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US PRESIDENTIAL ELECTION: THE UNDERLYING ECONOMIC ISSUES

Anis Bensaidani

The presidential election on 5 November is associated with underlying but potentially decisive economic issues.

Political aspects: The election pits Vice President Kamala Harris (Democrat) against former President Donald Trump (Republican). The winner will take office on 20 January 2025. The election looks set to be particularly closely contested, despite the momentum in Donald Trump's favour at the end of the campaign. At the same time, voters will be deciding on the composition of the next Congress, which will significantly affect the new administration's room for manoeuvre.

Economic context: The vote comes against a backdrop of an apparently stronger economy. This is illustrated by solid macroeconomic performances, despite recent shocks, which are seemingly auguring a soft landing. However, past price and interest-rate rises are still adversely affecting sentiment among agents.

Economic issues

• International economic relations: The election will not halt the trend towards deglobalisation. Both camps have protectionist and interventionist reflexes.

• Regulation and the environment: Trump's desire for deregulation clashes with Harris' promise to tackle monopolistic practices. The issue of the environment is a clearer dividing line between the candidates. In particular, Trump wants to reconsider support for renewable energies and make it easier to exploit fossil fuels.

• Fiscal policy: Trump and Harris have radically different taxation plans and target groups. However, both are anticipated to generate additional debt, despite the obvious deterioration in public finances. The Trump scenario is associated with the greatest risk, by a factor of two.

• Federal Reserve: A questioning on the Fed's independence, as suggested by Trump, would damage its credibility, with detrimental consequences for the dual mandate and the attractiveness of US securities.

Impact on the rest of the world: The main risk is a rise in the US dollar and interest rates. Trump's policies are likely to increase US bond yields (more debt) and inflation (supply restrictions and customs tariffs), with rising inflation leading the Fed to hike its rates. This would result in tighter financial conditions for the rest of the world, adversely affecting growth and public finances.

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The world's biggest political event of the year, the 60th presidential election in the history of the United States, will take place on 5 November 2024. The leading candidates are incumbent Vice President Kamala Harris (Democrat) and former President Donald Trump (Republican). The purpose of the popular vote is to appoint the college of 538 electors who will actually elect the future President, who is scheduled to be inaugurated on 20 January 2025. The election promises to be particularly closely contested. Kamala Harris' entry into the race in July created positive momentum for the Democratic Party, before Donald Trump's support picked up again, increasing his likelihood of winning at the end of the campaign. Voters will also decide on the composition of Congress (with all seats in the House of Representatives up for election, as well as a third of Senate seats). This will have major implications for the new President's ability to implement his or her policies.

While societal issues are at the forefront of public debate, economic issues are equally crucial. On the one hand, the election will have potentially major consequences for the trajectory of US public finances. Secondly, the choice of Jerome Powell's eventual successor as Fed Chairman in 2026 could be part of a wider questioning of the central bank's mandate. Finally, the broadly interconnected directions of industrial, environmental and tariffs policies will hinge on who wins the election, as will their consequences for the rest of the world and, in particular, for the European Union.

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Perceptions of the outgoing administration's economic record will also play a role. The election is taking place against a specific backdrop, with a significant gap between the subdued sentiment of economic agents and the country's positive macroeconomic performance. In August 2024, 44% of Americans cited an economic issue[1] when asked about "the Nation's most important problem[2]" (*Chart 1*). This figure has risen sharply since January 2021, when Joe Biden became President. At that time, the figure was 9%, the lowest since 1968.

This article aims to highlight the underlying and potentially decisive economic issues at stake in the US presidential election. We will begin with an overview of the macroeconomic situation in the United States, before looking at the impact of the elections for Congress on the future President's room for manoeuvre. We will then look at the economic policies (industrial, trade and environmental) that have an impact on the United States' attractiveness, but also, and perhaps above all, the repercussions on foreign economic relations. Finally, we will look at the challenges of the policy mix, with its deteriorating budgetary situation and the threats to the independence of its monetary policy.

1 Of which 24% mentioned "the economy in general" and 15% "the cost of living and inflation"
2 Gallup, Most Important Problem, October 2024

KEY MILESTONES	
Date	**Event**
November 5, 2024 **Election Day**	**Presidential Election** House of Representatives elections Senate elections
November 6-7, 2024	*FOMC Meeting*
December 17, 2024	Electors cast their votes for president in the Electoral College
January 3, 2025	**119th Congress opening**
January 6, 2025	Congress counts the electoral votes
January 20, 2025	**Presidential Inauguration Day**
Sources: USA.gov, BNP Paribas	

TABLE 1 SOURCE: USA.GOV, BNP PARIBAS

STATE OF PLAY: AN ECONOMY THAT IS BECOMING EVER STRONGER?

Ready for landing: the United States is performing well in the current cycle. In fact, the country returned to its late 2019 production level as early as Q1 2021 (*Chart 2*), whereas the sudden recessionary shock caused by Covid-19 interrupted the longest period of economic expansion in its history (June 2009 - February 2020). US growth also remained robust in 2022 (+2.0%) and 2023 (+2.9%), exceeding forecasts and its potential pace, despite the inflationary shock and the massive monetary tightening undertaken by the Fed to counter it. The Fed raised its target range to +5.25% - +5.5% (+525 bp) between March 2022 and July 2023, before keeping it at this level until September 2024. This tightening - the fastest and most extensive since the 1980s - fuelled a consensus that a recession was imminent. This did not materialise, while the soft-landing scenario (return of inflation to the 2% target without a recession) became more likely.

