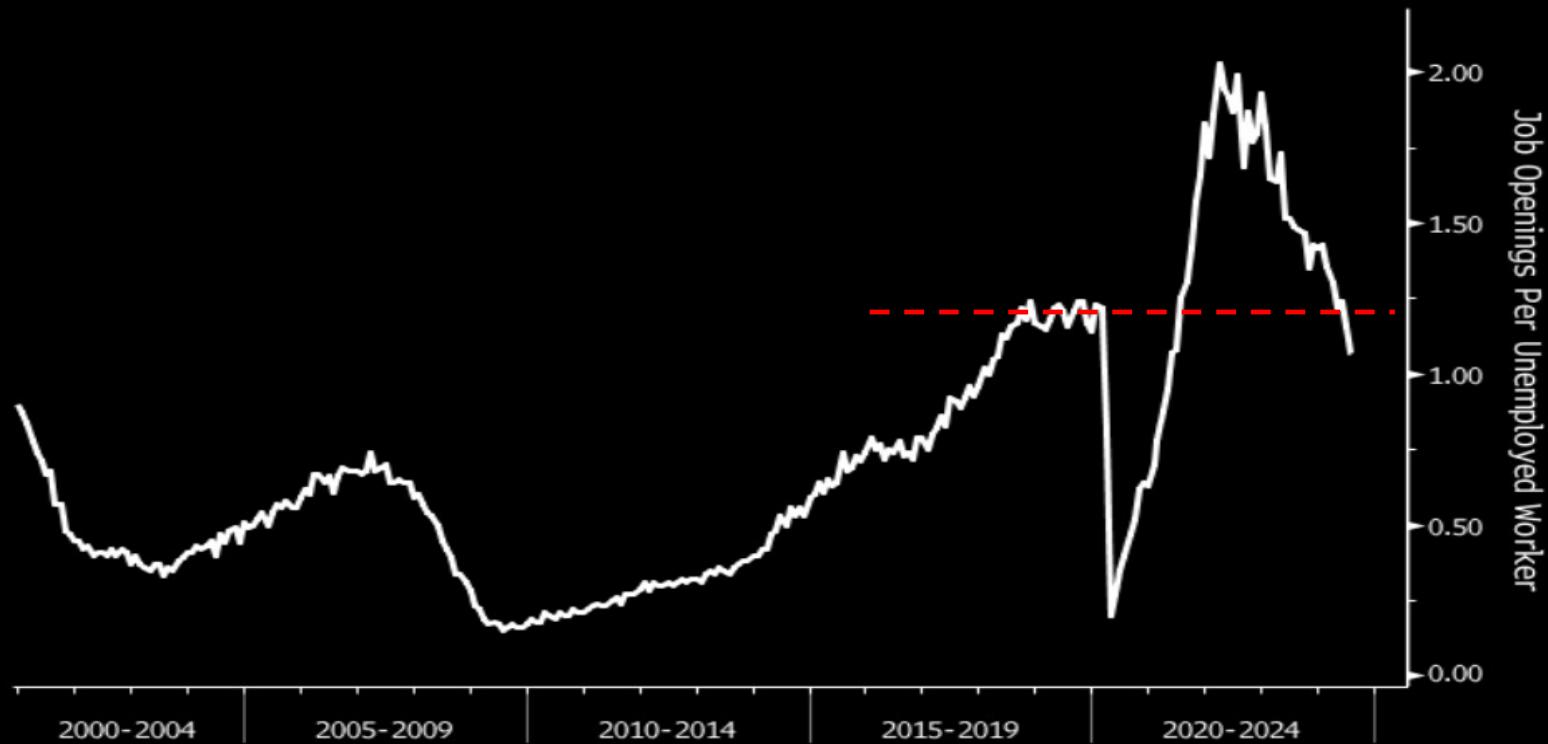


Source: Bloomberg

# Labor Market

# Cooling Labor Market

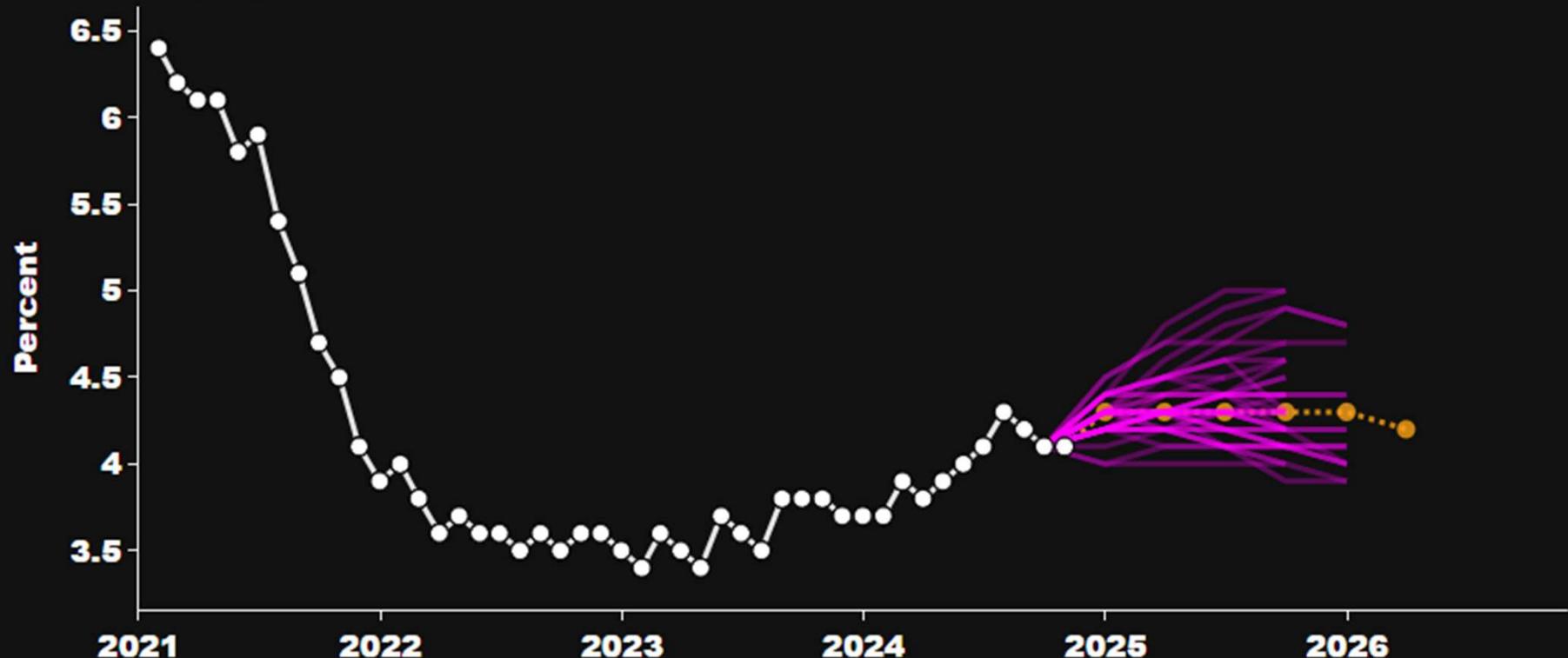
The labor market is looser than it was before the pandemic...



