

ELECTIONS IN THE US AND AUSTRALIA – ECONOMIC IMPLICATIONS

23RD NOVEMBER 2024

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The US economy under Trump 2.0

Donald Trump and the Republican Party made a 'clean sweep' at the US elections

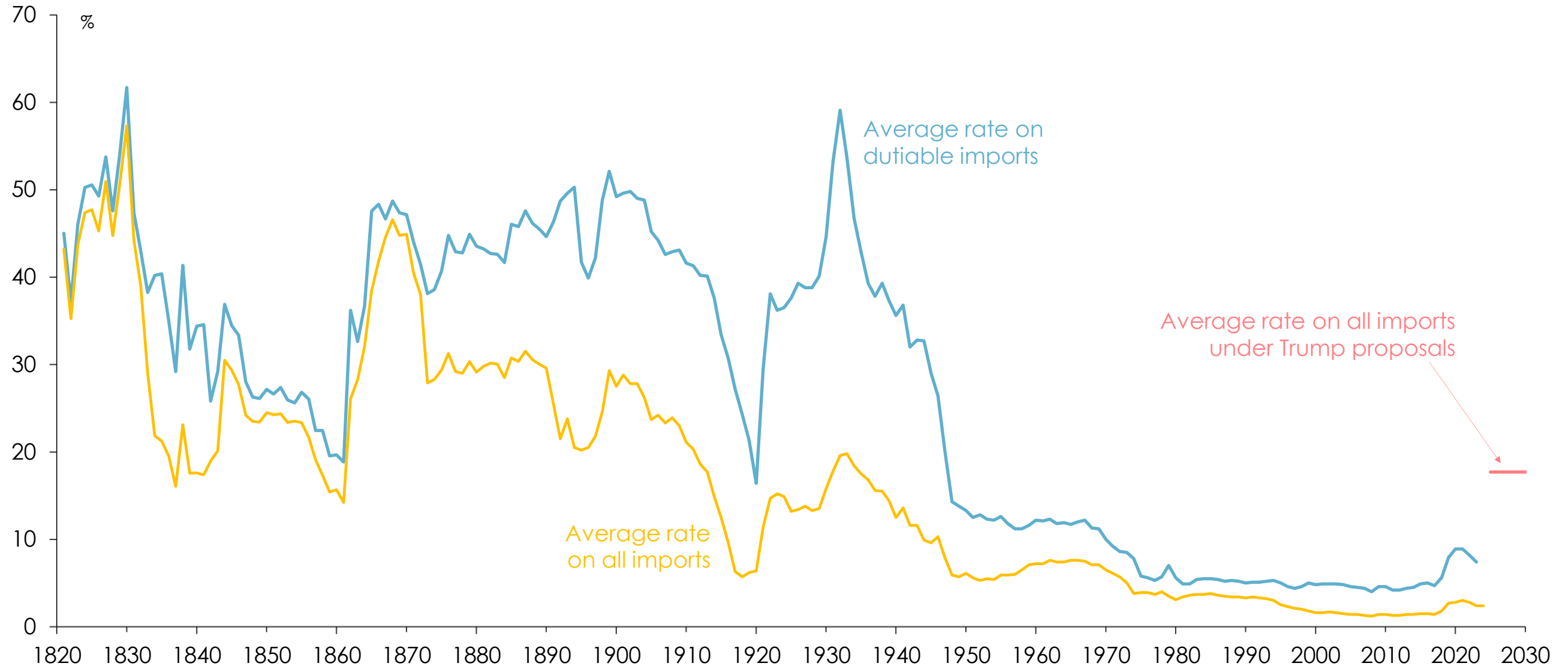
- ❑ Donald Trump won both the popular vote (49.9-48.2%) and the Electoral College (312-226), while the Republican Party has gained majorities in both the Senate (53-45-2) and the House of Representatives (221-213-1)
- ❑ The swing to the Republican ticket was fairly widespread, including in large cities (traditionally Democrat strongholds) and among ethnic groups (Blacks and Hispanics/Latinos) where the Democrats have traditionally enjoyed large majorities
 - Trump gained 16% of the Black vote (up from 8% in 2020) while Harris gained 83% (down from Biden's 91% in 2020), and 42% of the Hispanic/Latino vote (up from 35% in 2020) while Harris gained 56% (down from 63% for Biden in 2020)
 - Trump's share of the female vote increased from 43% to 46%, while Harris's 53% share was 2 pc points lower than Biden's in 2020
 - there were still stark divides based on education (55% of college-educated voters voted for Harris cf. 42% for Trump, while 42% of those without college degrees voted for Harris and 56% for Trump)
- ❑ Voter turnout was lower at 58.8% than at the 2020 election (62.8%, the highest since 1960) – which appears to have hurt the Democrats more
 - Trump won about 2.6 mn more votes than he did in 2020, but Harris won 7 mn fewer votes than Biden did in 2020
- ❑ Concerns over inflation/'cost of living', (legal and illegal) immigration, perceived 'elitism' and (maybe) 'identity politics' issues resonated more strongly with a majority of voters than Trump's 'fitness for office', reproductive rights and other issues on which Democrats campaigned
- ❑ A couple of other election 'factoids'
 - this was the first Presidential election since 1976 without a Bush, Biden or Clinton on the ballot
 - George HW Bush is the only incumbent Vice-President to have been elected President since 1836

What will a second Trump presidency bring on the economic policy front?

- ❑ **A 60% (or higher) tariff on all US imports from China, and a 10% tariff on everything the US imports from every other country (more recently he has been speaking in terms of a 20% tariff on all imports)**
 - **more recently** he has been speaking in terms of a 20% tariff on all imports
- ❑ **'The largest deportation operation in American history', targeting what he says are 15-20 million unauthorized immigrants in the United States, of whom about 8¼ million are thought to be in the workforce**
 - modelled on 'Operation Wetback' implemented by the Eisenhower Administration in 1956, which saw 1.3 million Mexicans deported from the United States
- ❑ **Erosion of the independence of the Federal Reserve**
 - at a **press conference** in August, Trump said "I feel that the president should have at least [a] say in there, yeah. I feel that strongly. I think that, in my case, I made a lot of money. I was very successful and I think I have a better instinct than, in many cases, people that would be on the Federal Reserve or the chairman"
- ❑ **Trump also proposes to extend the tax cuts implemented in 2017 (which are due to expire in 2025)**
 - which the **Congressional Budget Office** estimates would boost budget deficits over the ten years to 2034 by over US\$4 trillion (he Committee for a Responsible Federal Budget says \$7¾ trillion)
 - inevitably resulting in higher US interest rates (and hence higher interest rates everywhere else)
 - unless Elon Musk and Vivek Ramaswamy's 'Department of Government Efficiency' really can reduce government spending by US\$2 trillion
- ❑ **Also worrying is Trump's affection for dictators (Vladimir Putin, Kim Jong Un and Xi Jinping) and his contempt for traditional US allies (NATO countries, Japan and Korea)**
 - those allies will inevitably have to ask themselves, not just "can we continue to depend on the US as a military partner in the event of an attack on us?", but also, "do we want to?"

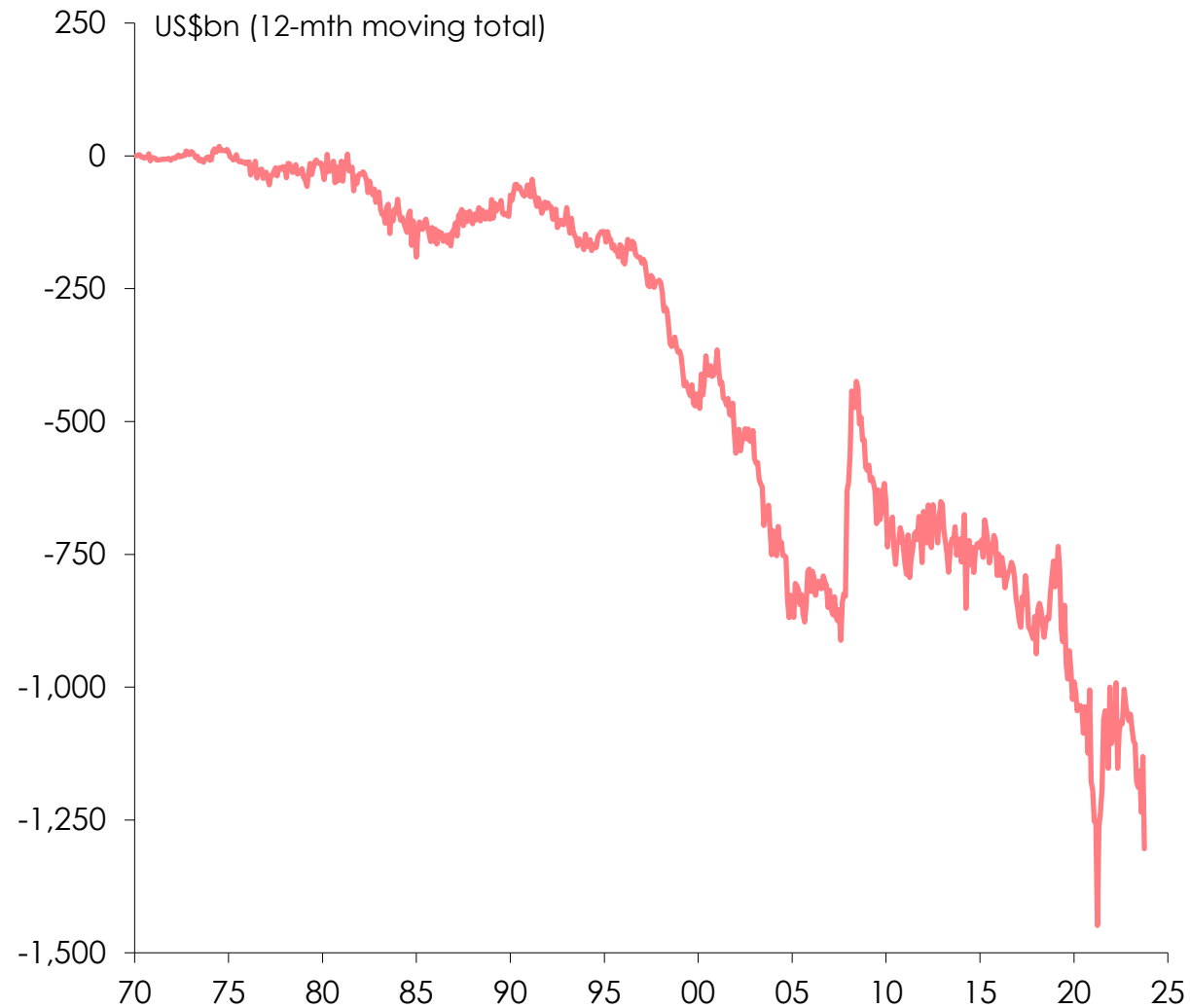
Trump's tariff proposals – if implemented in full – would raise the average level of US tariffs to their highest since the end of World War II