Macro/micro mismatch: Two factors temper this generally positive picture. The first is the deteriorating public finances. We will come back to this later. The second is the soaring inflation in 2021 and 2022, reaching levels not seen for over 40 years (+8.0% annual average in 2022, according to the BLS CPI measure). This caused major difficulties for households, which were penalised twice, both by the loss of purchasing power and by tighter credit conditions. Inflation then fell, with a lower economic cost than feared (*Chart 3*). This disinflation paved the way for rate cuts, with the Fed beginning to ease its key rates in September 2024. Real incomes have also started to catch up. Even so, household sentiment has not particularly improved. This is due to the public's aversion to higher prices and, more recently, the emergence of fears about employment. In addition, past monetary tightening continues to have a negative impact on mortgage lending. Nonetheless, household consumption has remained robust in recent quarters, against a backdrop of surprising resilience in the labour market and the spending of excess savings, the main driver of US growth.

THE KEY ROLE OF CONGRESS

Election Day: 5 November is not just about electing the President of the United States. At the same time, voters will be asked to choose the members of the country's 119th Congress (2025 - 2027). Congress, the legislative branch of the federal government, is made up of the Senate and the House of Representatives. The House of Representatives is made up of 435 members, representing a congressional district for a two-year term. The Senate has 100 elected members (two from each State) and one-third of its membership is renewed every two years.

Distribution of powers: the future President's legislative and fiscal leeway will largely hinge on the configuration of the Congress following Election Day. The most politically ambitious projects or those with a major impact on public finances will require the President's political party to control both Houses. Conversely, a divided Congress (with a single Chamber aligned with the administration) or an opposition Congress (with the President's party in the minority in both cases) would drastically restrict the President's aspirations for reform. In this scenario, however, the President has the right to veto bills passed by Congress. This can only be overridden by a further vote requiring a qualified majority in both houses[3]. The possibility of a President-elect not obtaining a parliamentary majority is not at all improbable, given the history of the country and the current balance of power.

3 Two-thirds in each Chamber

INFLATION HAS FALLEN, BUT NOT ITS IMPACT ON THE PUBLIC

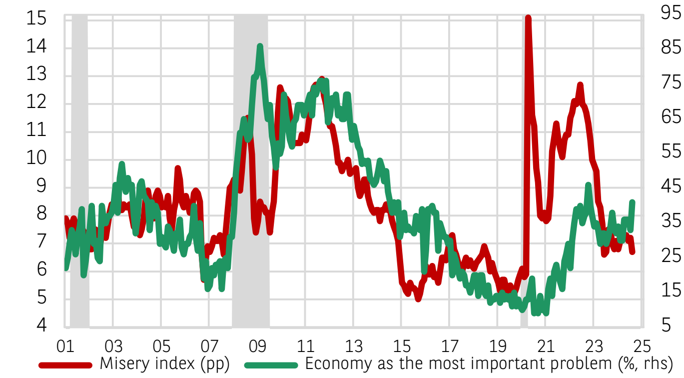


CHART 1 SOURCE: BLS, GALLUP, NBER, BNP PARIBAS

SWIFT RETURN TO GROWTH (100 = Q4 19)

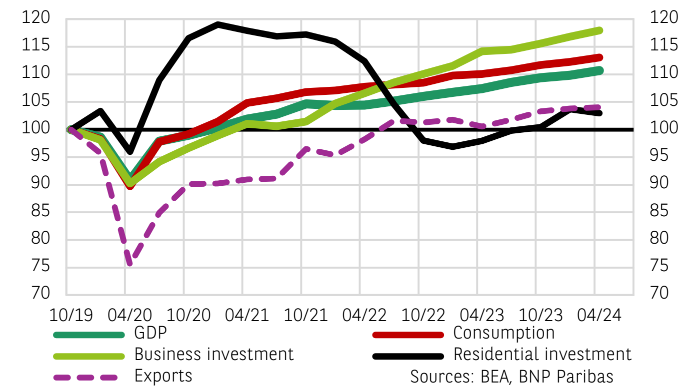


CHART 2 SOURCE: BEA, BNP PARIBAS

THE LOW EMPLOYMENT COST OF DISINFLATION

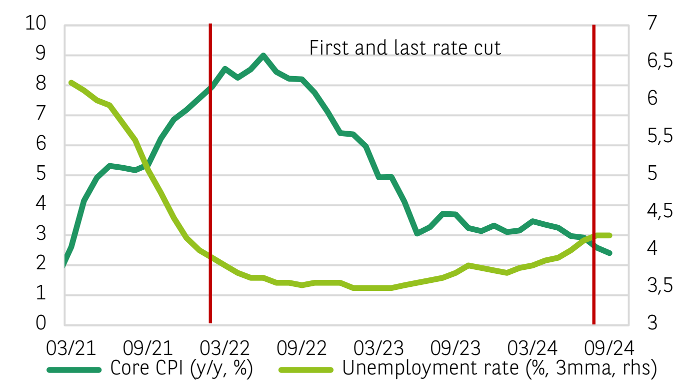


CHART 3 SOURCE: BLS, BNP PARIBAS

Uncertainty: just like the presidential election, the elections for Congress are shaping up to be just as tight. An analysis of the forces at play suggests that Kamala Harris is more likely to deal with a divided Congress.