Source: BLS, Bloomberg Economics

# Unemployment Appears To Have Stabilized

## US Unemployment Rate

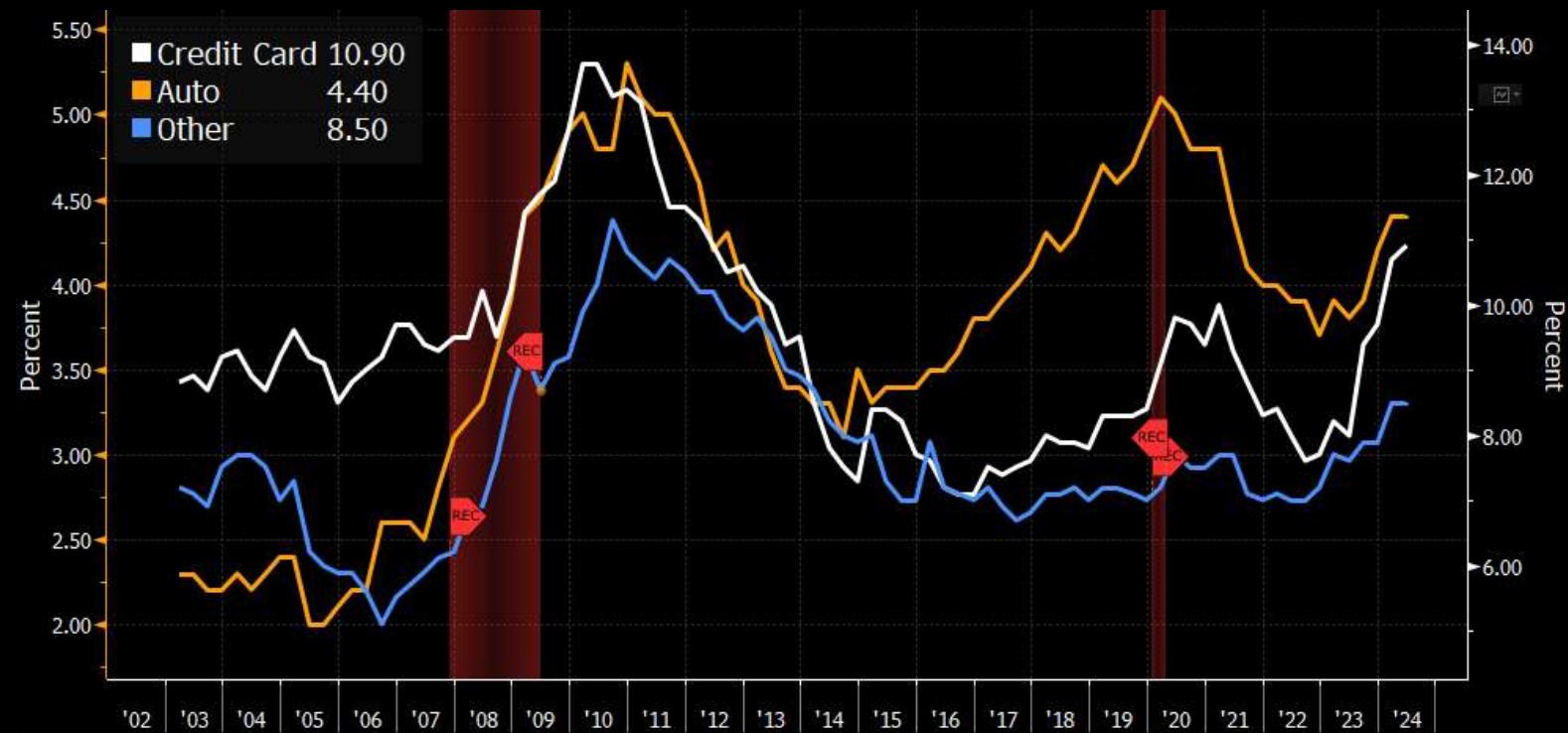


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# Consumer

# Delinquency Rates Are Rising

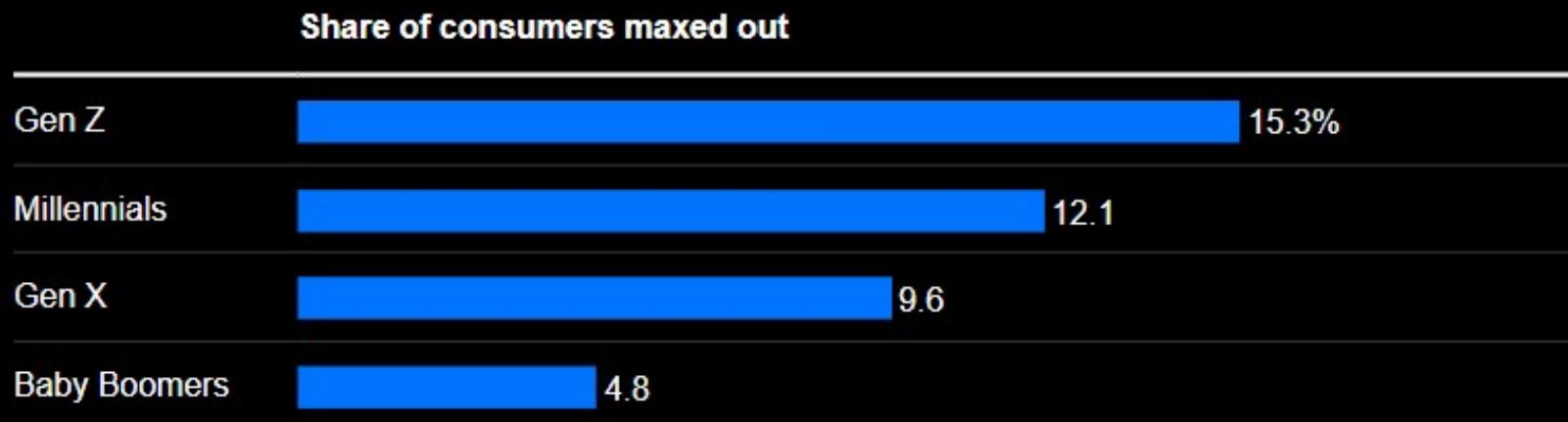
Credit card delinquency are greater than pre-pandemic levels...



Source: FRB of New York, Bloomberg Economics

# Younger Generations More Apt to See Credit Maxed Out

Younger borrowers and those with lower incomes are more apt to be financially stressed than older borrowers...



Source: New York Fed Consumer Credit Panel/Equifax

Note: Baby Boomer=born 1946-1964, Gen X=born 1965-1980, and Millennial=born 1981 to around 1996, Gen Z= born 1997-2012

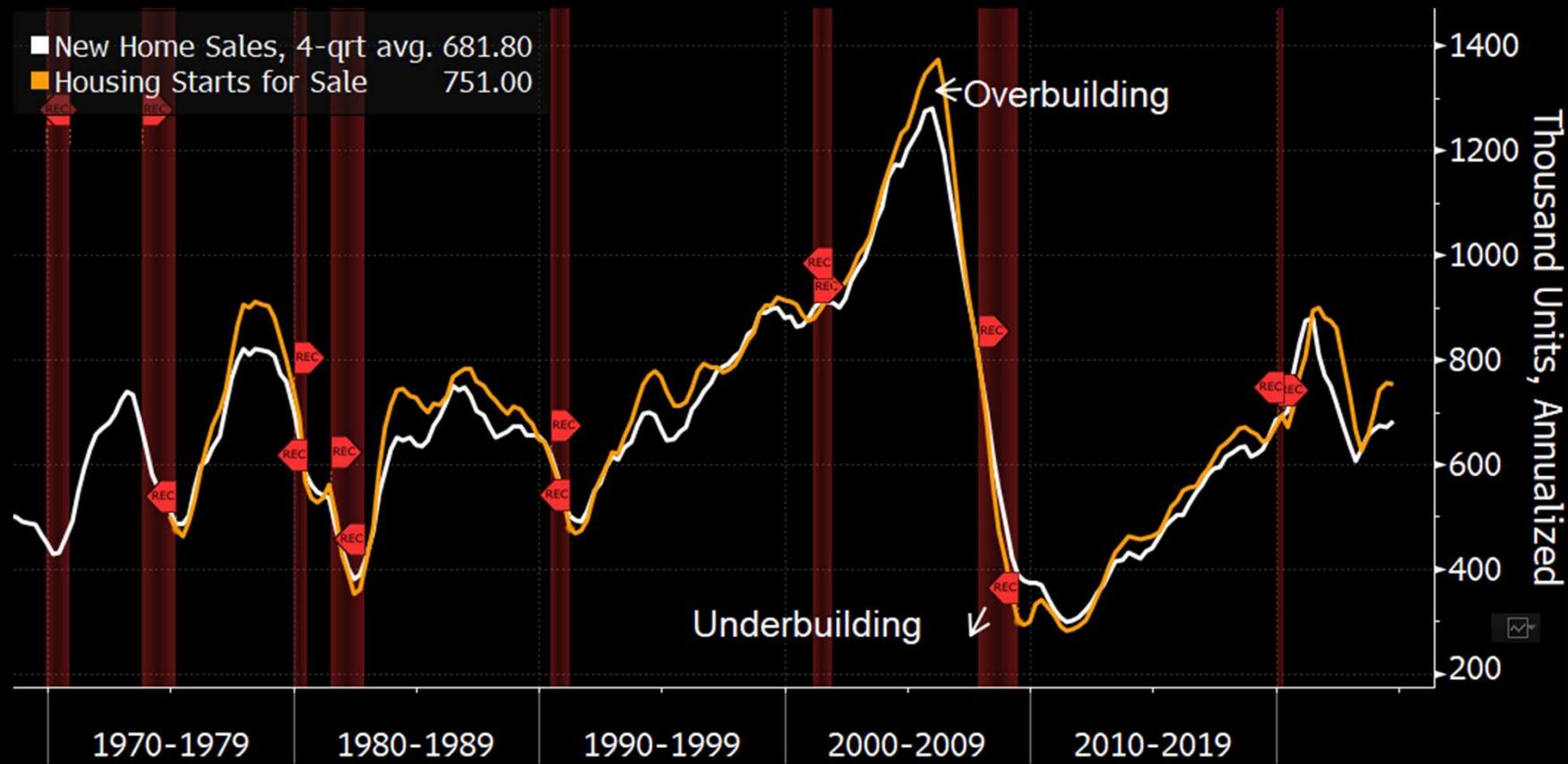
Source: FRB of New York, Bloomberg Economics