US tariffs

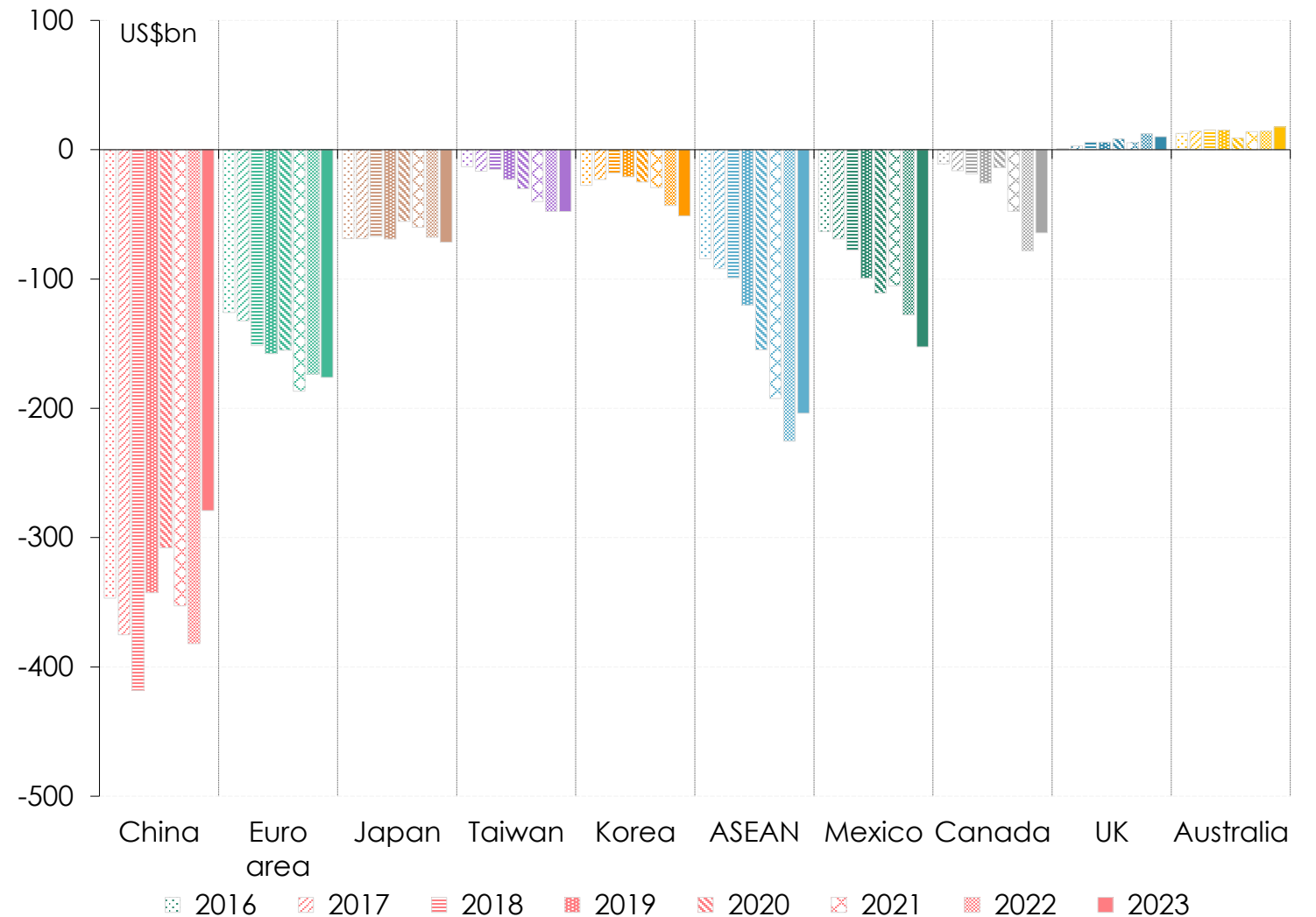


The Biden Administration kept, and in some cases increased, Trump's tariffs – they did nothing to reduce the US trade deficit, just redistributed it

US merchandise trade balance

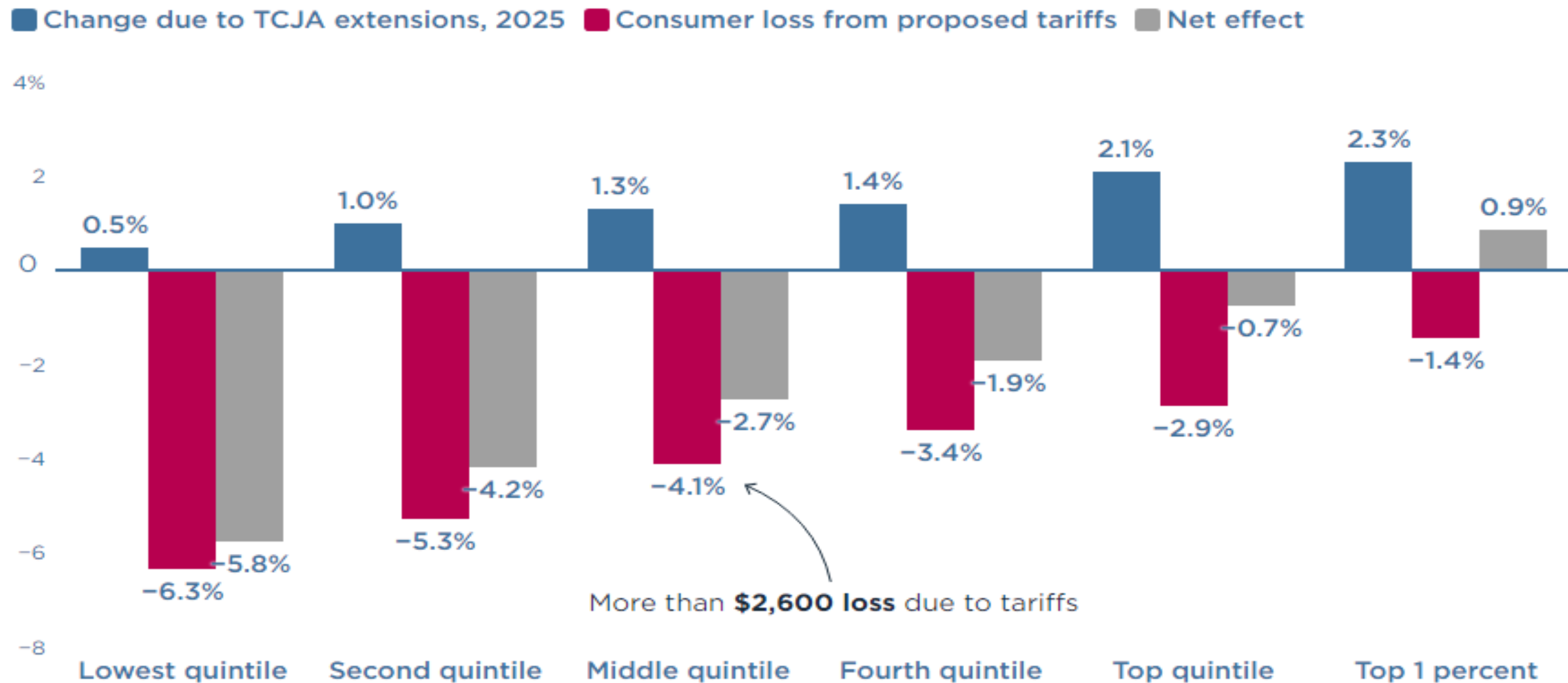


US bilateral merchandise trade balances



Donald Trump's proposed tax increases on imports (aka 'tariffs') would make the average American household US\$2,600 per annum worse off

Distribution of tax increases and reductions under Trump proposals, percent change in after-tax income