INTERNATIONAL COOPERATION AND DOMESTIC INDUSTRY: A DIFFERENCE IN METHOD

Deglobalisation: in recent years, there has been a global trend towards greater State interventionism in industrial policy, and even protectionism in trade. Among Western economies, the United States is in the vanguard of this shift, which is set to intensify in the medium term. The start of an open trade war with China and the imposition of tariffs on steel and aluminium during Donald Trump's term in office marked the beginning of this shift. The pandemic shock amplified it, with increased attention being paid to supply chains and access to critical materials. Ahead of this election, it should be noted that the President has extensive powers over trade policy, enabling him or her to implement his or her programme rather extensively without the approval of Congress.

More customs duties: a return of Donald Trump to the presidency of the United States will likely see an intensification of the trade war between the country and its trading partners. In particular, the former President has promised a 10-20% customs tariff on all imports. As was the case during his term in office, China would be the main target, with tariffs of up to 60%. The stated aim of the candidate's proposals is to protect domestic production and jobs. Nevertheless, these proposals will most likely have significant adverse effects, particularly on inflation. Higher inflation would weigh on domestic demand, especially as it would call for a restrictive monetary policy response, with a negative impact on growth.

Decoupling vs. re-routing: the Republican camp also wants to challenge China's status as a Most Favored Nation. This would be a symbolic illustration of a step backwards in terms of economic integration, with this status having been granted in 2000 as a prelude to China's entry into the WTO (2001). Conversely, the actual impact of the measures to decouple trade has to be put into perspective for the time being. It is true that US imports of goods from China have fallen since 2018 (-20.7%).

SHARE OF GOODS EXPORTS TO THE US
(% COUNTRY'S TOTAL EXPORTS, JULY 2024*)

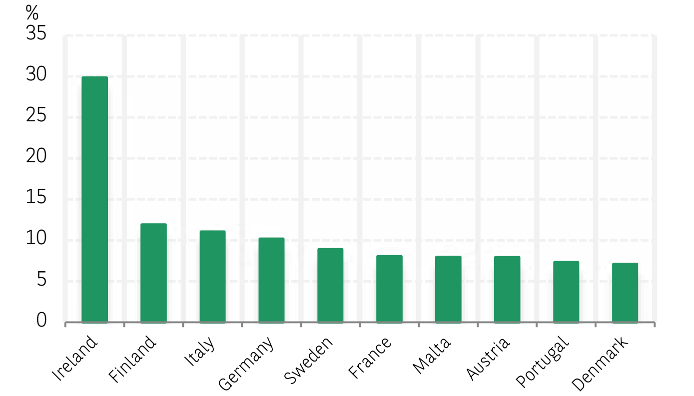
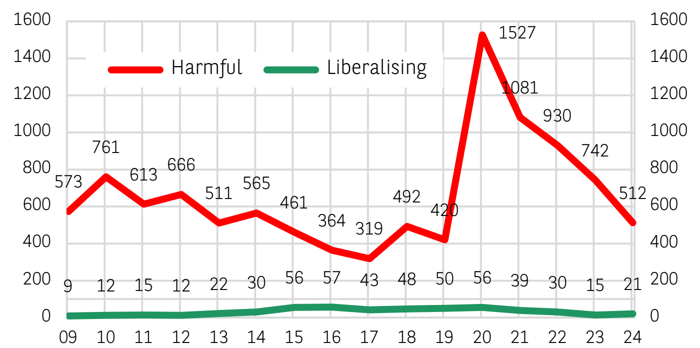


CHART 4 SOURCE: EUROSTAT, BNP PARIBAS

YEARLY COMMERCIAL POLICY INTERVENTIONS IN THE US



NOTE: UNDER BIDEN, THE NUMBER OF INTERVENTIONS DEEMED HARMFUL TO FREE TRADE WAS HIGHER THAN IN THE EARLY YEARS OF TRUMP'S TERM IN OFFICE

CHART 5 SOURCE: GLOBAL TRADE ALERT, BNP PARIBAS

EU COUNTRIES MOST EXPOSED TO THE US MARKET

While Americans are not talking very much about Europe during the presidential campaign, Europe is talking a lot about the US election. It is being followed all the more closely because the consequences of this election could be significant for the European Union (EU), depending on who is victorious. Generally speaking, a victory for Kamala Harris would signal a form of status quo in transatlantic relations, while a return of Donald Trump to the presidency would be a source of renewed tension and uncertainty for the EU.

On the geopolitical front, support for Ukraine could well face the axe. Trump is boasting about bringing about a swift resolution to the conflict, while, at the same time, US financial aid is unpopular within his own party. While Harris claims to be committed to Ukraine, a lack of Democratic control of Congress could also threaten US financial support for Ukraine. In short, the risks are pointing towards an increased financial contribution (proportionally and in absolute terms) from the EU, which might have to compensate for a (partial or total) withdrawal of its American partner. This applies similarly to the issue of NATO and Member States' military spending.

On the foreign trade front, Donald Trump's customs plans are likely to damage the prospects and competitiveness of European exporters in the US domestic market - the world's largest domestic market. With the exception of the European single market, the United States is the largest market for EU exporters. In July 2024, 20% of all EU exports (an annual average of EUR 460 billion) were destined for the United States. Higher US customs duties would have a different impact on the growth and export dynamics of EU countries, depending on their exposure to the United States (Figure 4). At a sectoral level, the United States is an important market, particularly for the pharmaceuticals (36% of the total outside the EU) and chemicals (34%) sectors. Both of these sectors could find it more difficult to absorb a loss of demand through increased exports to third markets.