# Even so, Top 20% by wealth account for 40% of consumption

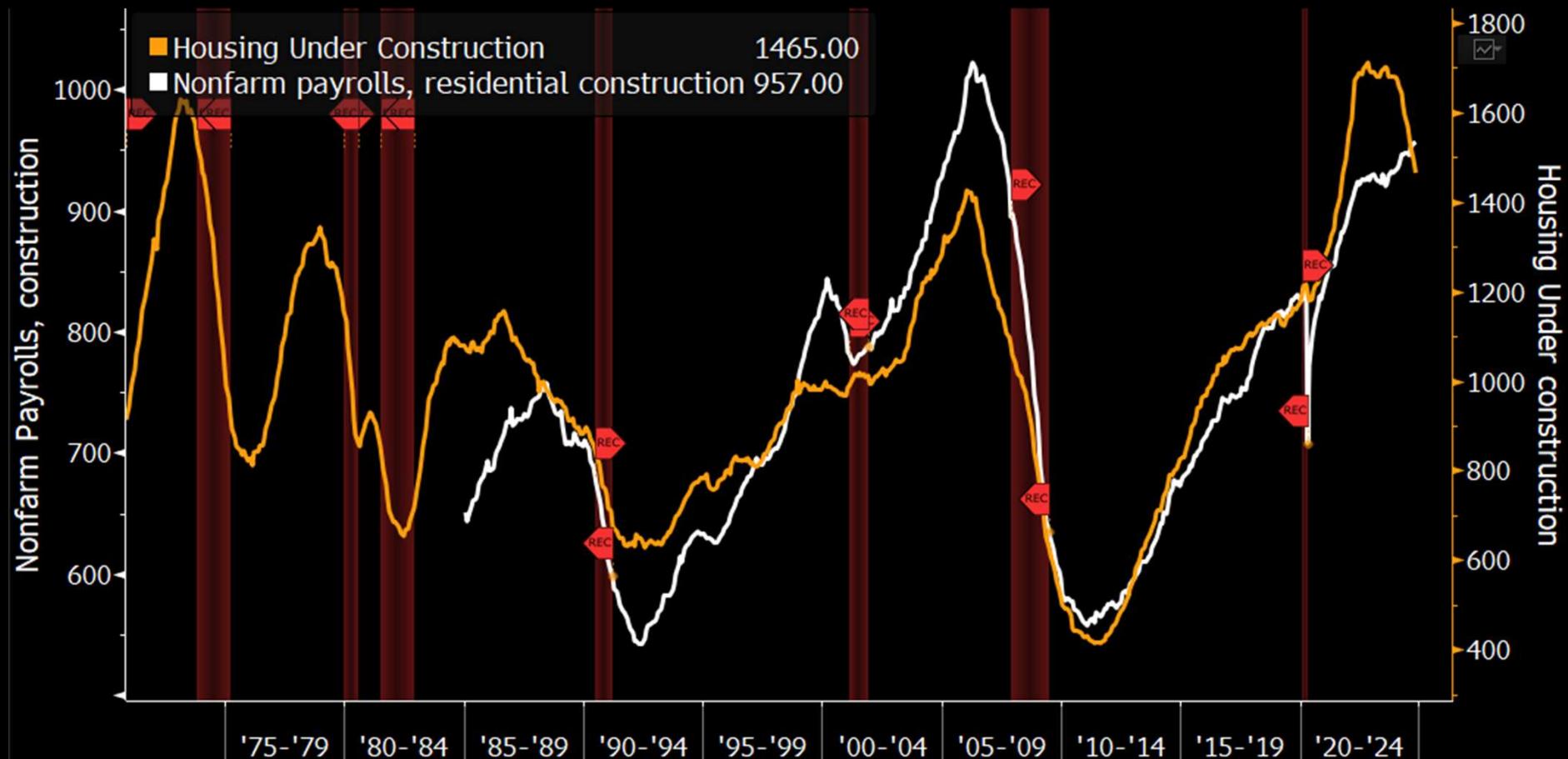


# Housing

# New Homes Supply

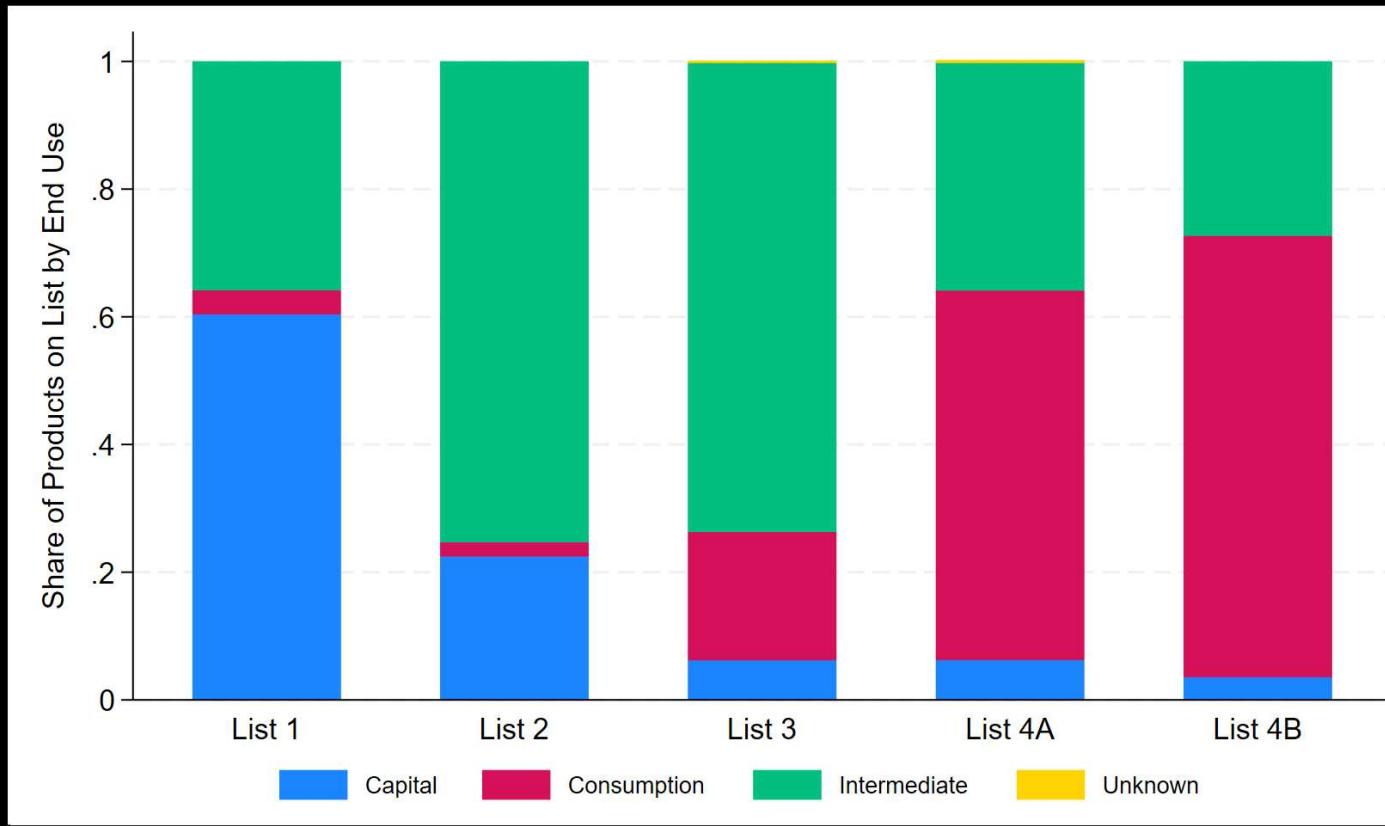


## Housing starts fell



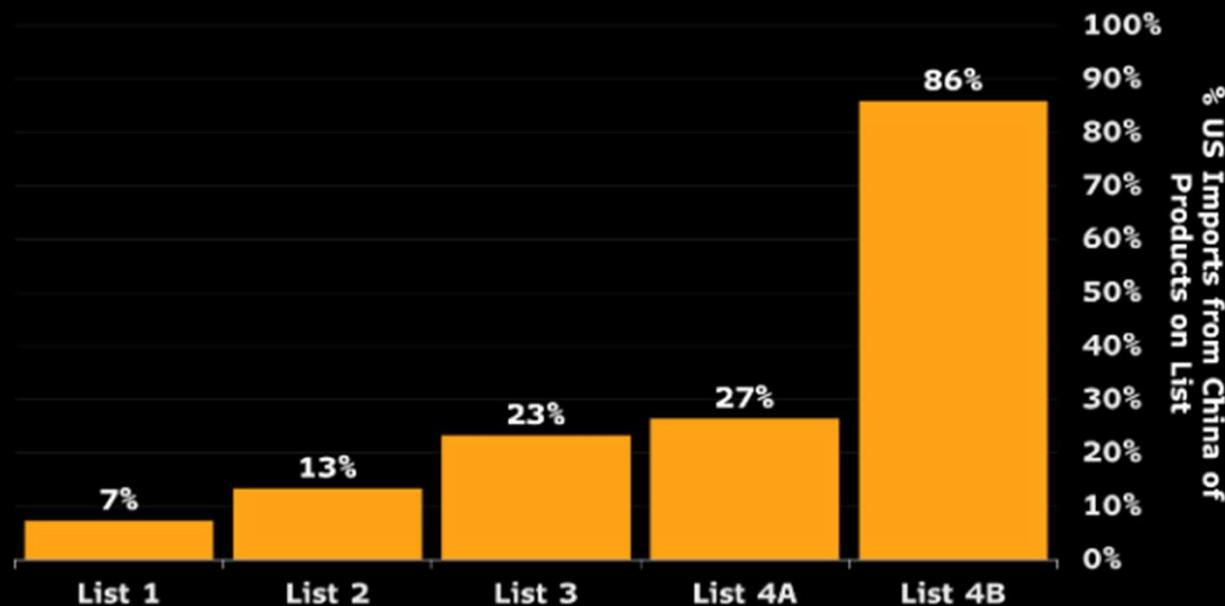
# Trade War II

# Trade War I – Tariffs Not Random



# Trade War I – Tariffs Not Random

Easily Substitutable Products Targeted First



Source: USITC, UNSD-BEC, USTR, Bloomberg Economics. Note: This figure uses 2017 data and shows, for each list, the percentage of US imports of goods on that list that come from China.

# Trade War II – base case, from 3% to 8% by end-2026

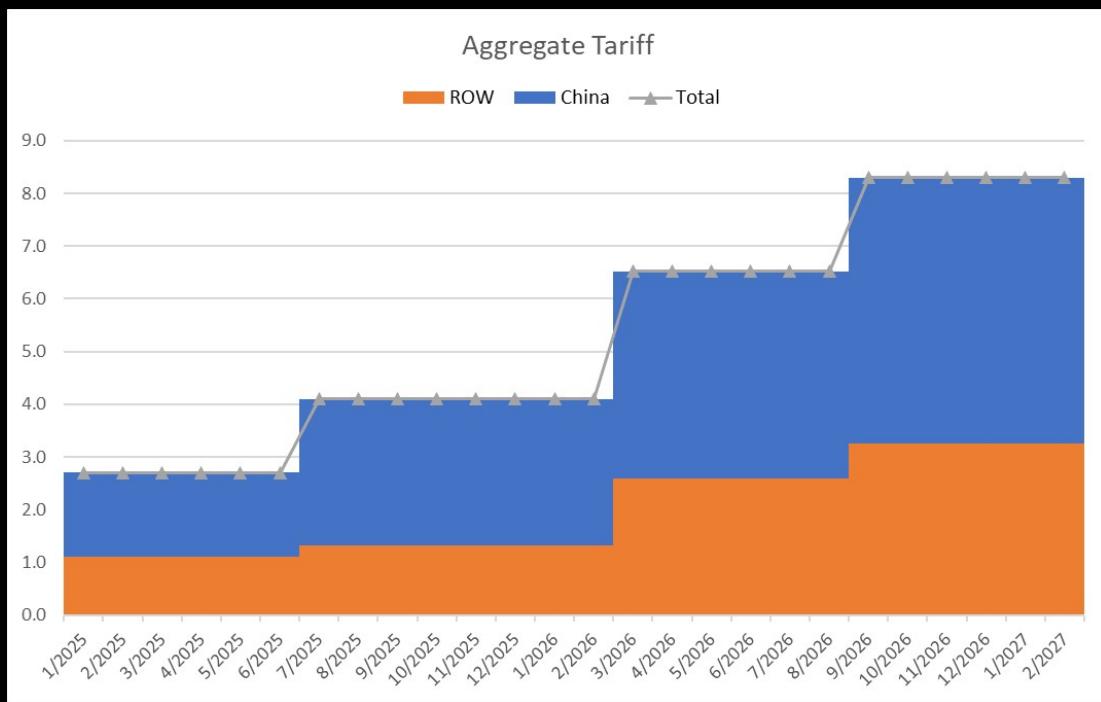
Tranche 1 (July 2025): Return China list 4a to 15%, and impose the 15% proposed but never imposed 4b back in 2019. (column tariff\_alt)

Tranche 2 (March 2026): 2x China list 1, 2, 3 (column tariff\_alt 2b)

Tranche 3 (March 2026): add 3% to non-China rest of the world INTERMEDIATE goods imports (column "tariff\_alt4")