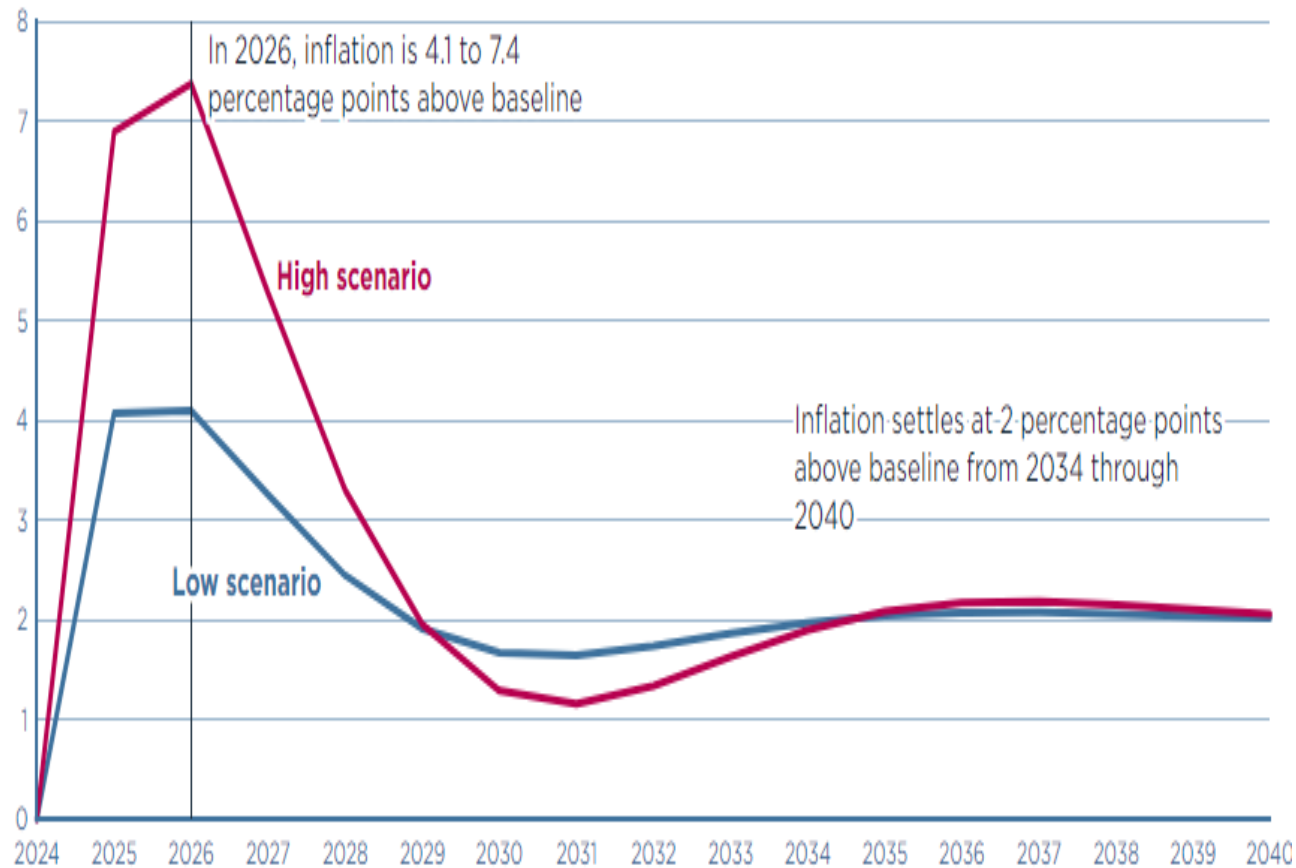


Note: 'TJCA' refers to the 'Tax Cuts and Jobs Act' enacted during the first Trump Administration, most of whose provisions expire on 1st July 2025. Source: Kimberley Clausing and Mary Lovely, [Why Trump's tariff proposals would harm working Americans](#), Petersen Institute for International Economics Policy Brief, 21st August 2024.

Trump's policies would result in higher inflation and lower real GDP

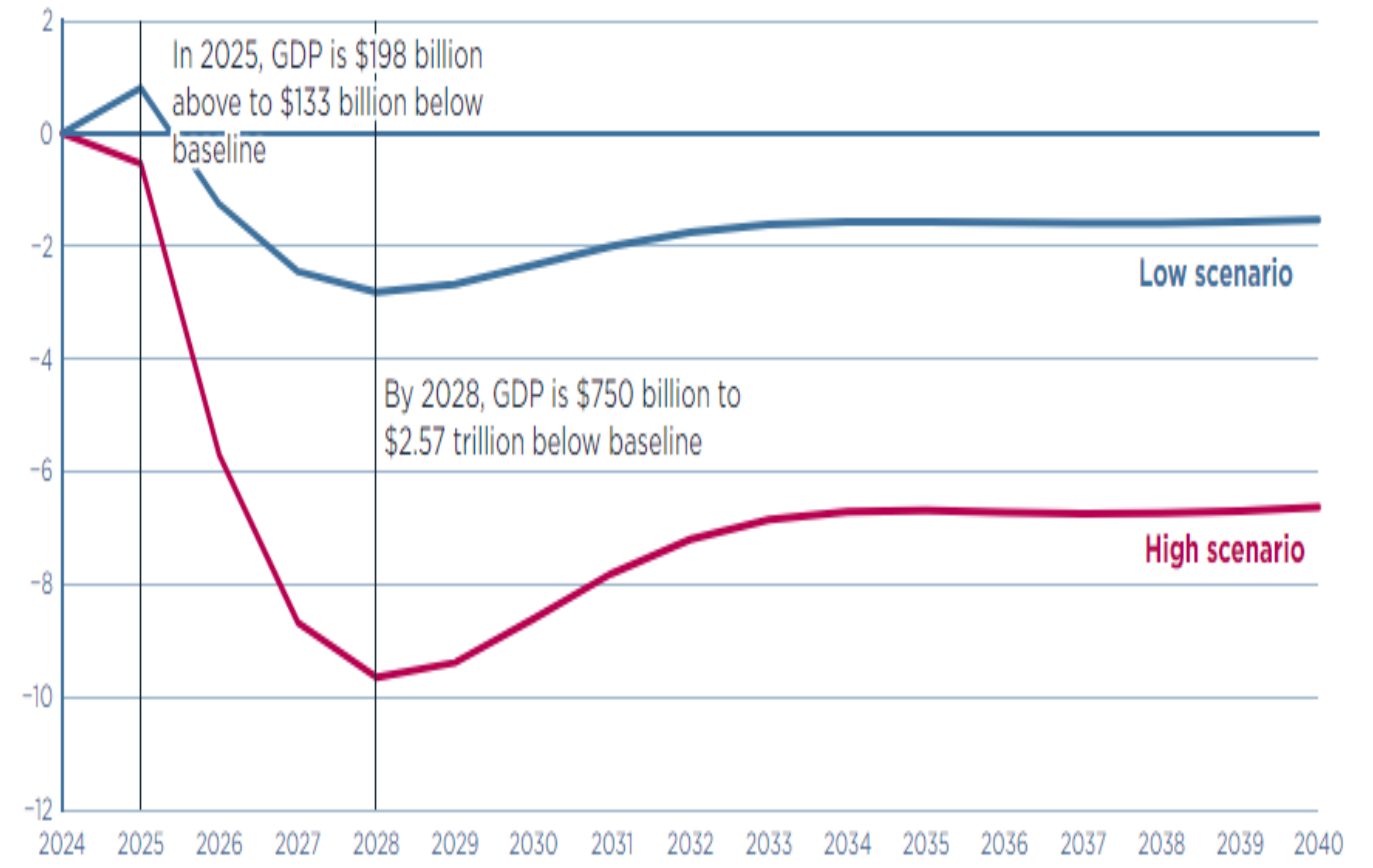
Impact of Trump policies on US inflation

Projected percentage point change from baseline for US inflation under two scenarios, 2025-40



Impact of Trump policies on US real GDP

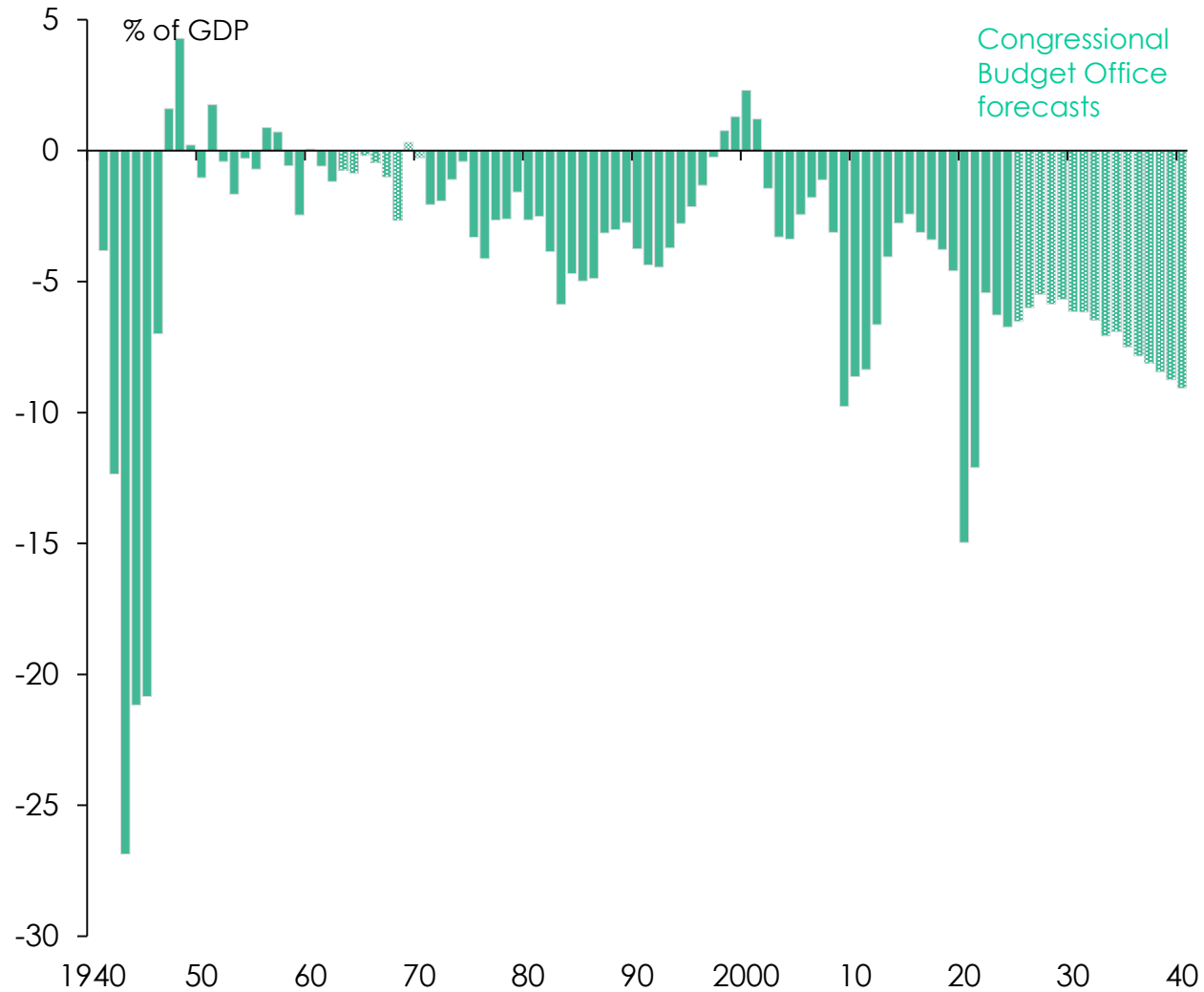
Projected percent change from baseline for US real GDP under two scenarios, 2025-40