The effects of renewed protectionism in the United States on macroeconomic conditions in the EU are still unclear and hard to predict. The disinflationary pressures initially expected in the EU from additional customs duties have to be weighed against the risk of imported inflation linked to a stronger dollar and possible retaliatory measures. These potential retaliatory measures are an unknown factor that adds to the uncertainty. Finally, as a domino effect, the EU's trade tensions with China could become more acute, for reasons linked to the European market or access to third-party markets.

BOX 1

However, at the same time, they have increased significantly from Mexico (+38.3%), South Korea (56.5%) and Vietnam (132.9%). At the same time, Chinese exports to these countries have risen sharply. This re-routing phenomenon points to a form of inertia or inevitability in trade between the two powers, as well as suggesting the inefficiency of protectionist practices through the associated additional costs.

Different methods, same goal: we should not expect a new spirit of cooperation if Kamala Harris was victorious. On these issues, there is no fundamental ideological opposition between the two camps, but rather differences in the intensity of the rhetoric and the political plans and actions. The Biden administration's economic policy,has seen a return to federal interventionism, reflected in the Inflation Reduction Act (IRA, 2022, ecological transition) and the CHIPS Act (2023, semi-conductors). So, while the methods differ, with the emphasis on tax incentives for the Democrats and tariff barriers for the Republicans, they are all part of the same protectionist approach. In addition, the number of trade policy measures deemed harmful to free trade has remained high under Biden's presidency (*Chart 5*), while most tariffs inherited from the Trump era have been kept in place.

Green policy in limbo: the candidates differ more sharply on regulatory issues. Trump has promised a major deregulation effort (10 regulations abolished for the creation of one new one). Admittedly, Harris is calling for a change in regulations that adversely affect the poorest households and small businesses. However, she has also promised to tackle the monopolistic behaviour and pricing practices of large corporations, particularly in the retail and pharmaceutical sectors.

This difference extends to environmental issues, which are naturally linked to regulatory issues. The Biden administration brought the United States back into the Paris Agreement. The vote in favour of the IRA, which puts environmental objectives at the service of industrial policy, is one of the strongest signals of this. Kamala Harris has, however, backtracked on her opposition to shale gas. Exploitation of this has become an asset for the US economy by enabling the country to become a net producer of hydrocarbons from 2020, which makes it more competitive and more able to absorb energy shocks. The downside is that this negatively affects the energy transition. As for Donald Trump, he wants to leave the Paris Agreement once again and has repeatedly criticised the Democratic camp's support for electric cars. While the Democratic position is not unambiguous, it seems to be taking ecological issues more into account.

BUDGET: SKY IS THE LIMIT?

The fiscal issue is relatively absent from the campaign. This may seem surprising given the sharp deterioration in US fiscal metrics over the past decade. This deterioration preceded the pandemic crisis, which exacerbated it. There is little incentive for the candidates to push for a change in narrative and policy towards greater discipline, particularly for electoral reasons. However, the winner of the election will undoubtedly have to keep this issue in mind during his or her term of office. Furthermore, the budget vote is a frequent source of bipartisan tensions.

The permanent deficit: The US federal budget has been in deficit since 2001. The Congressional Budget Office forecasts that the deficit will remain at abnormally high levels over the 2024-2033 period (6.3% on average, *Chart 6*), which would contribute to the public debt ratio rising further to historic highs (*Chart 7*). Furthermore, the CBO's projections are based on current US legislation. As a result, they are accompanied by increased risks associated with the future administration's plans. Admittedly, the specific character of the United States (financial and political power, the dollar, and the lack of quantitative alternative to US Treasury bonds) means that the country can run current account and public sector deficits without losing credibility. However, there are still serious questions about the sustainability of its public finances without a halt to its debt trajectory. In addition, the persistent deficits reduce the room for manoeuvre for absorbing future shocks, while the size of the interest burden is likely to crowd out other more useful or productive expenditure (*Chart 8*).

Two costly projects: The Tax Cuts and Jobs Act (TCJA), an emblematic law of Trump's first term, will be extended and expanded if the Republican wins[4]. In addition, Trump is calling for a further reduction in the corporate tax rate (to 15%), after lowering it from 35% to 21% in 2017. These plans would certainly lead to a further deterioration in the budget trajectory compared with the already negative one projected by the CBO, mainly because of lower revenues. In addition, the theory that the 2017 TCJA would ultimately have a positive impact on the public accounts has been invalidated.[5]

4 With Republican control of Congress.
5 Brookings

A WARTIME-LIKE PERMANENT DEFICIT

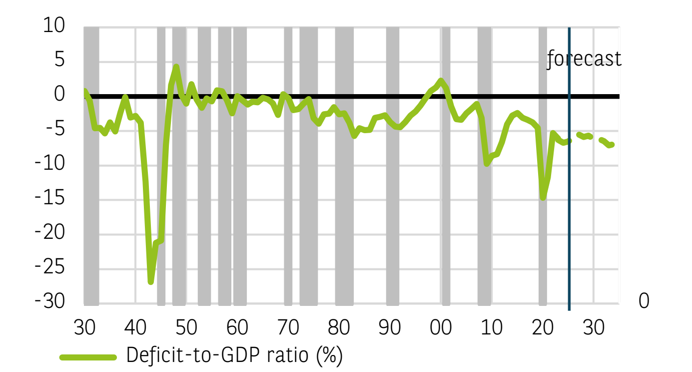


CHART 6 SOURCE: OMB, IMF, BNP PARIBAS

FEDERAL DEBT: ON THE PATH TO UNSUSTAINABILITY?