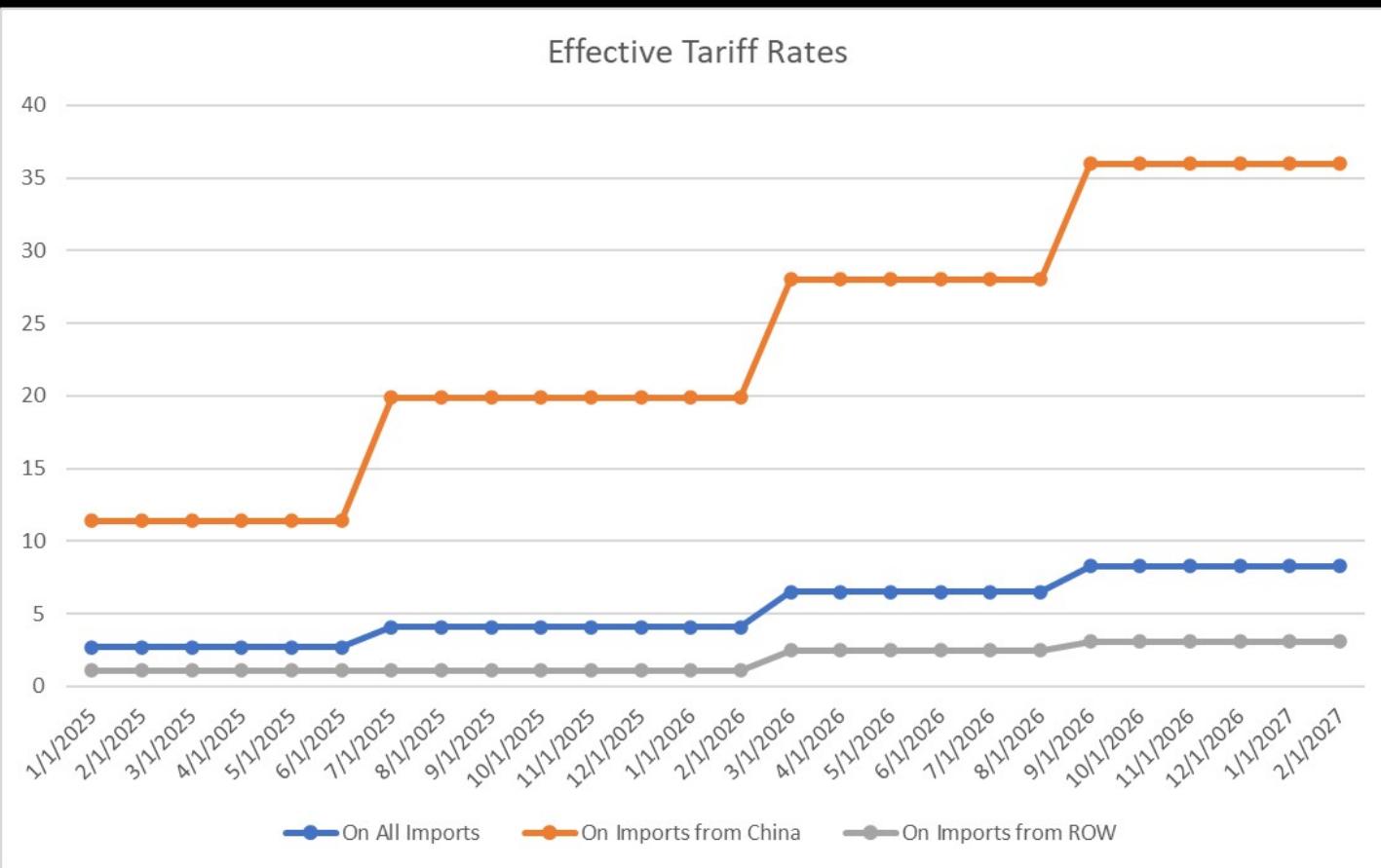
Tranche 4 (September 2026): add 3% of non-China rest of the world CAPITAL goods imports (column "tariff\_alt 5")

Tranche 5 (September 2026): 3x China list 1, 2, 3 (column tariff\_alt 3b)



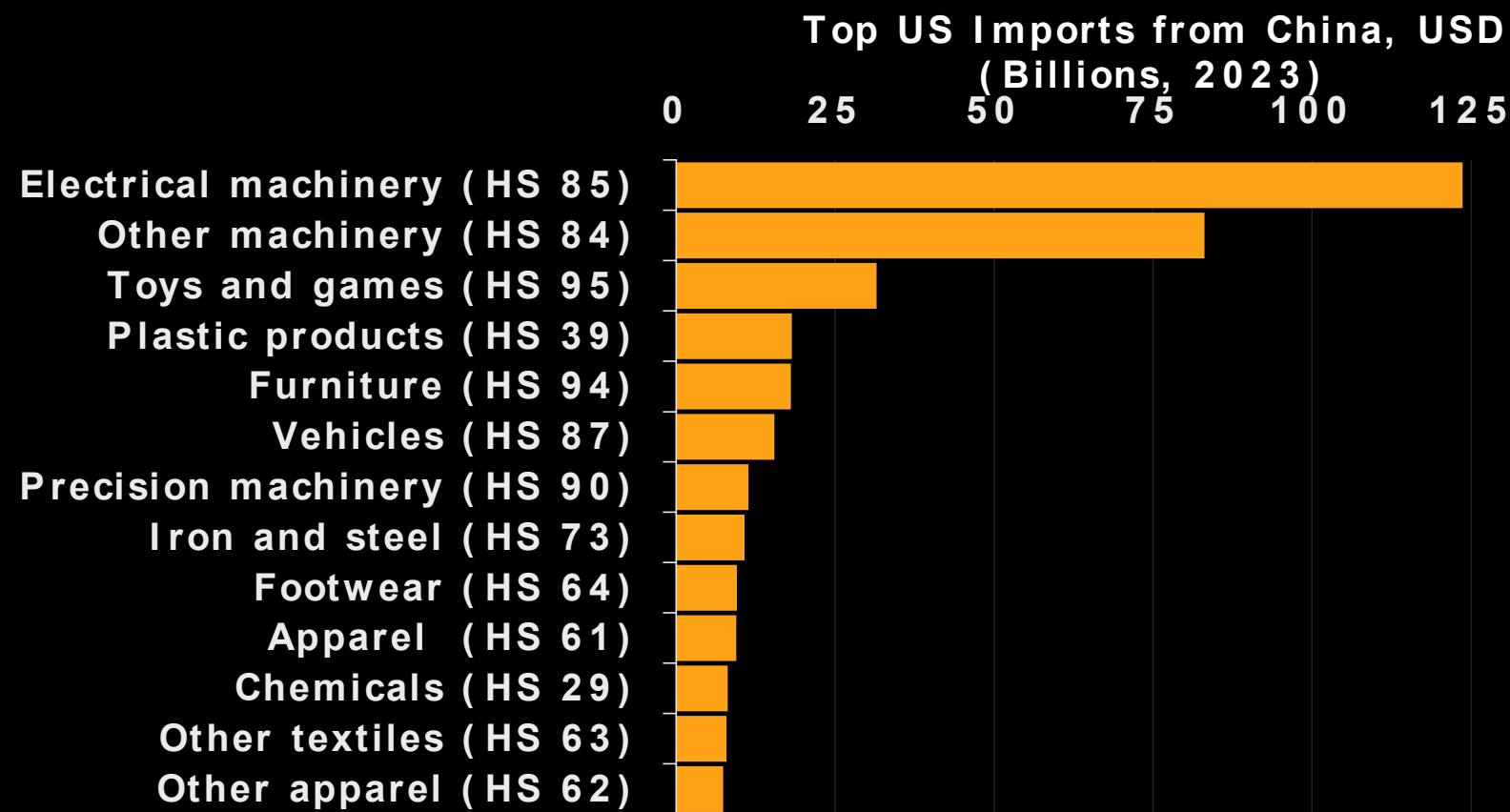
Except for Tranche 1,  
all either intermediate  
or capital goods

## Trade War II – base case, from 3% to 8% by end-2026

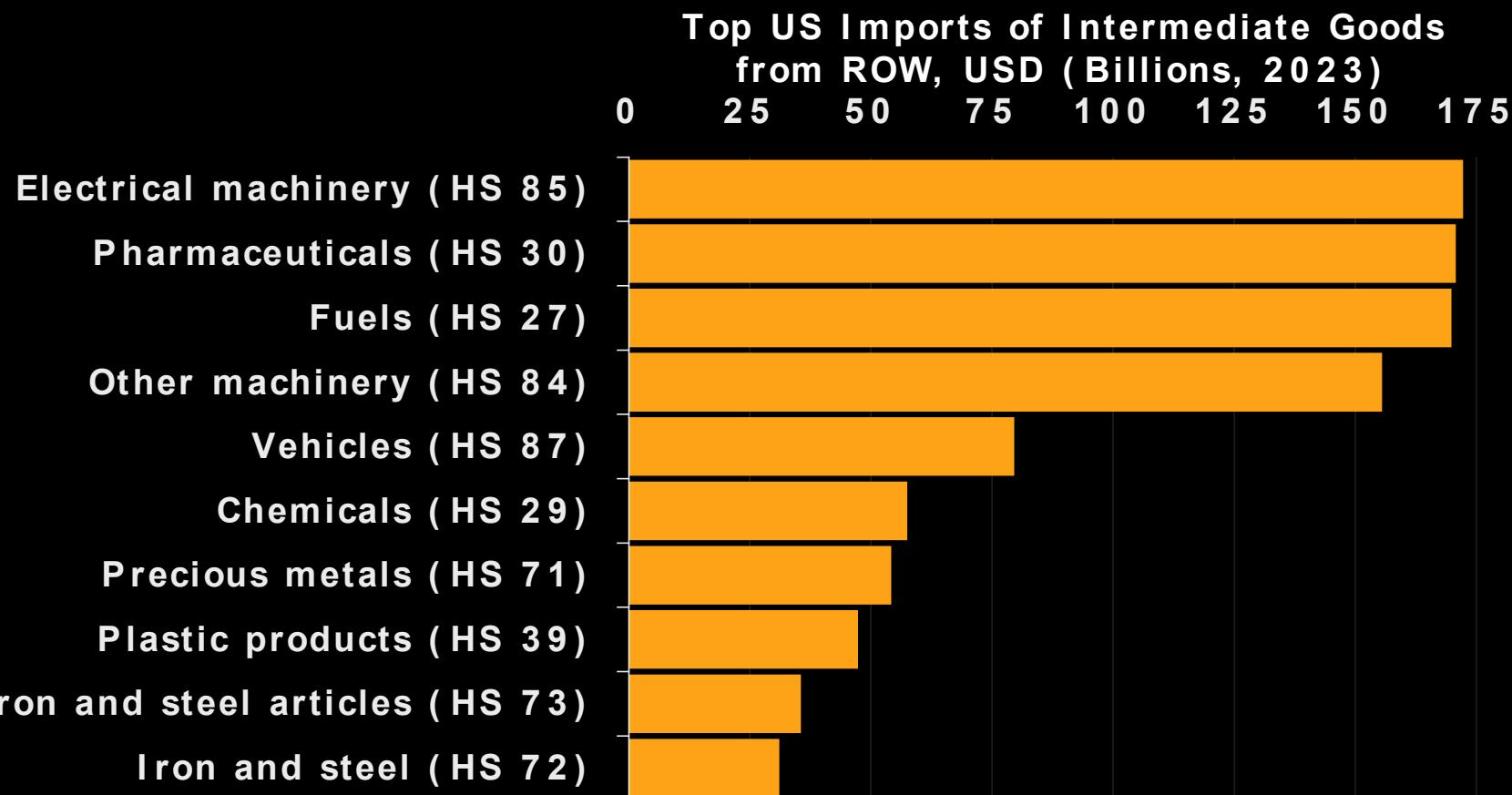


- Escalation points for trade actions will likely come in three waves: 3Q25, 1Q26, and 3Q26.
- Most of the tariff increases will be on intermediate and capital goods
- Most of the trade actions will focus on China, tripling by end-2026, from the current weighted 12% to about 36%.
- Tariffs on other trade partners will increase from the current 1% to 3%.
- In aggregate, that will boost total weighted US tariffs from 3% to 8%. That's short of Trump's promised 20% universal tariff, but enough to raise about \$250 billion in tariff revenues — about half of the fiscal financing gap from extending TCJA.