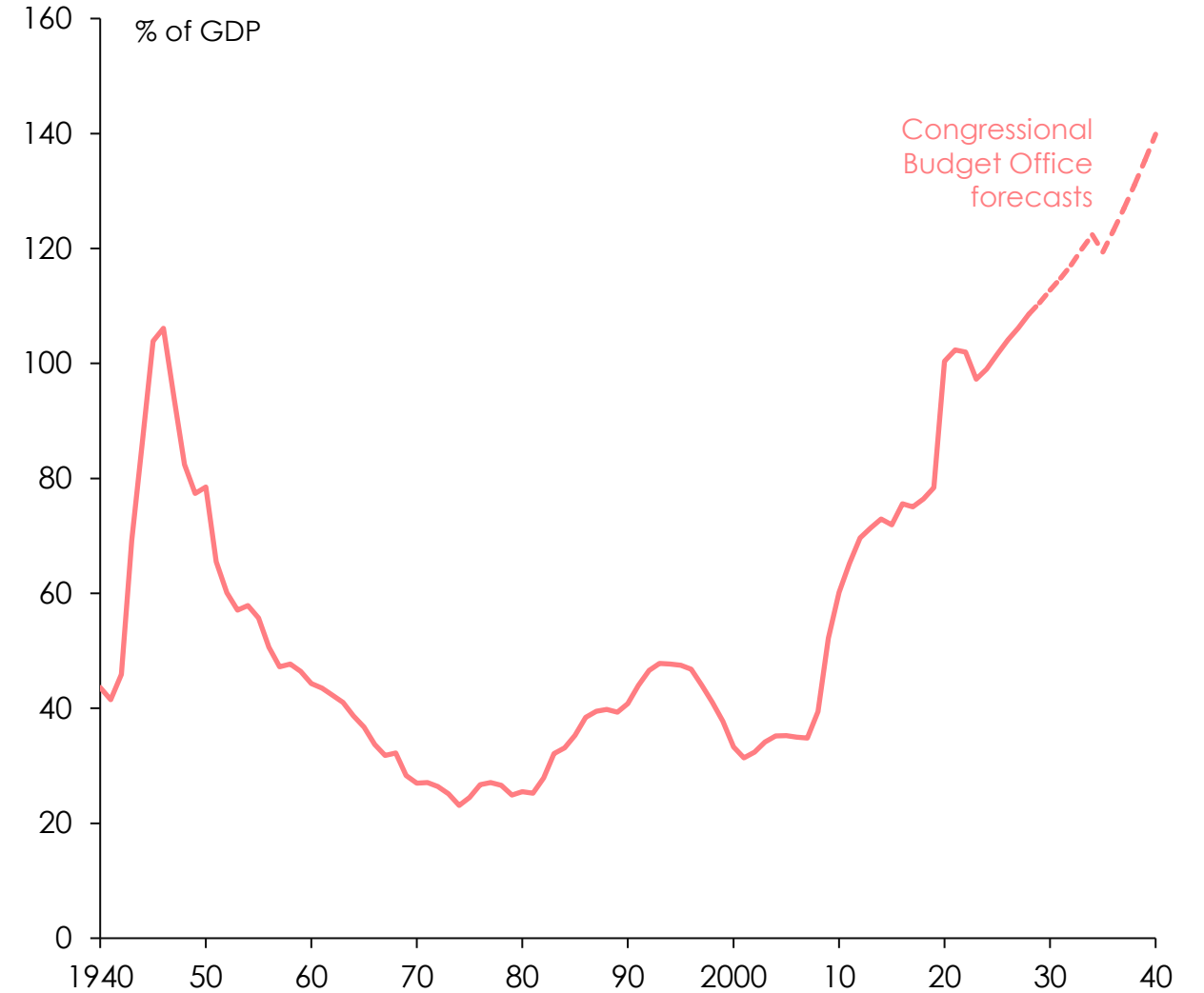
Note: High scenario is 8.3 million unauthorized workers deported; increases in tariffs on all US imports by an additional 10 percentage points and on US imports from China by an additional 60 percentage points, with retaliation by all trading partners, including China; and erosion of Fed independence. Low scenario includes the same tariff increases as high scenario but with no retaliation by other countries, 1.3 million unauthorized workers deported, and erosion of Fed independence. Source: Warwick McKibbin, Megan Hogan & Marcus Noland, [How much would Trump's plans for deportations, tariffs, and the Fed damage the US economy?](#), Petersen Institute for International Economics, September 2024.

The US Budget is already in a fairly dire condition ...

US Federal budget deficit



US Federal net debt



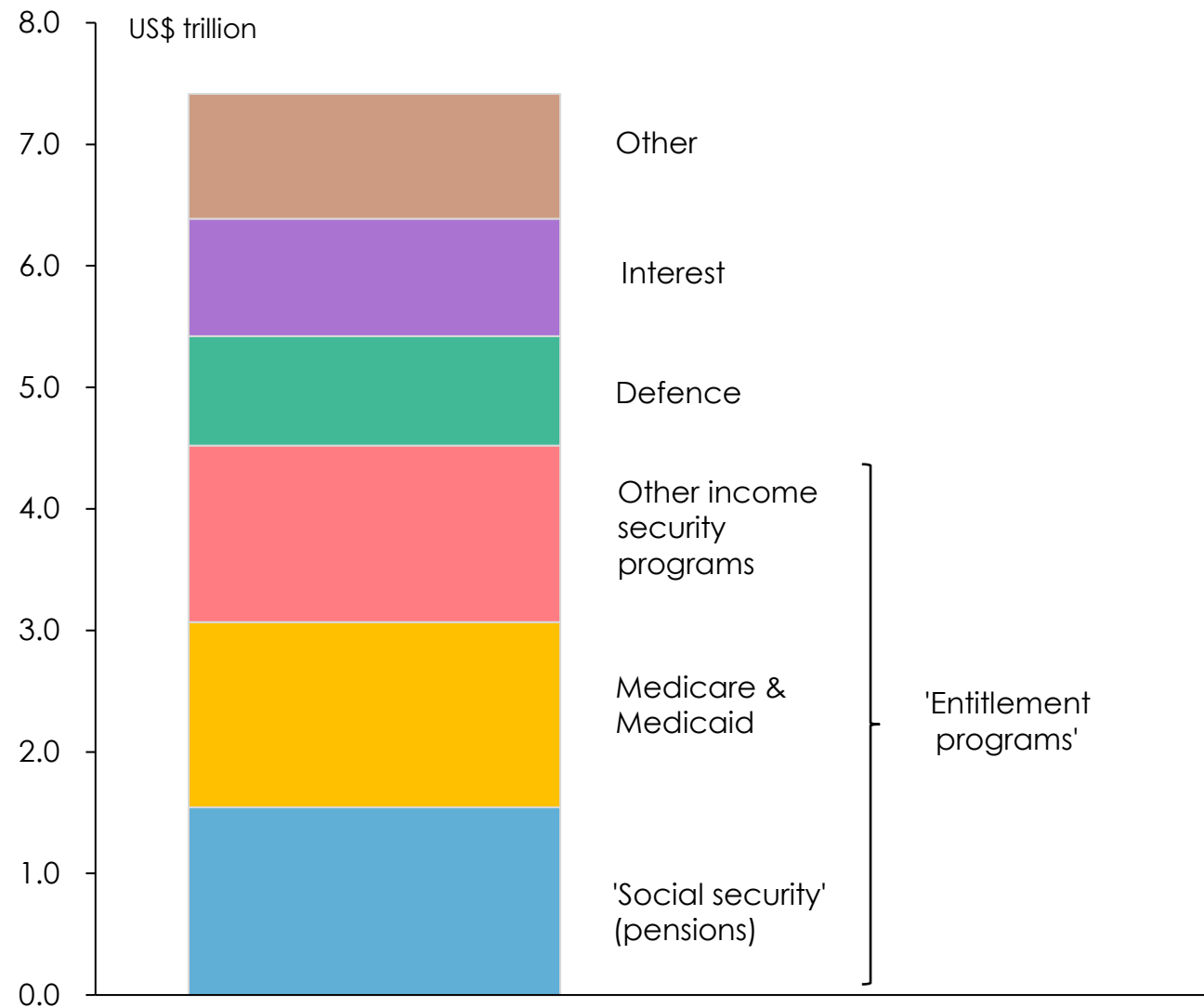
... and Donald Trump's campaign promises, if implemented, would make it even worse

The Trump Plan (billions, 2026-2035)

Policy Proposals	Low	Central	High
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-\$4,600	-\$5,350	-\$5,950
Exempt Overtime Income from Taxes	-\$500	-\$2,000	-\$3,000
End Taxation of Social Security Benefits	-\$1,200	-\$1,300	-\$1,450
Exempt Tip Income from Taxes	-\$100	-\$300	-\$550
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-\$150	-\$200	-\$600
Enact or Expand Other Individual and Small Business Tax Breaks	-\$150	-\$200	-\$350
Strengthen and Modernize the Military	-\$100	-\$400	-\$2,450
Secure the Border and Deport Unauthorized Immigrants	\$0	-\$350	-\$1,000
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-\$100	-\$150	-\$350
Boost Support for Health Care, Long-Term Care, and Caregiving	-\$50	-\$150	-\$300
Subtotal, Tax Cuts and Spending Increases	-\$6,950	-\$10,400	-\$16,000
Establish a Universal Baseline Tariff and Additional Tariffs	\$4,300	\$2,700	\$2,000
Reverse Current Energy/Environment Policies and Expand Production	\$750	\$700	\$550
Reduce Waste, Fraud, and Abuse	\$250	\$100	\$0
End the Department of Education and Support School Choice	\$200	\$200	\$0
Subtotal, Revenue Increases and Spending Reductions	\$5,500	\$3,700	\$2,550
Net Interest	-\$200	-\$1,050	-\$2,100
Total, Net Deficit Impact	-\$1,650	-\$7,750	-\$15,550

Elon Musk and Vivek Ramaswamy are going to find it difficult to 'slash' US Federal Government spending by US\$2 trillion

