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Can Donald Trump Derail American Growth?

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The early weeks of Donald Trump's second term are strongly marked by multiple announcements regarding tariffs. It must be noted that this new trade war is experiencing numerous twists and turns that are not economically neutral.

This post is derived from the chapter dedicated to the United States in the OFCE forecast of April 2025.

The early weeks of Donald Trump's second term are strongly marked by multiple announcements regarding tariffs. It is clear that this new trade war is experiencing numerous twists and turns that are not economically neutral. On the one hand, empirical analysis not only highlights the negative effects of additional tariffs on economic activity.[1] On the other hand, the various announcements of sanctions followed by postponements also fuel significant uncertainty regarding U.S. trade policy, which should amplify the negative effects of the trade war and cause a slowdown in economic activity in 2025.[2]

1 An Uncertain American Economic Policy...

Uncertainty refers to a situation where economic agents—households, businesses—are unable to predict the future state of the economy. It can be linked to various factors: financial, economic policy, geopolitical situation… Economists generally distinguish this concept from that of risk, which corresponds to a probabilizable future. In the current situation, the uncertainty regarding American economic policy would stem from the fact that we would be unable to know whether the trade war launched by Donald Trump will ultimately result in a global increase in tariffs of 10%, 20%, or 30%. We would also be unable to predict the magnitude of tariffs applied to goods imported from China or the European Union, or what level of tariffs other countries will face. Similarly, will all goods be affected? If not, which goods will be exempt from taxes? The range of possibilities would be so wide that economic agents could not assign a probability to them.

[1] See, for example, the analyses by CEPII from 2024 and 2025, as well as those by economists at the *Petersen Institute for International Economics* (here).

[2] See here for a more detailed analysis of the effects of tariff increases.

Indeed, uncertainty is not observable. In financial markets, it can be measured by the implied volatility of the S&P500 stock index (VIX), which reflects the variability of stock prices anticipated by market actors.[3] Other indicators consider that the dispersion of inflation, unemployment, and interest rate forecasts can capture uncertainty.[4] Another approach involves identifying occurrences of the term "uncertainty" in the press. Thus, Baker, Bloom and Davis (2016) propose constructing an indicator of economic policy uncertainty, for all dimensions of economic policy, by identifying associations between the term "uncertainty" and "economic policy".[5] Since Donald Trump's inauguration in January 2025, uncertainty about American economic policy has increased significantly (graphique 1). It obviously concerns trade policy with a record level but also budgetary policy, linked to the various announcements by Elon Musk regarding cuts in the federal budget.

2 ... which should lead to a slowdown in activity

Uncertainty drives agents to adopt a wait-and-see approach. Indeed, in the absence of information about the future situation, it is preferable to postpone investment or hiring decisions. Companies will thus prefer to let time pass to see what the future holds. On the household side, uncertainty encourages prudence and therefore savings. However, one could argue that uncertainty might also drive the purchase of imported products in anticipation of future additional tariffs. This is indeed what Raul Sampognaro shows in a recent analysis on trade policy uncertainty. This is also what was observed for the United States in January 2025 with a 12.4% increase in goods imports according to data from the *Census Bureau*.[6] Based on the global uncertainty indicator, Baker, Bloom and Davis (2016) show that a 100-point increase results in a 0.2 percentage point rise in the unemployment rate within 12 months. Based on the figures observed at the beginning of 2025, the increase in uncertainty is slightly higher, which could therefore translate into an increase in unemployment, solely due to the uncertainty effect, of around 0.2 to 0.3 percentage points within a year.

In our forecast scenario for the United States,[7] we incorporate this uncertainty effect, which would add to that of additional tariffs. Investment would only increase by 2.4% in 2025 compared to 5.4% the previous year. On the household side, the savings rate would increase over the next two years, rising from an annual average of 4.5% in 2024 to 5.2% in 2026. Consequently, growth would significantly decrease, falling from 2.8% in 2024 to 1.4% in 2025 and then 1.5% in 2026. This would result in an increase in the unemployment rate, which could reach 5% by the end of 2026: 0.8 percentage points higher than the level observed in March 2025.

[3] The VIX is calculated from the prices of call and put options.

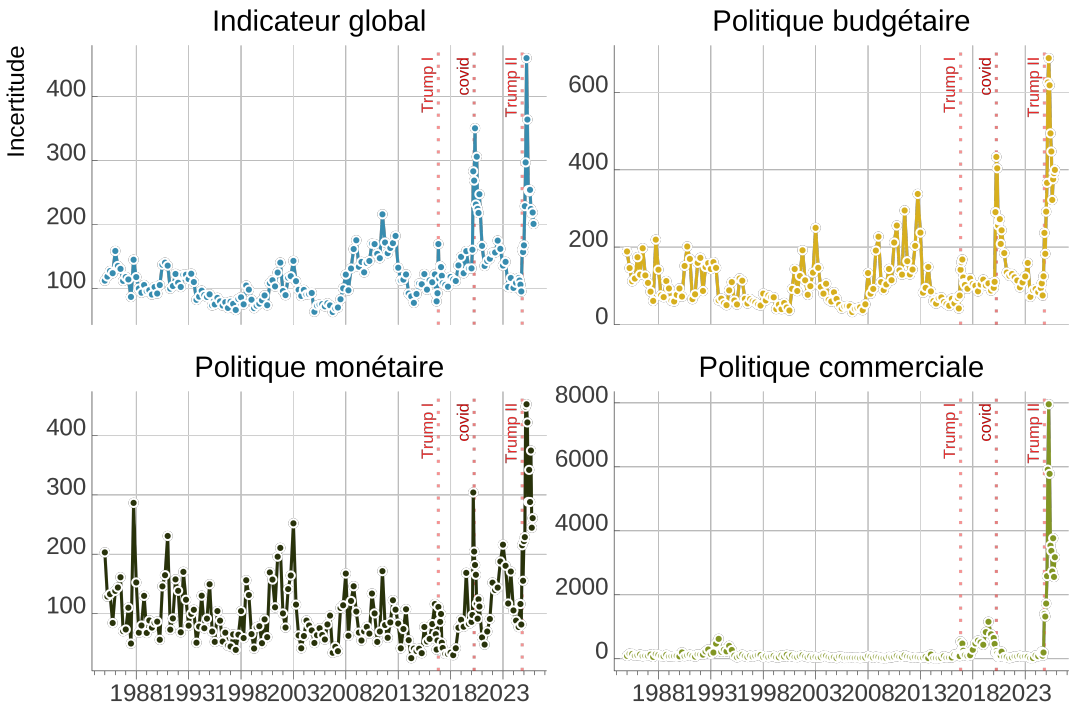
[4] See, for example, (GRISHCHENKO, MOUABBI and RENNE, 2019) for an indicator based on the dispersion of inflation forecasts made by professionals.

[5] (Caldara *et al.*, 2020) adopt an identical approach but focus solely on uncertainty related to trade policy.

[6] Note that they subsequently decreased slightly in February. See here.

[7] For a more detailed analysis of the U.S. economic outlook for 2025-2026, see "USA: Can Donald Trump Derail Growth?".

Graphique 1: Economic Policy Uncertainty Indicators



Sources : https://www.policyuncertainty.com/index.html (FRED), téléchargé le 10 janvier 2026, calculs OFCE.
Dernier point connu : décembre 2025.

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