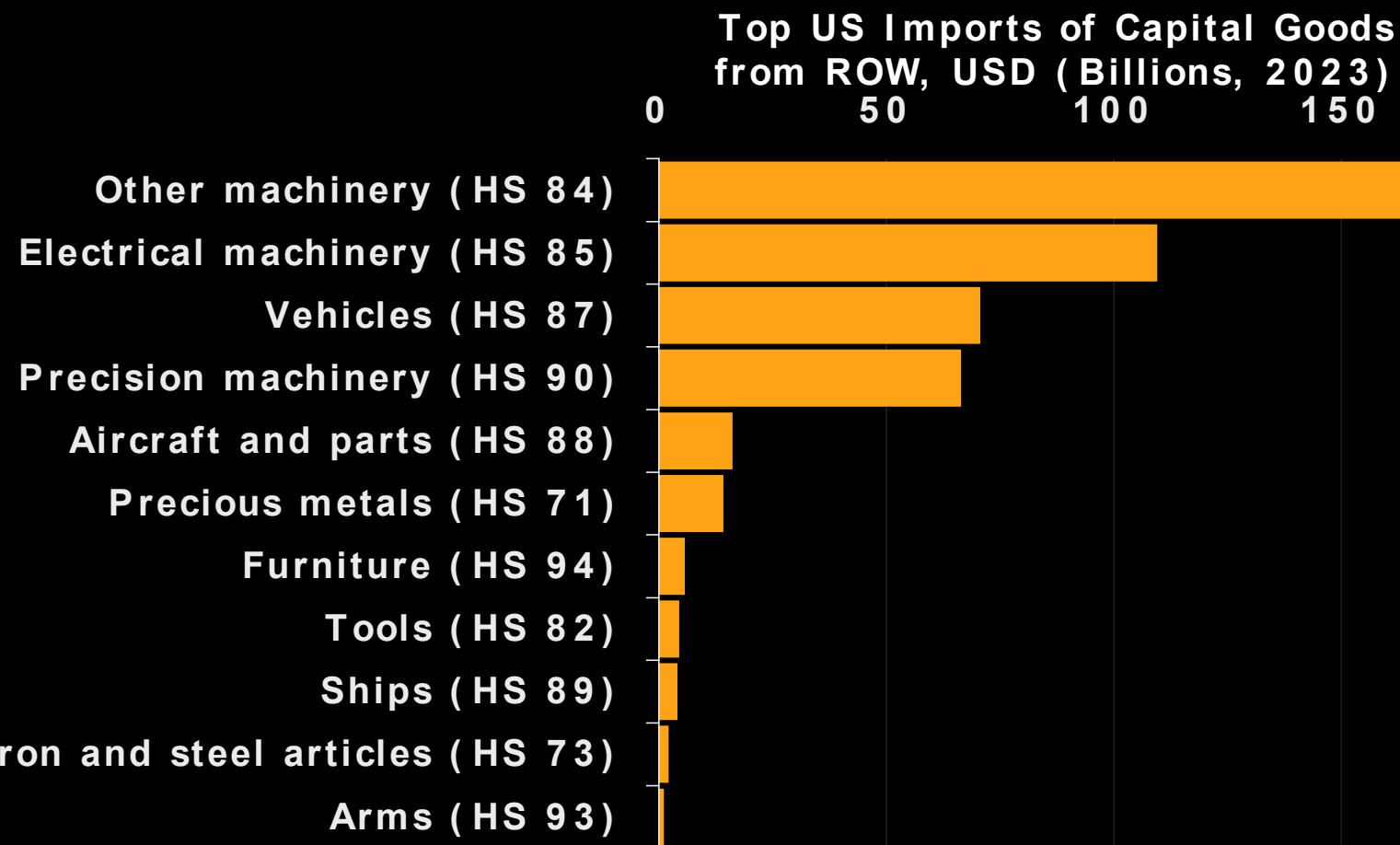
## Trade War II – Chinese goods



## Trade War II – Rest of the world intermediate goods

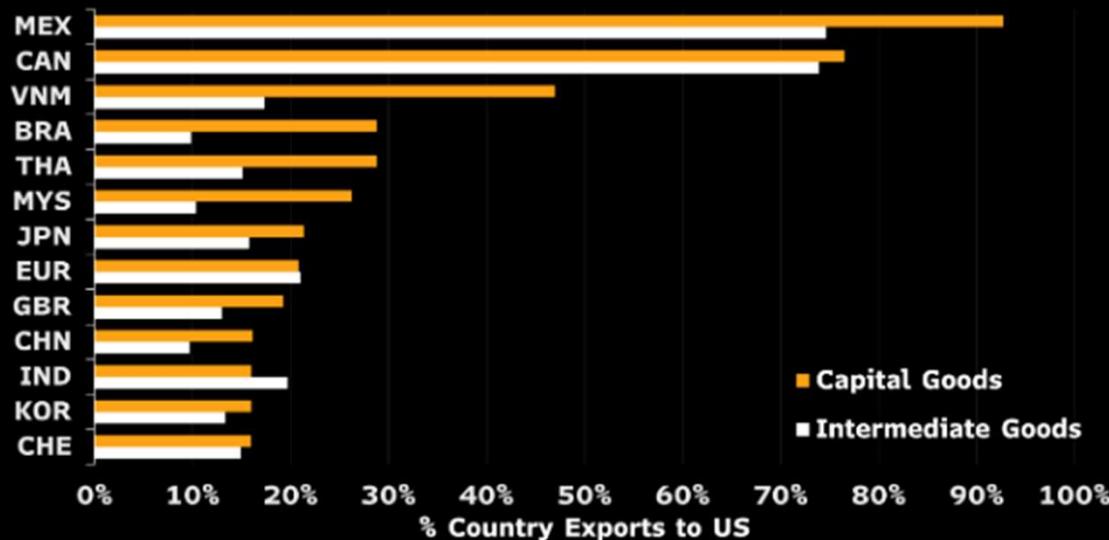


## Trade War II – Rest of the world capital goods



# Trade War II – Other Than China, Canada and Mexico Hit

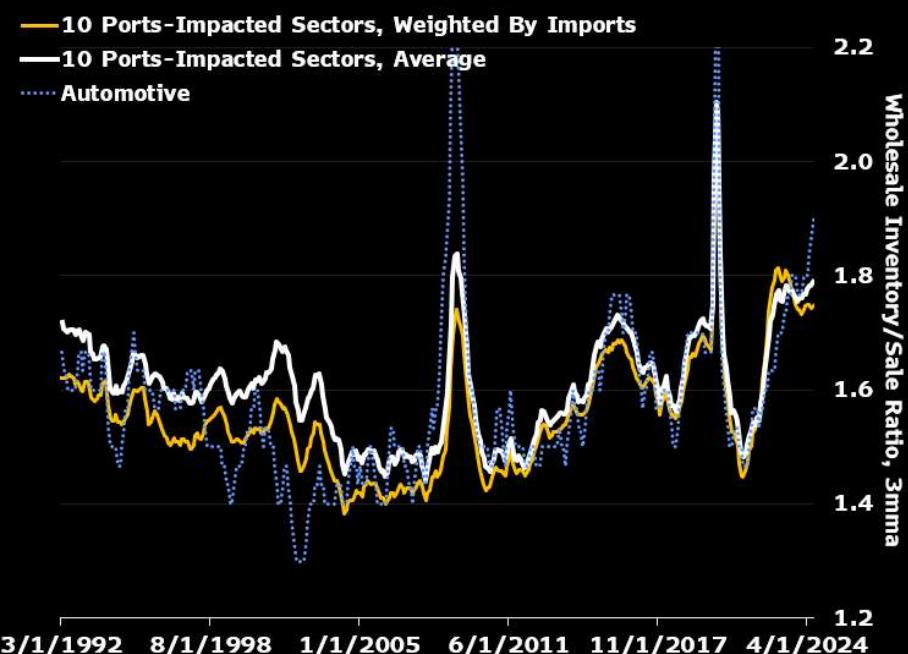
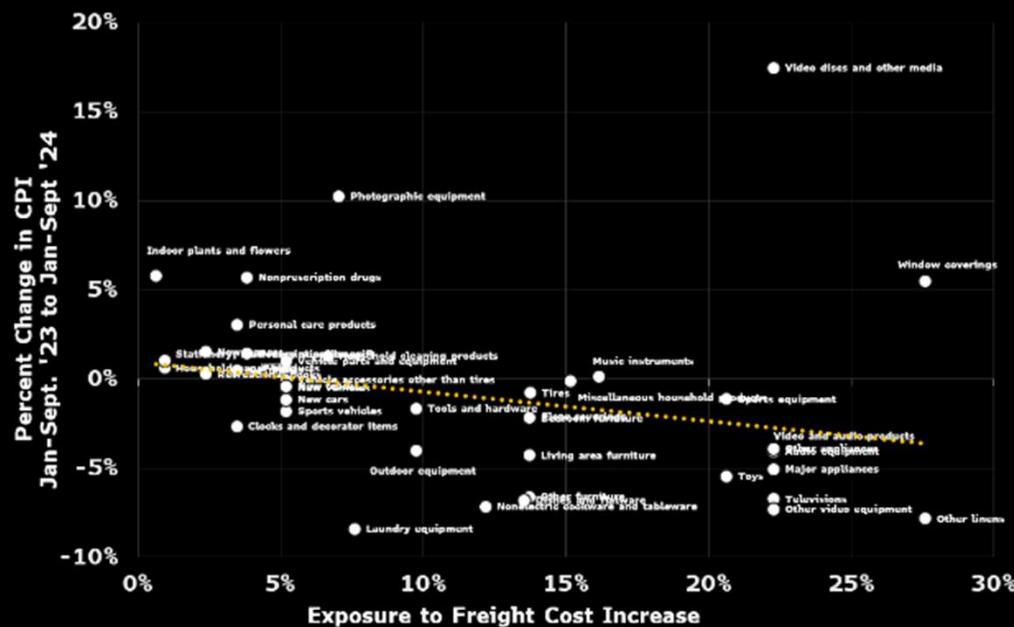
Mexico, Canada, Vietnam Most Exposed Trading Partners Outside China



Source: UN Comtrade, UNSD-BEC, Bloomberg Economics. Note: This figure shows the percentage of a country's exports of each type of good sent to the US among the top countries from which the US imports capital and intermediate goods. This uses 2023 data – except for Vietnam and South Korea which use 2022 data, as 2023 data haven't been reported yet.