US Federal Government spending, 2025

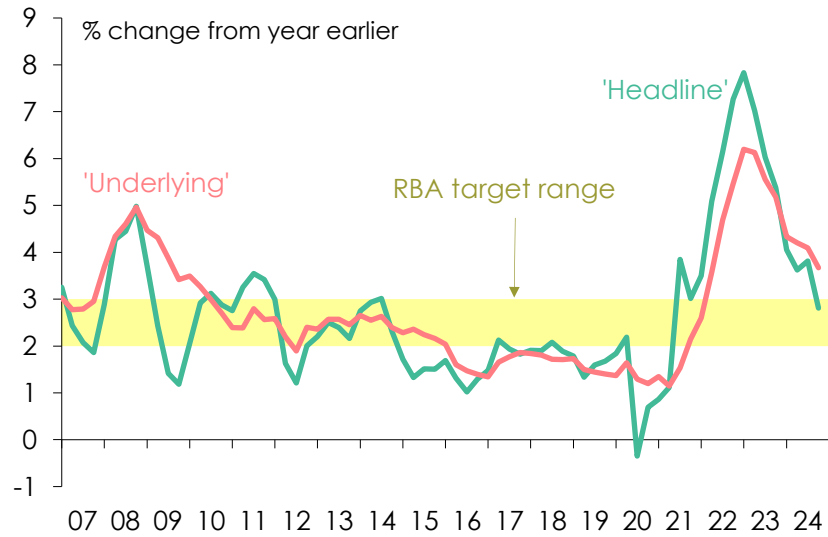


- ❑ Total US Federal Government spending is currently projected to be US\$7.26 trillion in Fiscal Year 2025 ...
- ❑ ... of which, US\$4.52 trillion is for 'entitlement programs' (including the age pension, health care programs for seniors and poor, disability pensions and unemployment insurance)
 - from which the [2024 Republican Platform](#) pledges President Trump "will not cut one penny"
- ❑ ... US\$0.9 trillion is for defence
 - on which the Republicans want to spend more in order to "build a Military bigger, better and stronger than ever before"
- ❑ ... US\$0.97 trillion is for interest on US\$37 trillion of Federal Government debt
 - which can't be avoided unless the Administration proposes to default on its obligations
- ❑ ... which leaves 'just' \$1.0 trillion in other spending

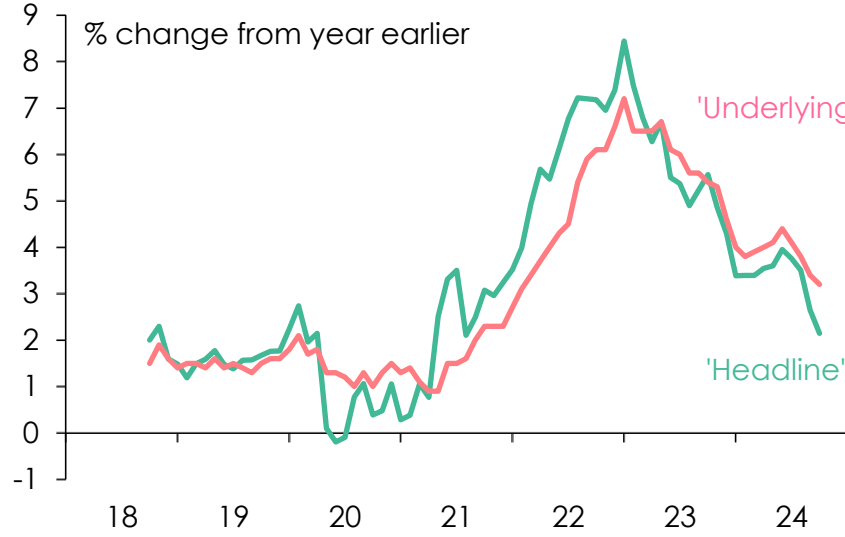
The Australian economy

'Underlying' inflation in the September quarter was still 'too high' for the RBA to start cutting rates – but the December quarter may be a different story

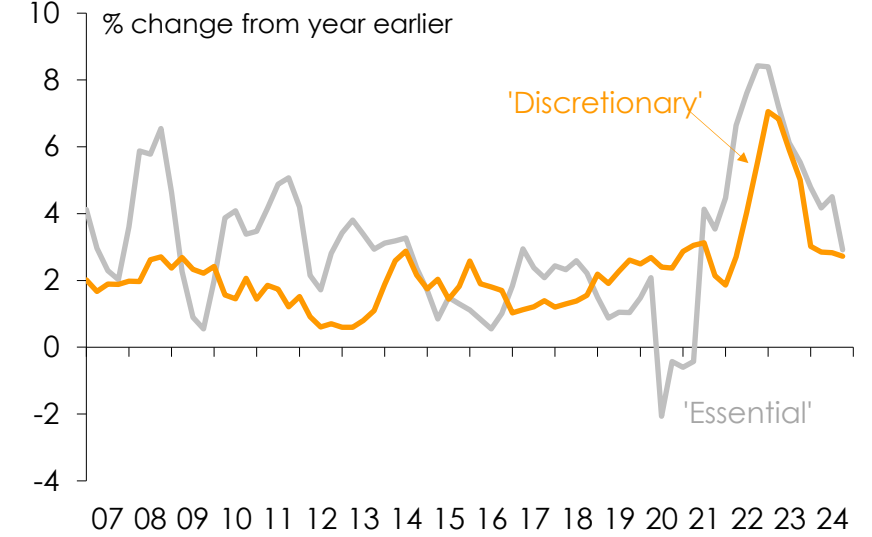
Consumer prices – annual change



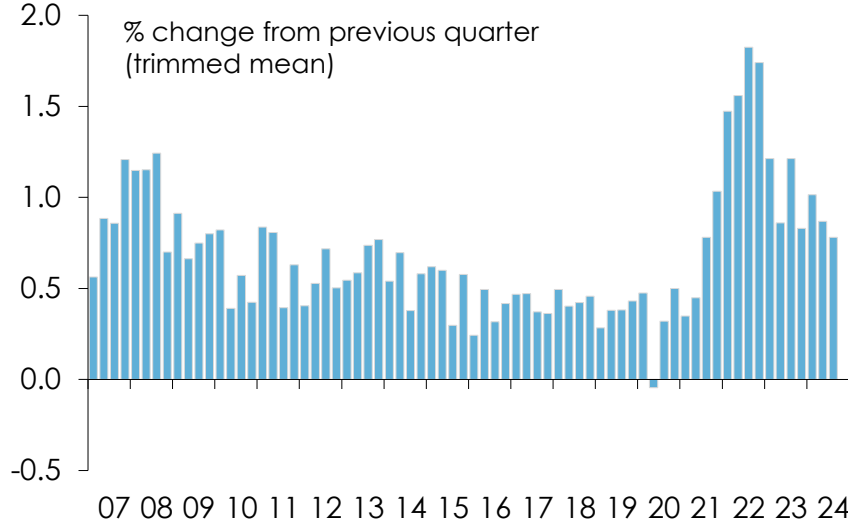
Monthly 'CPI indicator'



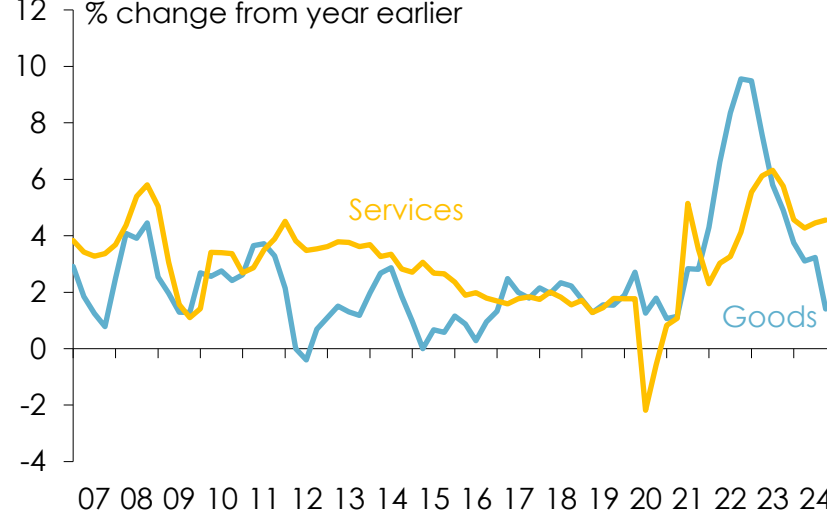
'Discretionary' vs 'essential' items



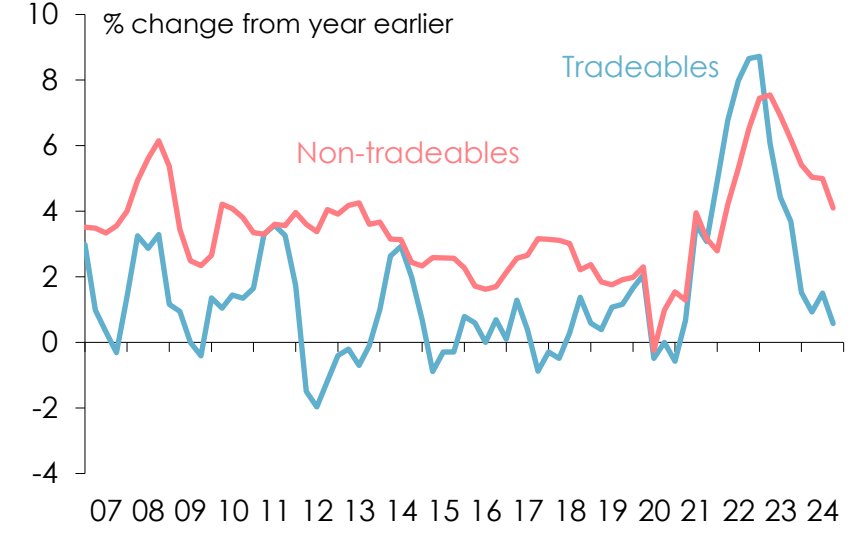
Quarterly 'underlying' inflation



Goods and services prices



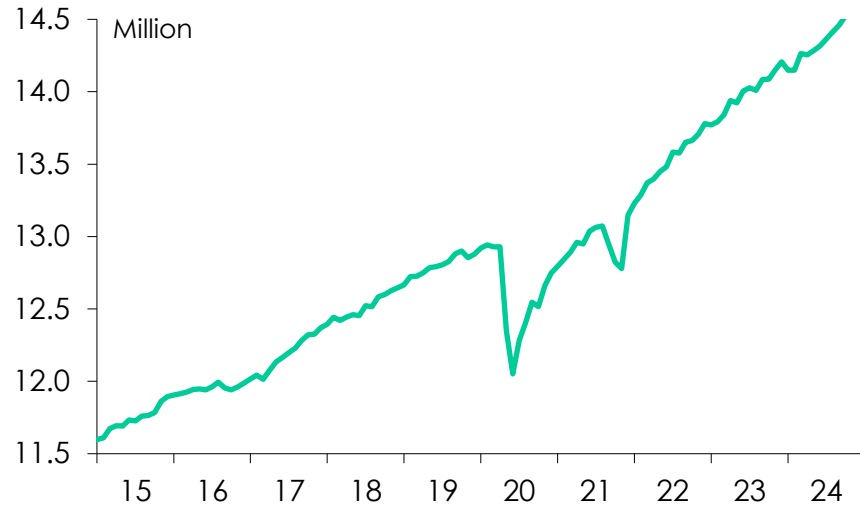
'Tradable' vs 'non-tradable' items



Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Sources: ABS, [Consumer Price Index](#), September quarter 2024 and [Monthly Consumer Price Index Indicator](#), September 2024