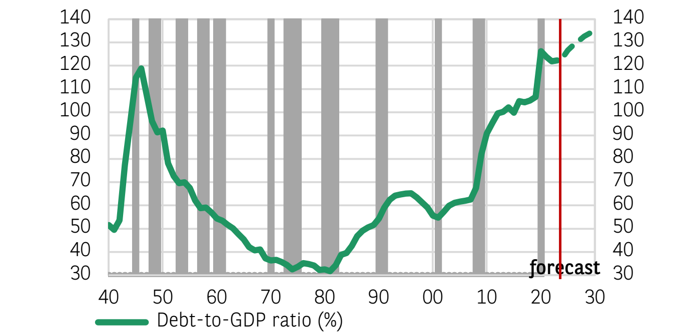


CHART 7 SOURCE: OMB, IMF, BNP PARIBAS

Harris is at the opposite end of the spectrum from her rival when it comes to revenue. The candidate is proposing an increase in the corporate tax rate (from 21% to 28%), as well as greater taxation of capital and high incomes. In theory, these plans will generate additional fiscal revenue, but they could have an adverse impact on investment. Harris wants to limit the extension of the TCJA to households with incomes of less than USD 400,000 per year and wishes to set the tax child credits at a permanently higher level.

Neither candidate has made the fiscal situation a campaign or economic-policy priority. More worryingly, it is estimated that their plans would widen budget imbalances even further, more significantly under the Trump scenario than under the Harris scenario (*Chart 9*). The central scenario of the non-partisan Committee for a Responsible Federal Budget (CRFB) estimates the net impact of the measures proposed by Kamala Harris on the projected deficit for the period 2026-2035 at USD 3,950 billion, with the various tax increases partially offsetting USD 7,650 billion in additional spending and tax cuts. The net impact of Trump's plan would be USD -7,750 billion, due to increased spending and tax cuts (USD 10,400 billion, mainly for the extension of the TCJA and the tax exemption for overtime and Social Security benefits) partially offset by an increase in revenue (USD +3,700 billion, mainly via customs duties).

One-way use of the budget: Fiscal stimulus has played a key role in the post-pandemic recovery. At the time of the shock, the policy mix acted in a coordinated manner, with support from the CARES Act on the one hand and the FOMC rate cuts (March 2020) on the other. Nevertheless, fiscal and monetary policy have come into conflict from 2022 onwards. The Fed's massive tightening has coexisted with the lack of discretionary reduction in the budget deficit, which could have helped the Fed in its fight against resurging inflation. However, keeping an expansionary budget has contributed to the strength of household consumption, despite the double shock of inflation and interest rates. This mismatched policy mix is part of a long-term trend of gradually abandoning the use of fiscal policy for countercyclical purposes to its monetary counterpart when it comes to cooling the US economy. In addition, the polarisation of US politics is a structural obstacle to changing the fiscal path.

Cascading effects: Persistent deficits may have negative secondary effects on interest rates. This would result in tighter financial conditions for all borrowers, both for US economic agents and for other sovereigns. The benchmark role of US bonds explains this.

The currently inconsequential drift in US public finances, authorised by the unique position of the United States, will most likely be put to the test in the medium term, with the risk increasing as federal debt rises, depending on how governance problems develop, or should there be macroeconomic and financial shocks.

MONETARY POLICY: THE VIRTUES OF INDEPENDENCE

Powell to fulfill his term: Jerome Powell's term at the head of the Federal Reserve expires in 2026. It will be up to the future President of the United States to appoint his successor before the Senate votes on the proposal. This illustrates the importance of Congress as a check on the President's discretionary power. In 2020, for example, the Senate, although under Republican control, rejected the proposal to appoint Judy Shelton to the Board of Governors, as her stance was deemed unconventional.

If Powell is potentially eligible for reappointment, his new term would

NET INTEREST TO OUTSTRIP NONDEFENSE DISCRETIONARY OUTLAYS

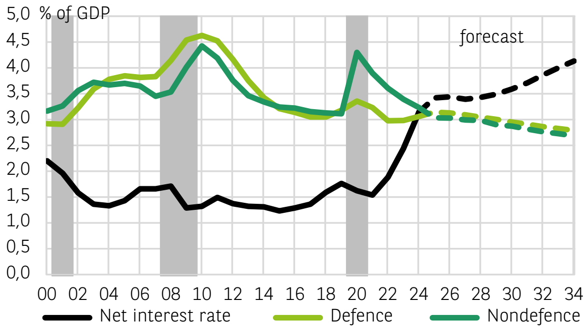
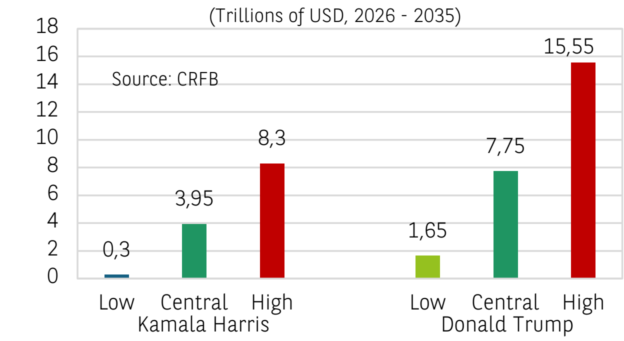


CHART 8 SOURCE: CBO, BNP PARIBAS

NET DEFICIT IMPACT OF CANDIDATES' PLANS



NOTE: FEDERAL DEBT WOULD LIKELY TO INCREASE FURTHER WITH TRUMP AS PRESIDENT

CHART 9 SOURCE: CRFB

expire in January 2028, corresponding with the expiry of his non-renewable term as a member of the Board of Governors. At present, our central scenario is that Powell will remain Chair of the Fed until the end of his current term, even if Trump was victorious, despite the latter well-known dislike of the former. Although the Federal Reserve Act provides the legal option to remove a governor for "cause", the process, which would likely be lengthy and uncertain, has never been tried before. With this in mind, an early end to Powell's term (other than as a result of a personal decision) seems highly unlikely.