# Firms Losing Pricing Power

## Higher Freight Costs Haven't Impacted Consumer Prices

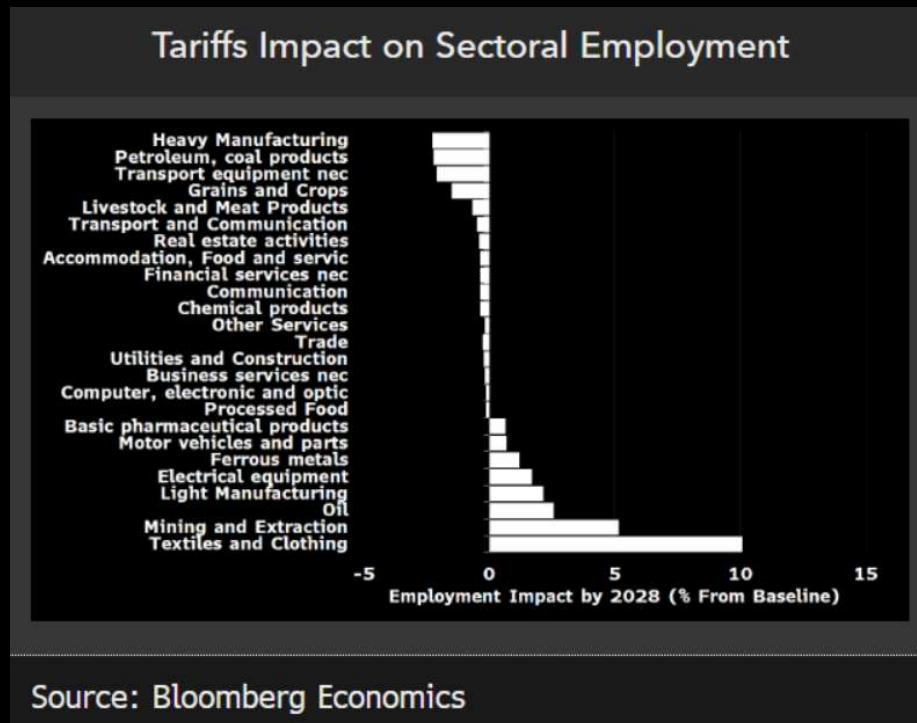


Source: BLS, BEA, UN Comtrade, Bloomberg. Note: This chart shows non-energy, non-food goods. Exposure to the freight-cost increase is based on the percentage of personal consumption expenditure that comes from imports and the percentage of US imports of that good that come from Asia measured at the HS2 level.

Source: Bloomberg

Bloomberg

# Economic impact



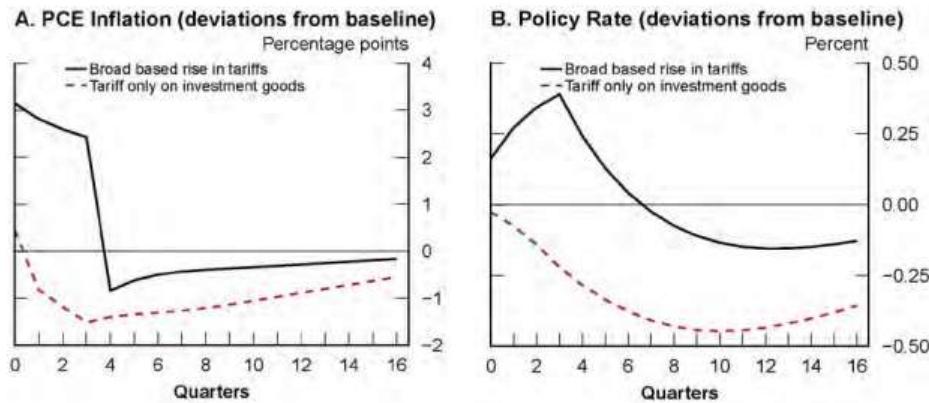
- Overall effect is expected to remain modest in the medium term
- CGE model projects GDP could be around 0.3% lower and consumer prices 0.4% higher by 2028 than they would have been if tariffs had remained unchanged.
- Employment down just about 0.1%.
- Increased jobs in metals and certain manufacturing sectors, while decreased jobs in other sectors

# How Fed Thinks About Trade Tariffs

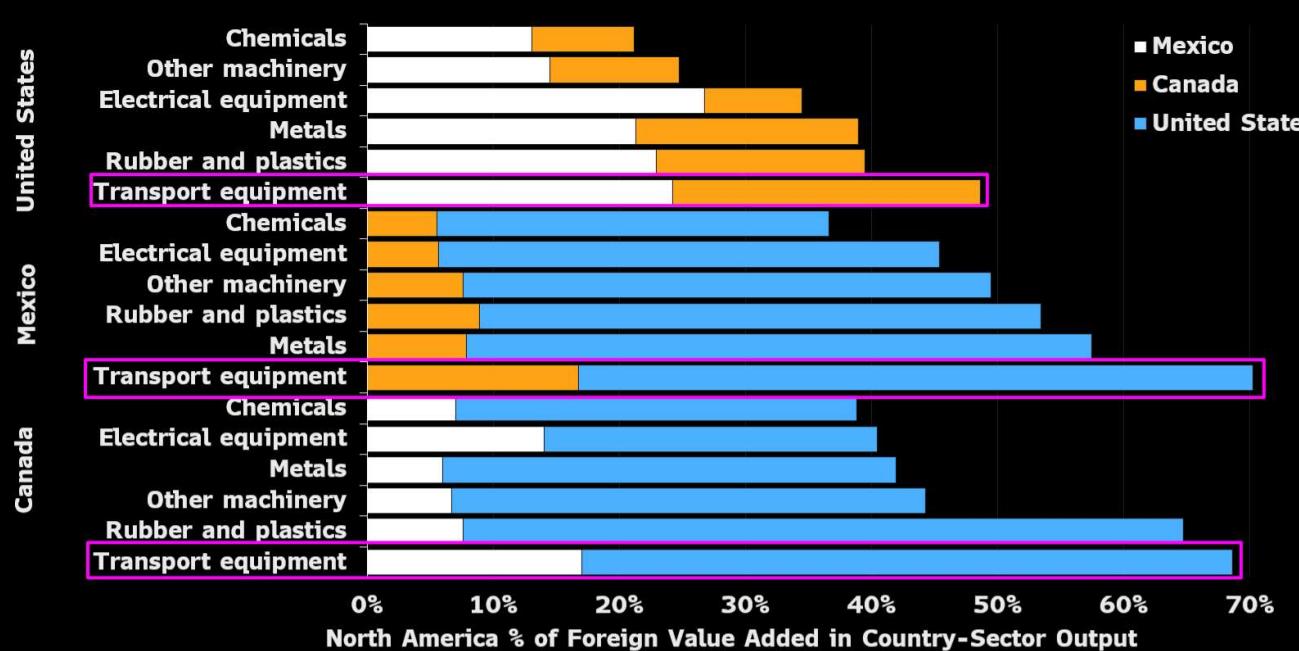
## The type of import being tariffed matters

- SIGMA simulation compares effects of alternative unilateral tariffs:
  - Broad based rise in tariffs on all imports – consumer and capital goods.
  - Tariffs only on imported capital goods.
- Simulation highlights that effects on consumer prices may depend heavily on composition of the tariffs.

### SIGMA simulations: 10% rise in tariffs



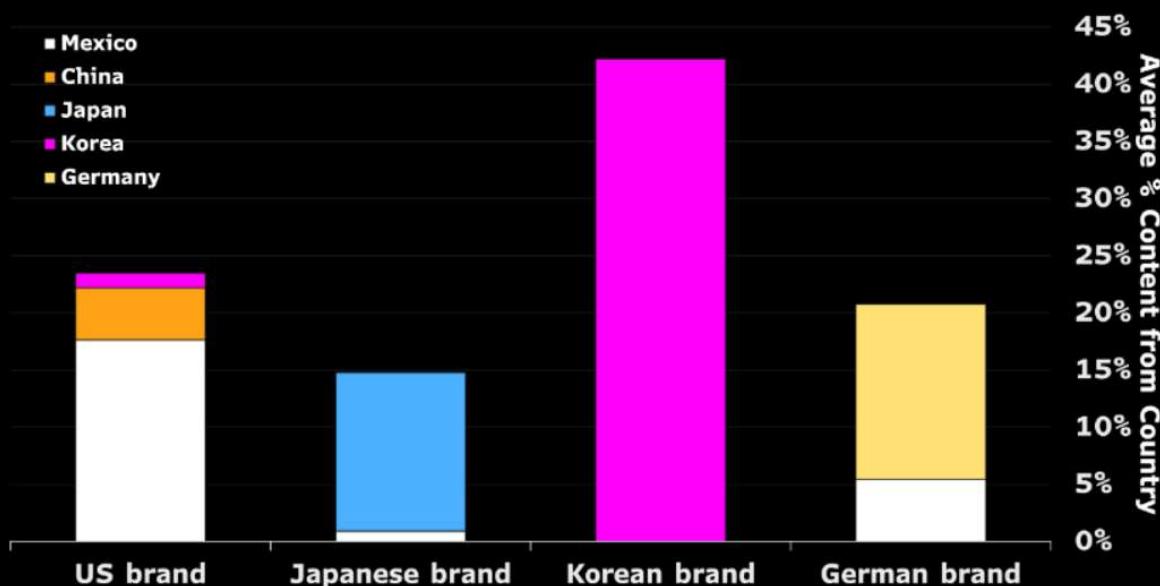
# Transport Sector Heavily Integrated Across N. America



- The US imports 47% of key auto parts from Canada and Mexico.
- Reliance is significantly higher in some specific products including air bags (84%), seat belts (83%), meters (72%), electric conductors (69%), and windshield wipers (60%).
- Canada and Mexico's reliance on the US as a market for their auto parts is even more striking; together, they send 90% of all their auto-part exports to the US.