The labour market remains very tight, but there are signs that the demand for labour has peaked

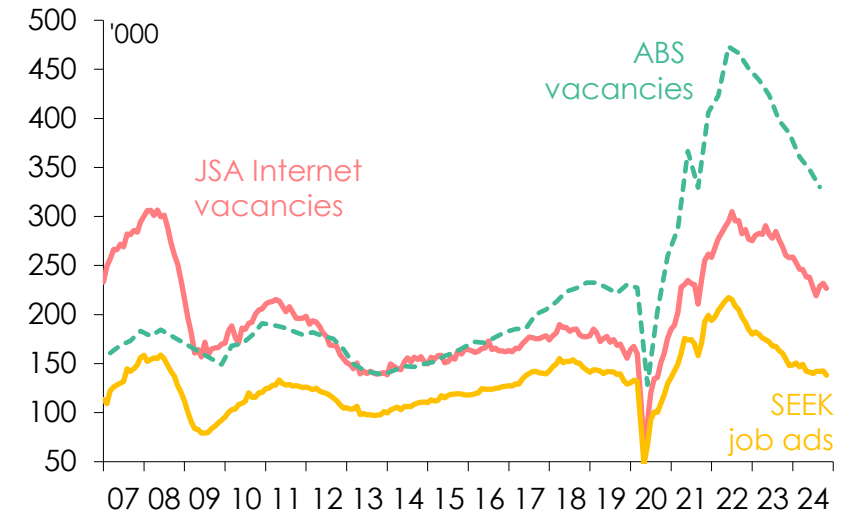
Level of employment



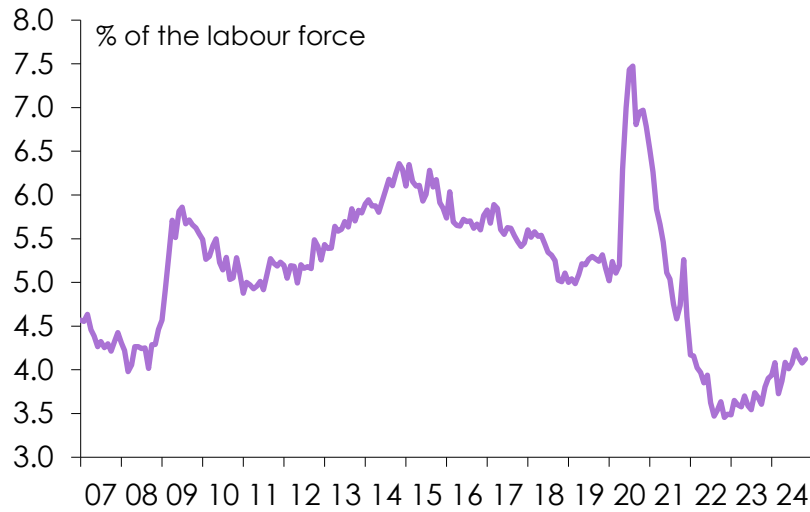
Hours worked



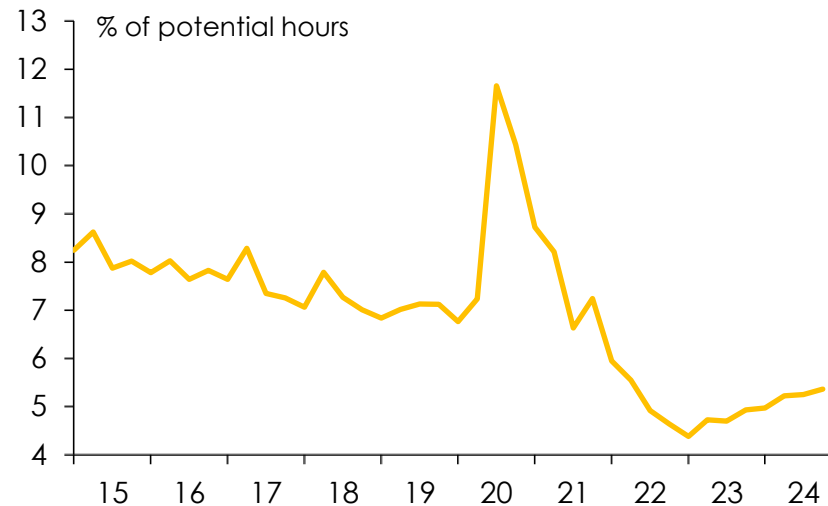
Job vacancies



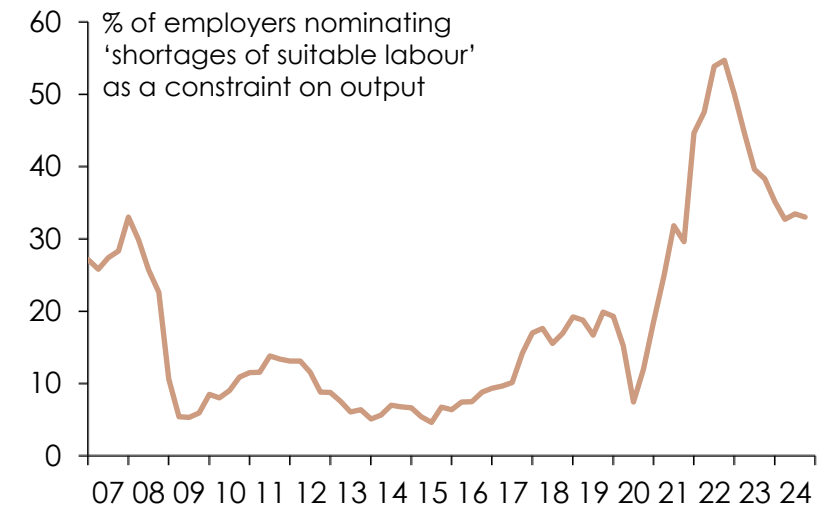
Unemployment rate



Labour force under-utilization



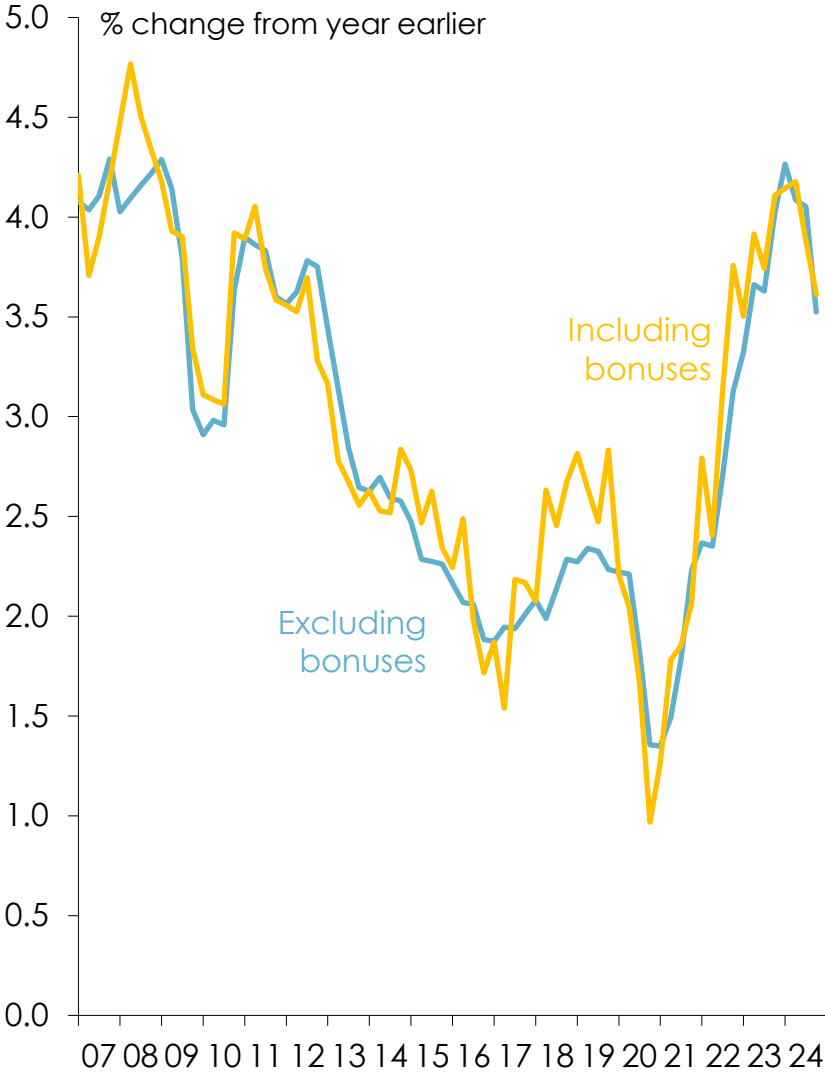
Labour shortages



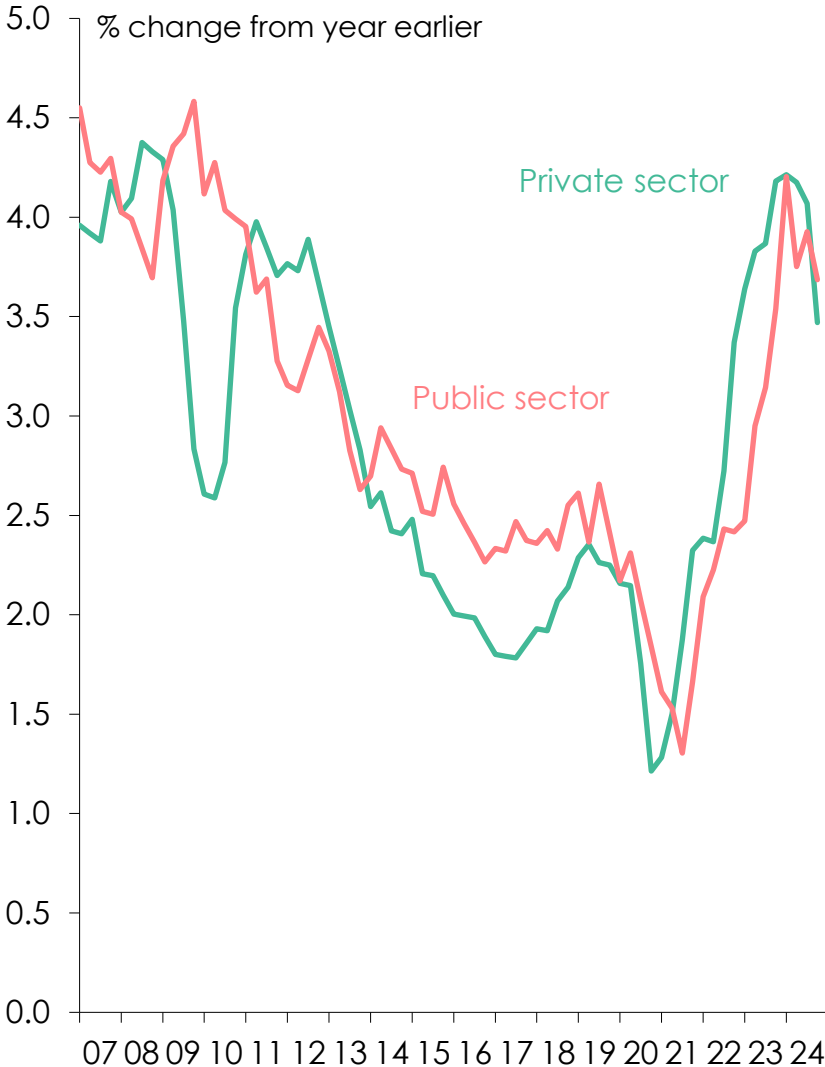
Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. Sources: ABS, [Labour Force](#), October 2024, [Job Vacancies](#), August 