The anchor of independence: the candidates differ in their approach to monetary policy. Donald Trump has said that the President should *"at least have a say"* in setting interest rates[6], while Kamala Harris has pledged to *"never interfere with [its decisions]"*[7]. The underlying question is the degree of independence of the central bank. While this seems to be accepted today, it is not an historically intangible fact. It is empirical evidence, such as the Nixon/Burns collusion of 1972 (as an example not to be followed) or the Volcker era at the Fed (as a benchmark) that has led to the consensus. From this point of view, however, and despite the legislative framework, an historical institutional break

6 Trump signals interest in influencing Federal Reserve if he regains White House, Reuters, 9 August 2024
7 Harris says she would never interfere in Fed independence, Reuters, 11 August 2024

THE POLITICAL-ECONOMIC CONTRADICTION OF IMMIGRATION

Immigration is a dominant theme in current political discourse in the United States. The percentage of the foreign-born population within the total US population rose from 4.7% to 13.9% (9.6 to 46.2 million in absolute terms) between 1970 and 2022. In August 2024, this was the most mentioned factor in the Gallup survey on «the nation's most important problem» . Furthermore, in 2024, the Senate voted in favour of a bipartisan agreement to tighten control of the Mexican border, which was rejected at Donald Trump's request by the Republicans in the House. This illustrates the desire to make the issue a differentiating factor against the Democrats. More generally, it shows how political polarisation can block legislative changes despite there being a bipartisan compromise.

There is a discrepancy between the way the issue is being tackled politically and its economic implications. As far as the economic implications are concerned, the consensus is that immigration has a net positive effect on the US economy . Trump himself wants deportations of illegal immigrants to be offset by legal arrivals. Immigration also played a role, probably a decisive one, in avoiding a recession in 2023 and a sharp rise in the unemployment rate, by contributing to a supply-side rebalancing of imbalances in the labour market. In fact, the influx of migrants enabled the labour force to recover its pre-Covid trend from the start of 2023 - an event previously considered unlikely, at least in the short term (Figure 13). In short, by supporting production and consumption, supply and demand, the new arrivals have helped to keep growth going despite the monetary tightening.

However, Trump's programme and rhetoric are characterised by aggressive positions on this issue, whereas Harris is seeking a balance between acceptance and firmness. While Harris can be expected to follow Biden's tough stance, it will be on a much smaller scale than Trump, who is calling for «the largest deportation of migrants in the history of the United States» (the number of illegal immigrants is estimated at 11 million). As well as having a negative economic impact, such a measure would also be inflationary and fiscally costly. In either case, albeit in different proportions, a slowdown in migratory flows and, by extension, in the growth of the labour force, can be expected in the years ahead, with negative consequences for potential US growth.

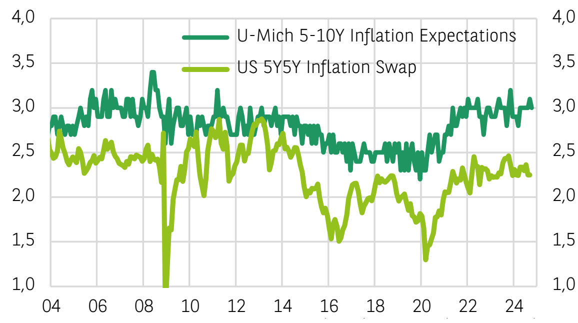
BOX 2

cannot be completely ruled out. This would damage the institution's credibility. A central bank under political influence exposes itself to the suspicion of inflationary bias, threatening the anchoring of inflation expectations. In this respect, the speed of the tightening in 2022 was intended as much to cool the economy as to minimise the risk of inflation expectations becoming unanchored, due to lags and real rates remaining negative. The latter of these objectives was achieved, and inflation expectations remained relatively well anchored (*Chart 10*). Therefore, communications and the messages conveyed play a crucial role, together with the rate target, in the public's perception of the central bank's credibility.

Risks for the dual mandate: the Fed's ability to intervene (correctively or preventively) would be reduced if it was subordinate to the administration. In addition, keeping interest rates low to support the economy would deprive it of the room for manoeuvre that it needs to play its countercyclical role should there be a recession (zero lower bound constraint), as well as threaten the dual mandate overall due to inflationary risks. The Fed does not have full latitude in setting rates either, as, in to order to assess the appropriateness of the calibration of its monetary policy (in order to know how far it should or can go when raising or lowering rates), it must take into account the level of the neutral rate, which involves inherently uncertain estimations. Ultimately, in view of changes in market rates, the Fed's power over the effective level of rates (as well as influencing its credibility) is not automatic (*Chart 11*).