# Foreign Content of Cars Assembled in the US

Foreign Content of Cars Assembled in the US

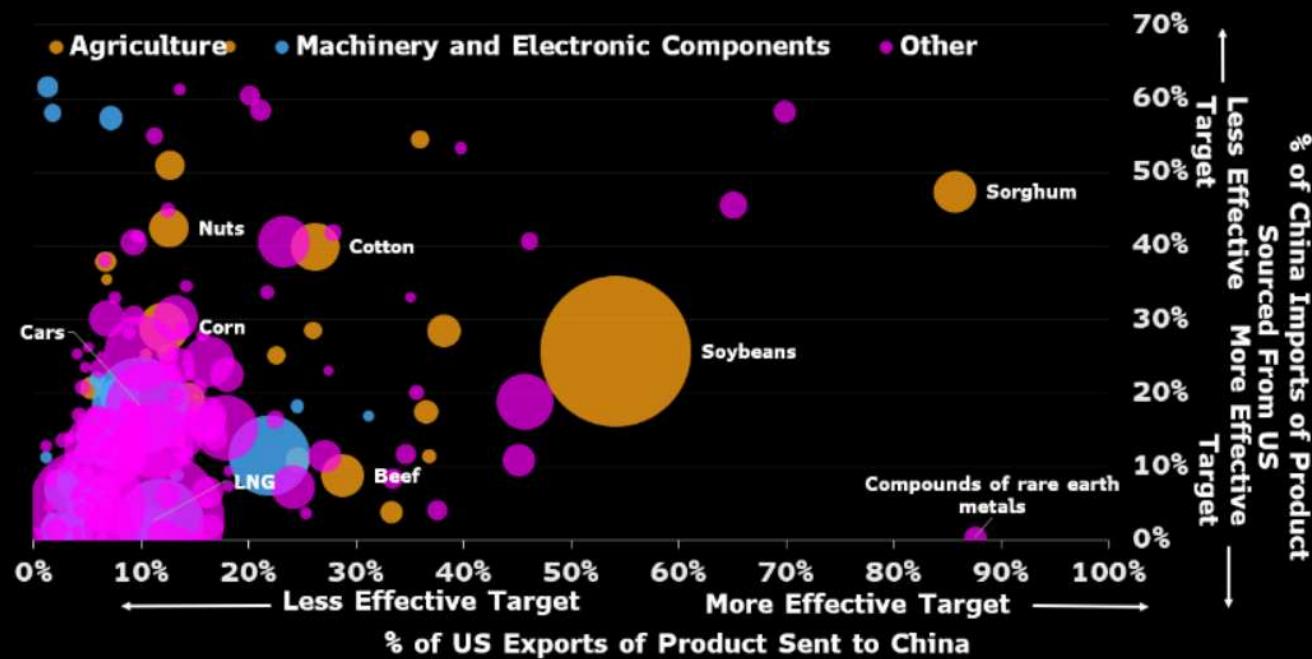


Source: National Highway Traffic Safety Administration, Part 583 American Automobile Labeling Act Reports (2024 data), Bloomberg Economics. Note: Numbers reported are simple averages across models, and do not sum to 100% because firms need only report the top two countries by percent content, and only if the percent content is greater than 15%. Content from Canada is not reported separately from the US under the AALA and hence not reported here.

- Details on the origin of parts in cars sold in the US published by the National Highway Traffic Safety Administration, shows that for US brands, reliance on North American content is even higher.
- Tariffs on imports from Canada and Mexico would hurt US brands assembling cars in the US relatively more.

# Retaliation

## Agriculture Looms as Potential US Target for China

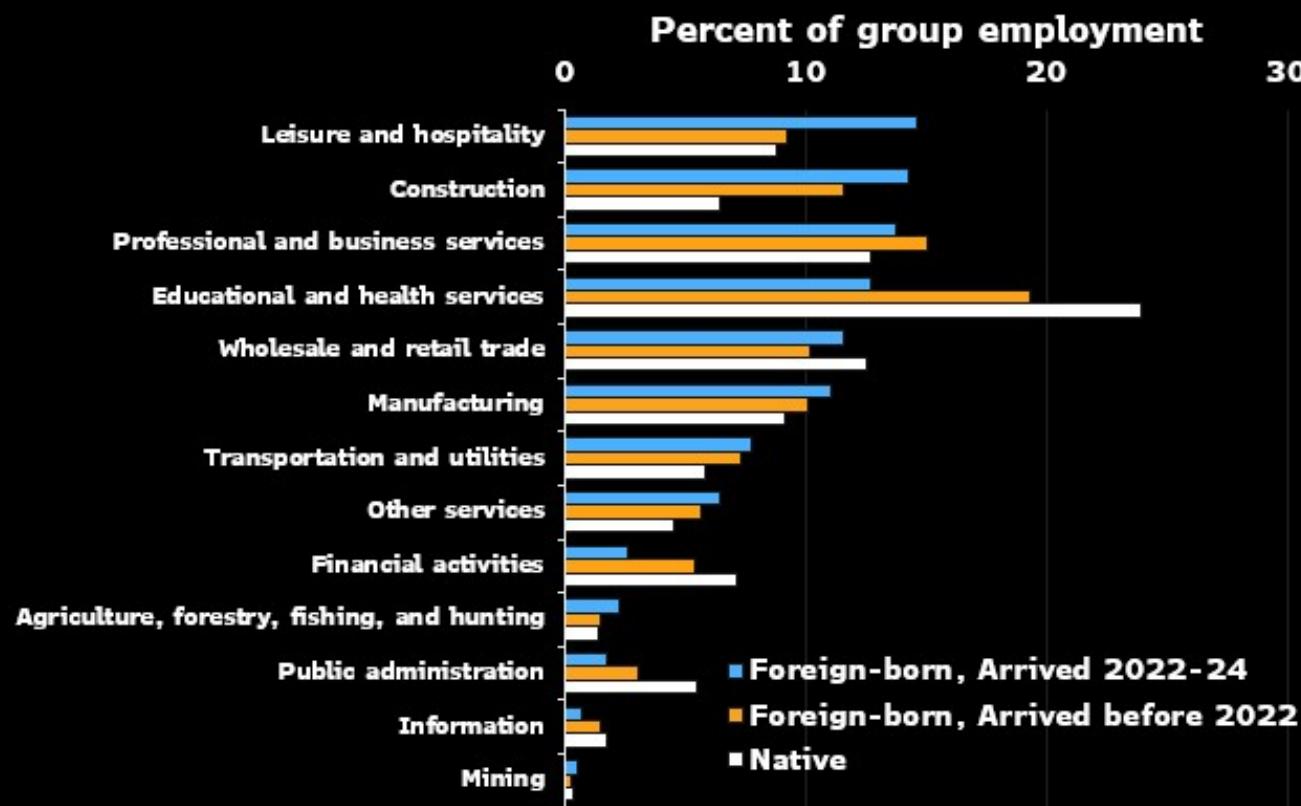


Source: UN Comtrade, Bloomberg Economics. Note: Figure uses 2023 trade data and includes the top 200 HS4 products as ranked by value of US exports to China. The size of the bubble is proportional to the value of US exports of each good to China. "More effective target" indicates a product located in this part of the graph is more likely to be targeted by China.

Trade Authority (Likelihood)	Purpose	Process	Examples from First Trump Administration
<b>International Emergency Economic Powers Act of 1977</b> (Most Likely)	Empowers the president to address “unusual and extraordinary” threats	<ul style="list-style-type: none"> <li>President declares national emergency, with annual renewal</li> <li>In practice, declaration and imposition of trade measures could happen within weeks</li> </ul>	<ul style="list-style-type: none"> <li>Trump threatened 5% tariff on all goods from Mexico in 2019; prevented via negotiations</li> </ul>
<b>Section 301, Trade Act of 1974</b> (Most Likely)	Addresses unfair foreign trade practices	<ul style="list-style-type: none"> <li>USTR investigates, reports within 12 months</li> <li>President can impose tariffs, quotas with no set limit or duration</li> </ul>	<ul style="list-style-type: none"> <li>China (Tech Transfer): Initial 25% tariffs on \$34 billion in goods (2018); later rounds affected \$370 billion in goods</li> <li>EU (Commercial Aircraft): 10% tariffs on aircraft and 25% on other goods; WTO ruled US could tariff up to \$7.5 billion in goods</li> <li>Four separate investigations did not result in tariffs</li> </ul>
<b>Section 232, Trade Expansion Act of 1962</b> (Likely)	Restricts imports that threaten national defense or economic security	<ul style="list-style-type: none"> <li>Commerce Department investigates, reports within 270 days</li> <li>President decides within 90 days on tariffs, quotas</li> <li>No set expiration; subject to periodic review</li> </ul>	<ul style="list-style-type: none"> <li>Steel: 25% tariff</li> <li>Aluminum: 10% tariff</li> </ul>
<b>Section 201, Trade Act of 1974</b> (Likely)	Safeguard for US industries injured from a surge of imports	<ul style="list-style-type: none"> <li>USITC investigates; reports to president within 180 days</li> <li>President has 60 days to act</li> <li>Measures can be applied up to 4 years (renewable up to 8 years)</li> </ul>	<ul style="list-style-type: none"> <li>Washing machines: Tariffs starting at 20% on first 1.2 million units and 50% beyond that</li> <li>Solar panels: 30%, decreasing by 5% annually for 4 years</li> </ul>
<b>Section 338, Tariff Act of 1930</b> (Unlikely)	Retaliates against foreign countries that discriminate against US goods	<ul style="list-style-type: none"> <li>USITC investigates</li> <li>Allows punitive tariffs up to 50% or blocking imports from offending countries</li> <li>Application and duration at president's discretion</li> </ul>	<ul style="list-style-type: none"> <li>Not used</li> <li>Superceded by Trade Act of 1974 but remains on the books</li> </ul>
<b>Section 122, Trade Act of 1974</b> (Unlikely)	Allows for addressing balance-of-payments issues or protecting dollar stability	<ul style="list-style-type: none"> <li>President can impose 15% tariffs for 150 days</li> <li>Intended for short-term crises</li> </ul>	<ul style="list-style-type: none"> <li>Not used</li> </ul>