2024; National Australia Bank, [Quarterly Business Survey](#), September quarter 2024; Jobs and Skills Australia, [Internet Vacancy Index](#); SEEK, [Employment & Salary data](#).

Although the unemployment rate is still low by historical standards, it has risen enough for wages growth to have slowed significantly

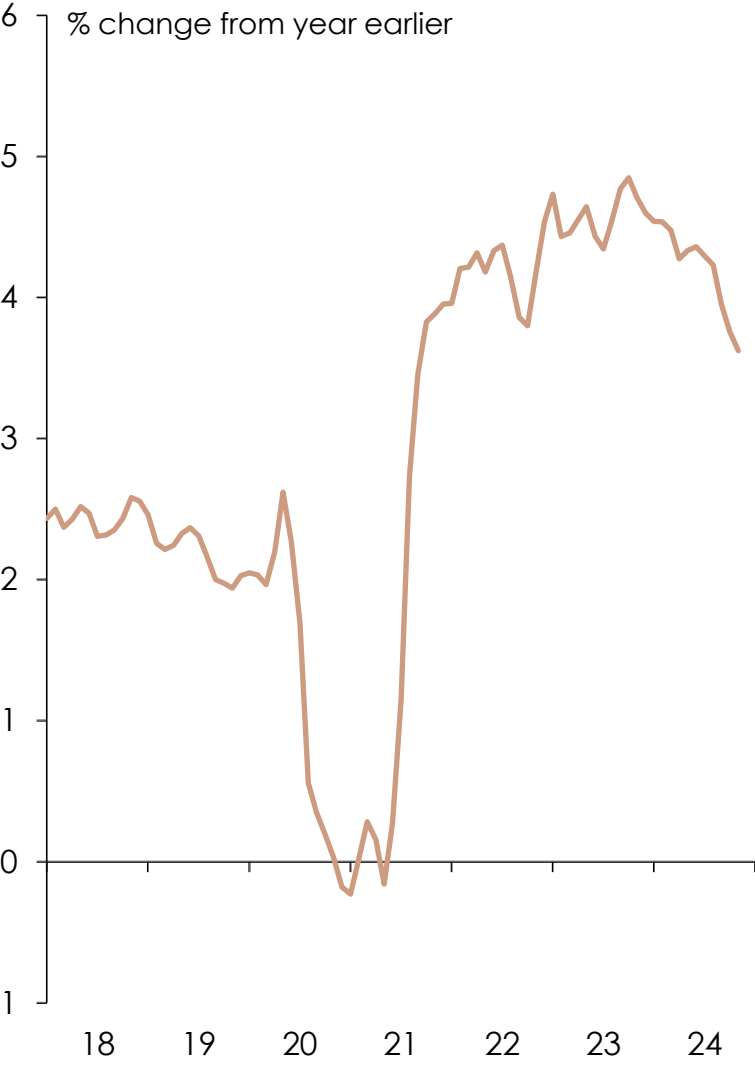
Wages growth



Wages growth by sector



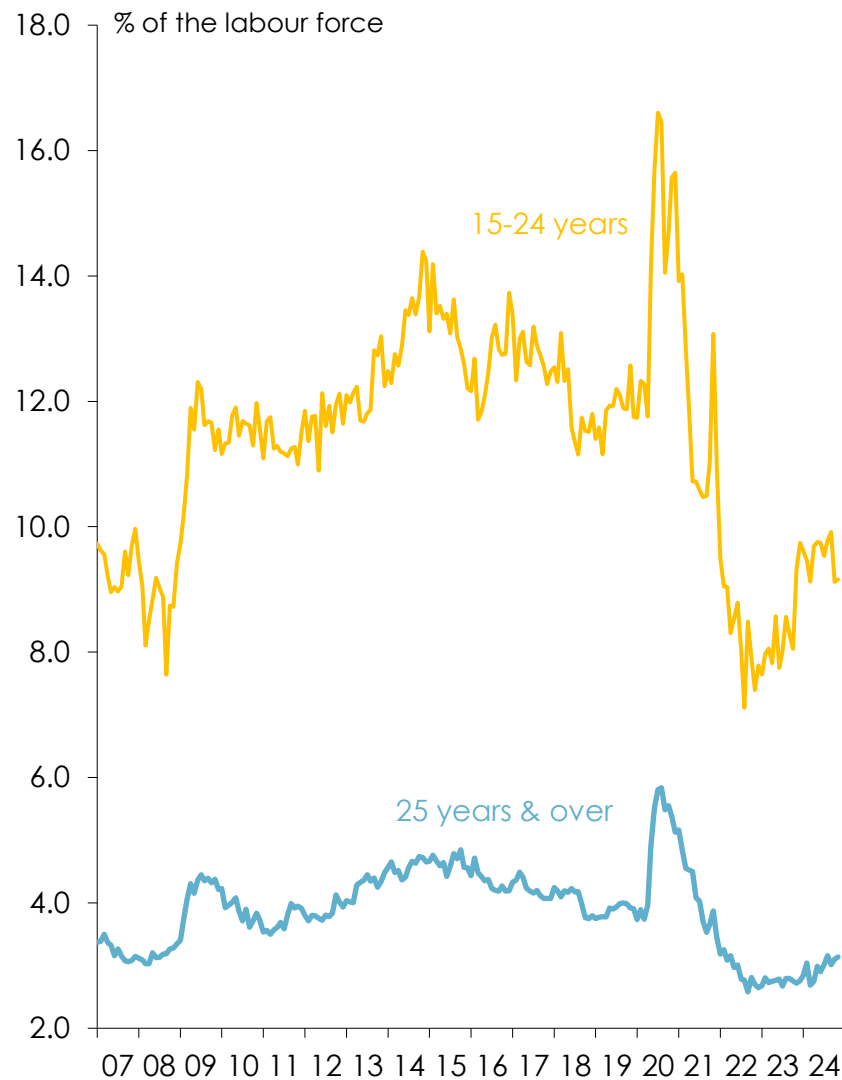
Advertised salaries



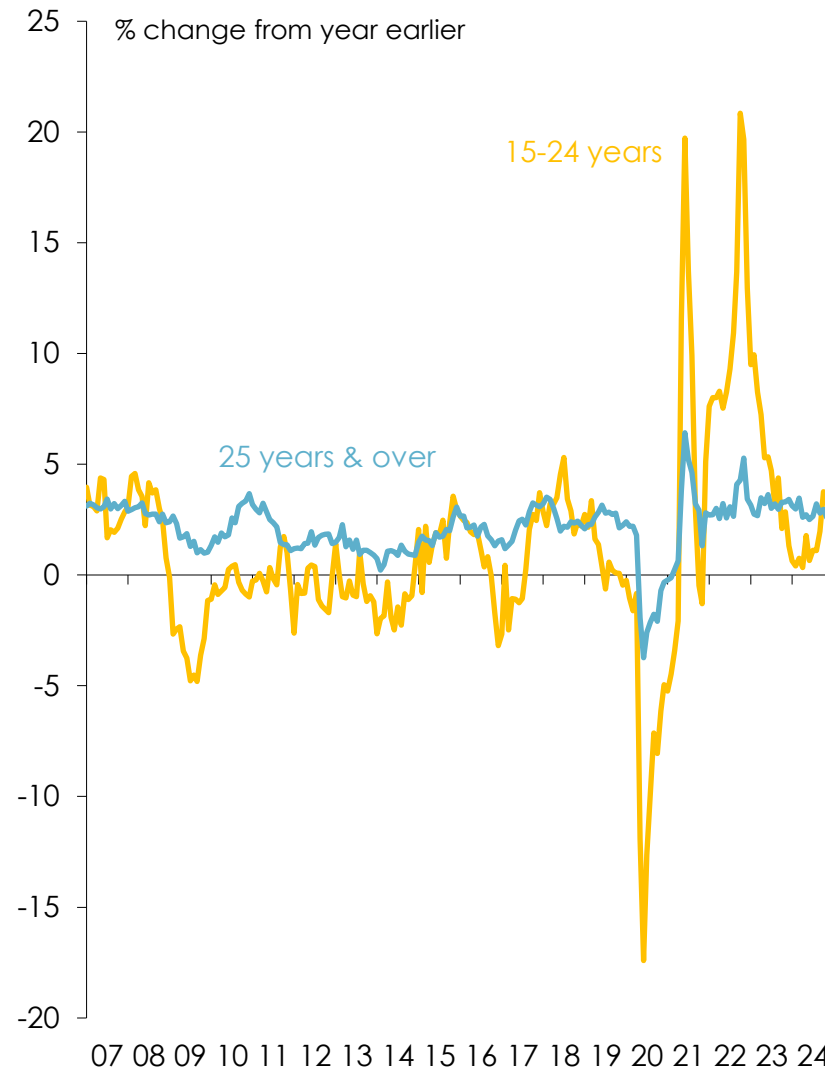
Sources: ABS, [Wage Price Index](#), September quarter 2024; SEEK, [Advertised salary data](#), October 2024.