Impact on financial attractiveness: Trump's desire to weaken the US dollar to improve the price competitiveness of foreign trade could be part of a wider takeover of monetary policy. Paradoxically, the taxation and tariffs policies promoted by Trump are seen as favourable to the dollar, whose appreciation runs counter to his desire to see it lower. In fact, over the last few months, the correlation between the probability of Trump winning the election and the appreciation of the dollar appears strong (*Chart 12*). In the absence of a transnational agreement (such as the 1987 Plaza Accord), there remains the possibility of a weakening of the greenback through key rate cuts, albeit at the risk of creating instability around the national currency and undermining its attractiveness, while it is a fundamental asset of the US economy. Similarly, the materialisation of the inflationary risks associated with

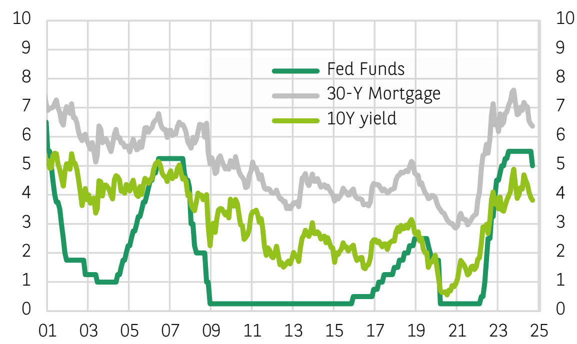
MARKET AND SURVEY BASED INFLATION EXPECTATIONS



NOTE: AN UNCONTROLLED SHIFT IN INFLATION EXPECTATIONS HAS BEEN AVOIDED

CHART 10 SOURCE: BLOOMBERG, UMICH, BNP PARIBAS

RATE TRANSMISSION (%)



NOTE: PASSING ON RATE HIKES IS NOT AN AUTOMATIC PROCESS

CHART 11 SOURCE: MACROBOND, BNP PARIBAS

Trump's economic programme, combined with the Fed's reduced independence or credibility and a weaker currency, would increase the risk associated with US equities and bonds, as well as having a negative effect on the conduct of fiscal policy.

CONCLUSION

The economic issues at stake in the US presidential election are not confined to the identity of the new President or the candidates' election promises, whose implementation, in any case, hinges significantly on the balance of power in Congress. The election is taking place against a backdrop of a robust US economy. This should not blind us to structural problems and weaknesses (such as socio-economic inequalities and the secular decline in the labour force participation rate), nor to the ongoing slide in public accounts or the lasting negative impact of nominally higher prices on household sentiment.

Beyond the effects of US developments on macroeconomic and financial conditions for the rest of the world, the main impact of the election for other economies lies in the industrial, trade and environmental policies promoted by the candidates. On these issues, there is a general trend, fuelled by the consequences of the Covid-19 pandemic, towards greater isolationism. This may take the form of increased customs duties or domestic favouritism via fiscal policy. Nevertheless, a return of Donald Trump to the White House would do even greater damage to international cooperation and environmental objectives. The former President's customs plans could harm both the competitiveness of European exporting companies and transatlantic cooperation. At a US level, there are also fears of counterproductive effects, whether on growth, inflation, or public finances, depending on the plan in question.

The outcome of the election is also likely to have a major impact on the make-up of the US policy mix. While neither candidate has made fiscal consolidation a campaign theme, the deterioration in US public finances poses a risk and is a long-term challenge. The central role of the Federal Reserve (reinforced by the abandonment of the budget's countercyclical function in overheating situations) is a major issue. Greater political interference, or an actual takeover by the executive, would cause a problem of autonomy and, ultimately, damage the Fed's credibility and effectiveness.

Ultimately, the next President will have to deal with complex challenges, with potentially major consequences for the macroeconomic organisation of the United States and international cooperation. The election fundamentally highlights these invisible issues that go beyond political debates and will play a crucial role in the long-term trajectory of the US economy.

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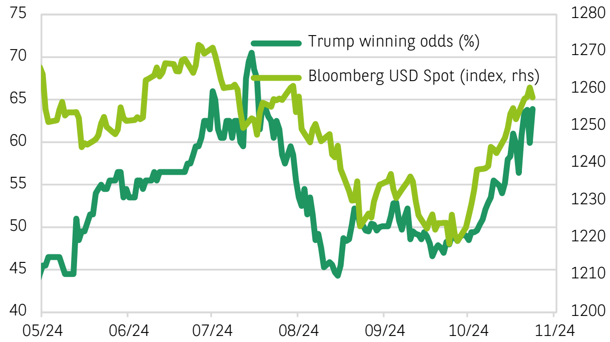
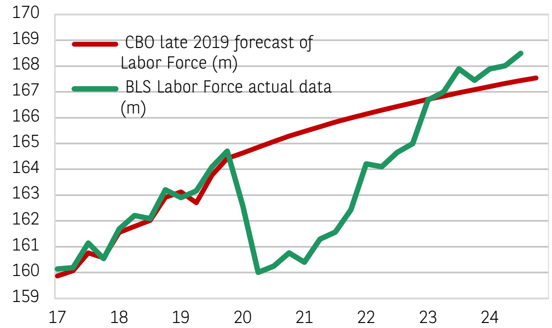
USD BULLISH ON GREATER PROSPECTS OF A TRUMP WIN



NOTE: RALLY IN THE USD IN THE EVENT OF A TRUMP VICTORY

CHART 12 SOURCE: BLOOMBERG, BNP PARIBAS

IMMIGRATION-INDUCED LABOUR SUPPLY CATCHUP



NOTE: THE INFLUX OF MIGRANTS HAS ENABLED THE WORKFORCE TO EXCEED PRE-PANDEMIC FORECASTS

CHART 13 SOURCE: BLS, CBO, BNP PARIBAS

APPENDIX: THE POLITICAL LANDSCAPE

Change of programme: American politics features a two-party system. The only candidates reasonably likely to win a presidential election are those nominated by the Grand Old Party (GOP) and the Democratic Party. The GOP chose Donald J. Trump after the primary process. For the Democratic Party, Kamala Harris was nominated by the party's delegates in place of Joe Biden, who withdrew his candidacy in response to finding himself in a hopeless position, particularly in terms of popularity.