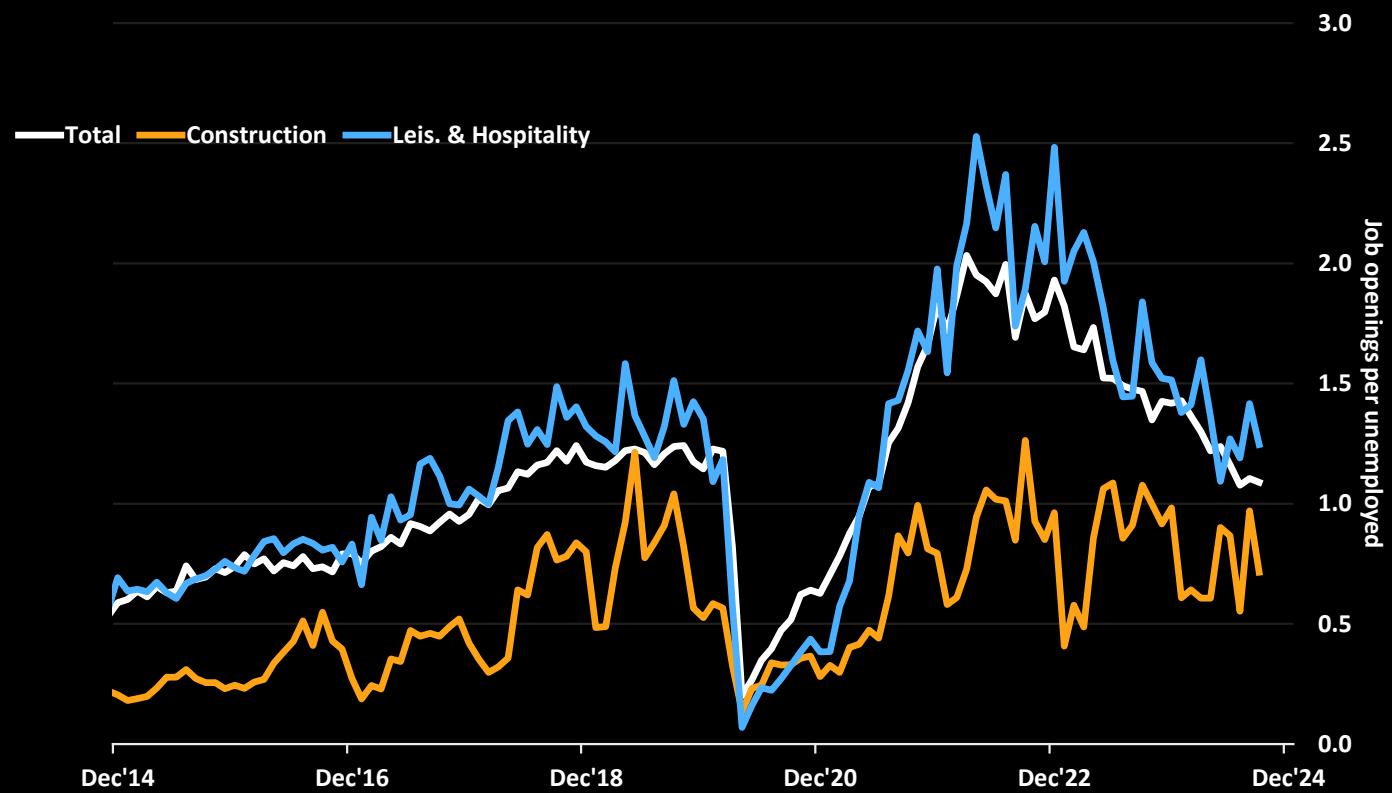
# Immigration, Deportation

# Where Do New Immigrants Work?



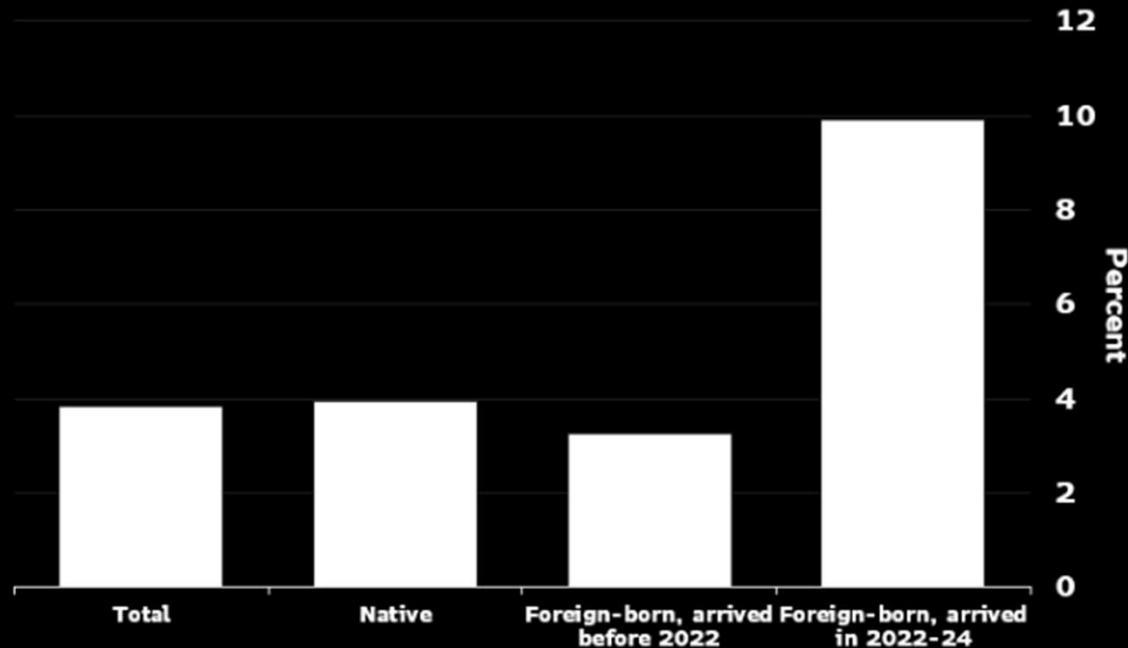
Source: BLS, Bloomberg Economics

# Jobs Opening in High-immigrant Sector



# Where Do New Immigrants Work?

Unemployment Rate More Than Double Other Workers'



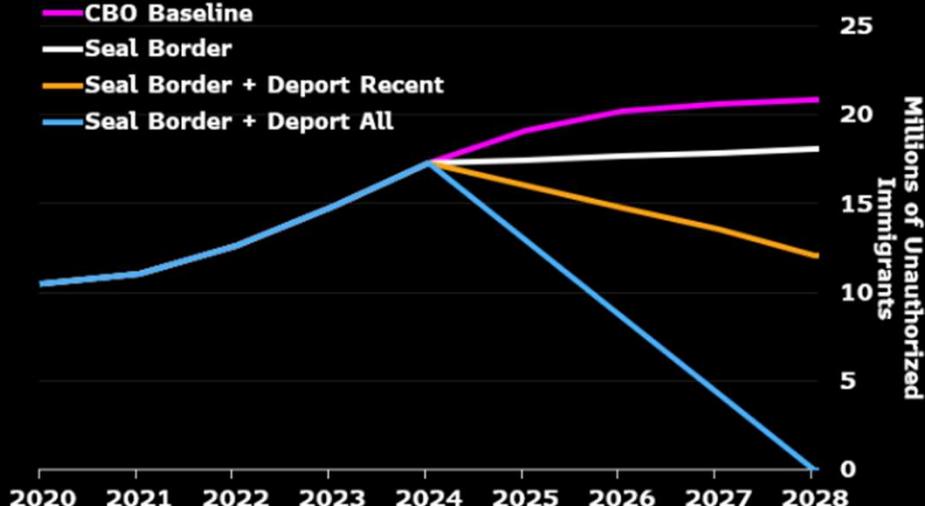
Source: CPS micro data, Bloomberg Economics. Note: Data are non-seasonally adjusted 2Q24 averages.

Source: BLS, Bloomberg Economics

# Deportation Scenarios

Scenario	Description	Population*	GDP*	Prices*
Seal Border	Net unauthorized immigration returns to a “normal” level of 200k/year beginning in 2025	-2.8 million	-1%	-0.2%
+ Deport Recent Unauthorized Immigrants	Level of unauthorized immigrant population returns to 2020 level by the end of 2028	-8.7 million	-3%	-0.6%
+ Deport All Unauthorized Immigrants	Entire unauthorized immigration population is deported	-20.8 million	-8%	-1.6%

Potential Paths for the Unauthorized Immigrant Population



Note: \* Estimated 2028 impact relative to CBO baseline projection

Source: CBO, Bloomberg Economics

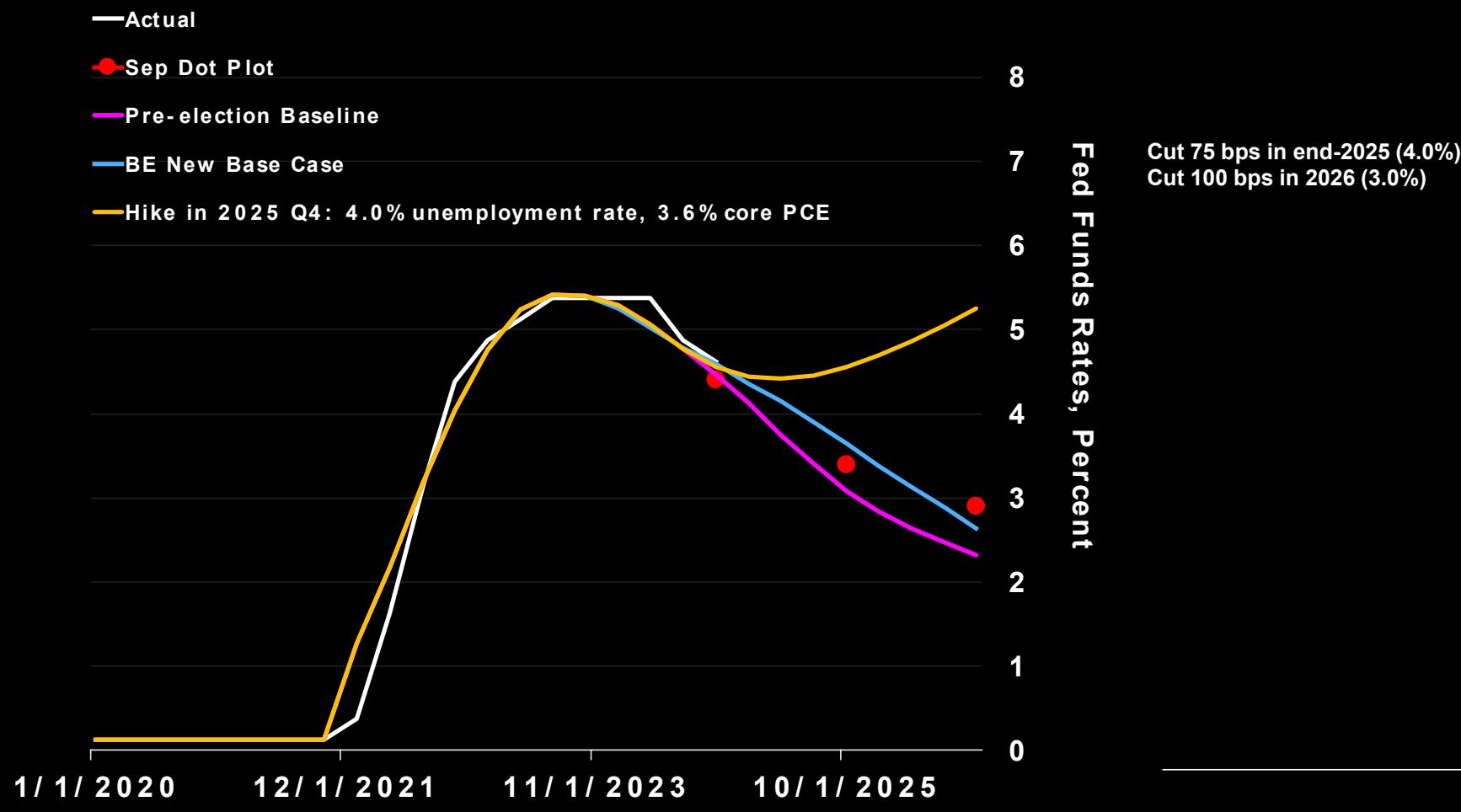
Source: BLS, Bloomberg Economics

# Fed

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# Fed: To Cut Rates



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