The ticket: voters cast their votes for a "ticket" made up of the candidate and his or her running mate, who will accompany the candidate to the White House as Vice President. Historically an honorary position, the Vice President has become more influential over the last few decades. Above all, it is his or her job to replace the President if the President is unable to serve his or her full term of office[8]. In 2024, the candidates have chosen relatively distinct approaches to selecting their running mates. Donald Trump prioritised ideological alignment with the positions of the Trumpist wing of the party by choosing J.D. Vance, a 40-year-old senator. As for Kamala Harris, her choice of Tim Walz is in keeping with the tradition of "rebalancing" (geography, gender and ethnicity), while also appointing a figure closer to her positions than other putative running mates[9].

The voting system and its implications: the President of the United States is elected by indirect universal suffrage. The actual election of the President is carried out by the 538 electors appointed by the "popular vote" on 5 November in each State. The number of electoral votes allocated to each State corresponds to the number elected to the Senate (2) and the House of Representatives (depending on demographics)[10]. In almost all cases, the leader in the popular vote in a State wins all of the associated electoral votes, irrespective of the gap between him or her and the candidate in second place[11].

However, because of this approach, the ticket attracting the most popular votes on 5 November may not ultimately be victorious in the election. This has happened on five occasions in American political history, including the 2000 (George W. Bush elected against Al Gore) and 2016 (Donald Trump elected against Hillary Clinton) presidential elections (see *table*).

The system of electors and the strong anchoring of specific States in favour of a political party means that attention is redirected towards the key swing States. Candidates have to devote attention and resources to these battleground States that clearly exceed their demographic weight, due to the influence they are likely to have on the distribution of electors. In 2024, the key swing States are, in alphabetical order (and assuming there are no major surprises elsewhere): Arizona, North Carolina, Georgia, Michigan, Pennsylvania and Wisconsin, making a total of 93 electors. In 2023, they accounted for 18.3% of the population and 15.6% of US GDP. Between 2016 and 2020, five of these seven States swung from the red (Republican) camp to the blue (Democrat) camp, enabling Joe Biden to win. This illustrates the vital importance of these Swing States, since the Democrat would have been defeated without this contribution, despite a significant lead of 7 million votes (4.4 pp) in the direct popular vote. It is estimated that just 43,000 extra voters in total for Trump in Arizona, Georgia and Wisconsin could have led to his re-election in 2020[12]. In the unlikely event, at this stage, of a tie in the college (269/269) or of the leading candidate not reaching 270 electors (disloyal electors or third-party candidate), the President would be elected by the House of Representatives using the contingent election process13, which has not been used since 1824. In 2024, given the narrow margins expected in the Key States, third-party candidates could deprive the main candidates of decisive votes.

8 25th Amendment to the Constitution
9 The favourites were Josh Shapiro, Governor of the Key State of Pennsylvania, and Tim Kelly (Arizona), who are considered to be further to the right of the Democratic Party than Kamala Harris and Tim Walz
10 The District of Columbia also has three electors.
11 Only Maine (4 electors) and Nebraska (5) do things differently, awarding one electoral vote to the popular vote leader in each of their congressional districts and two to the State-wide winner.
12 This would have implied a tie in the number of electors between Joe Biden and Donald Trump, leading to the election of the President by the House of Representatives, whose configuration was favourable to the Republican candidate for this voting method (1 vote per State) even though the majority was Democratic.
13 In this scenario, each State (as well as the District of Columbia) has a single vote. A candidate must obtain an absolute majority of 26 votes to be declared a winner of the presidential election.

THE WINNER OF THE DIRECT POPULAR VOTE IS NOT NECESSARILY THE WINNER OF THE ELECTION

Election	D-Nominee	Popular vote (%)	Electoral votes	Republican nominee	Popular vote (%)	Electoral votes
2000	Al Gore	48,4	266	**George W. Bush**	**47,9**	**271**
2004	John Kerry	48,3	251	**George W. Bush (inc.)**	**50,7**	**286**
2008	**Barack Obama**	**52,9**	**365**	John McCain	**45,7**	173
2012	**Barack Obama (inc.)**	**51,1**	**332**	Mitt Romney	**47,2**	206
2016	Hillary Clinton	51,3	227	**Donald J. Trump**	**46,1**	**304**
2020	**Joe Biden**	**51,3**	**306**	Donald J. Trump (inc.)	46,9	232

TABLE 2

SOURCE: FEDERAL ELECTION COMMISSION, BNP PARIBAS

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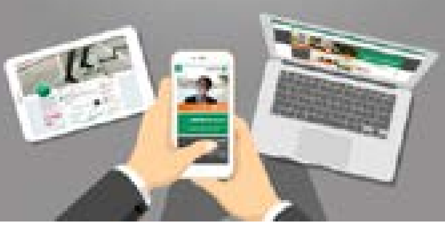

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