The rise in unemployment in Australia has been concentrated among 15-24 year-olds – because there are a lot more of them

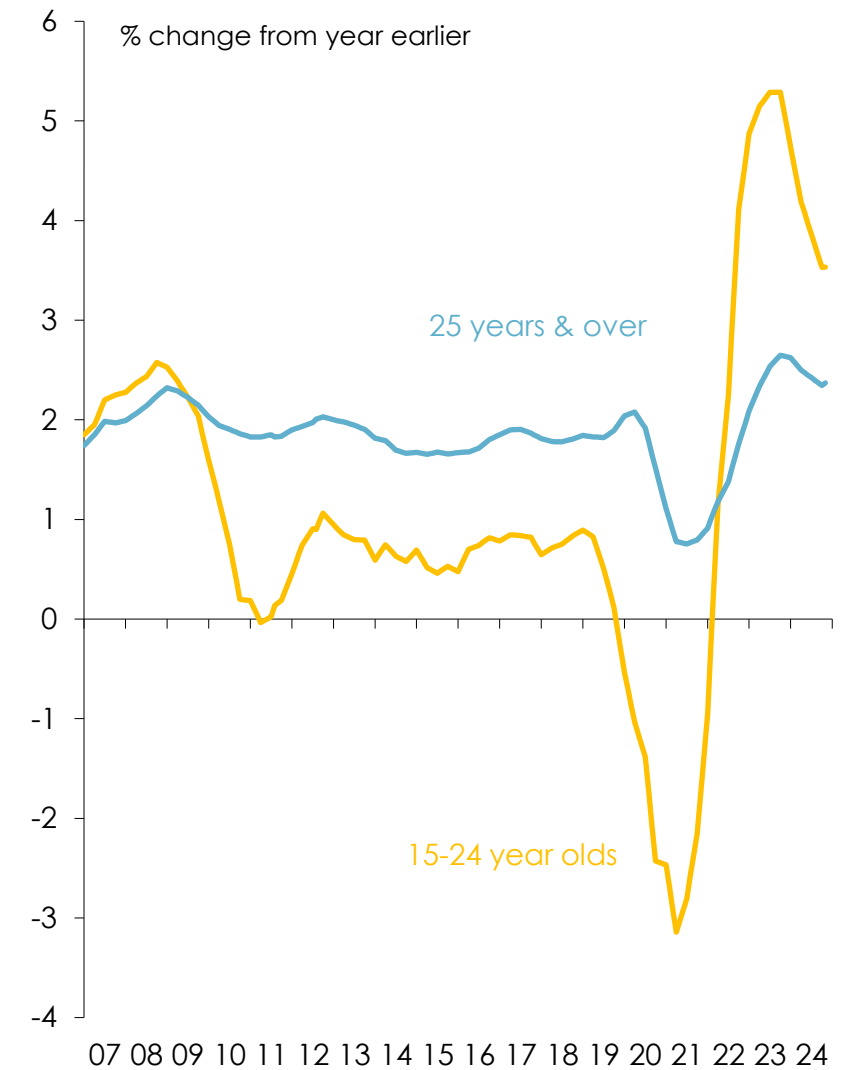
Unemployment rates by age



Employment growth by age



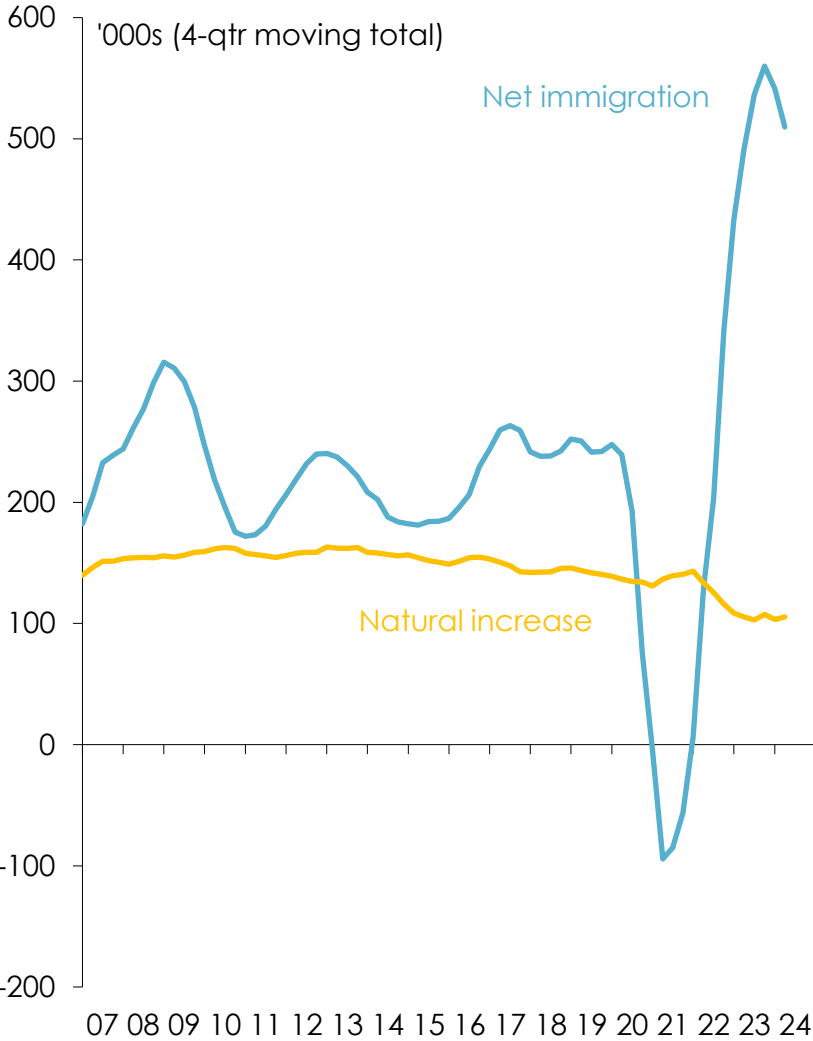
Working-age population growth by age



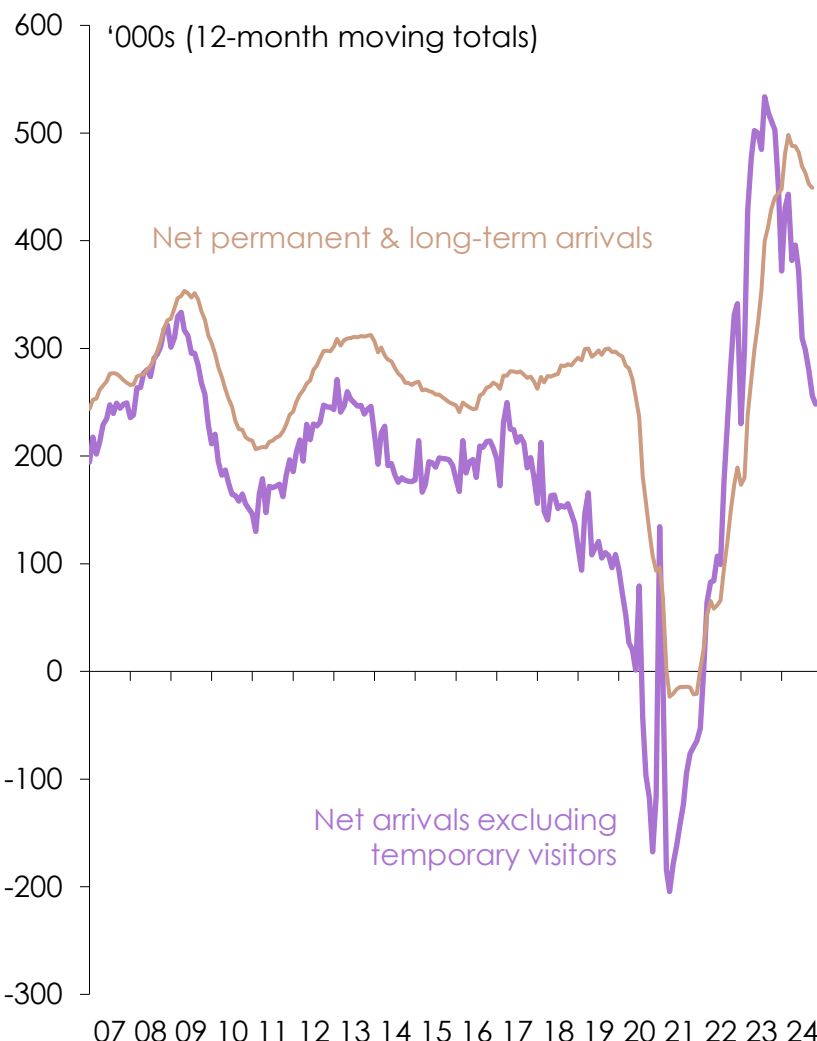
Sources: ABS, [Labour Force](#), October 2024, and ABS, [Labour Force, Australia, Detailed](#), October 2024.

The surge in immigration has been mostly international students and temporary unskilled workers – and it appears to have peaked

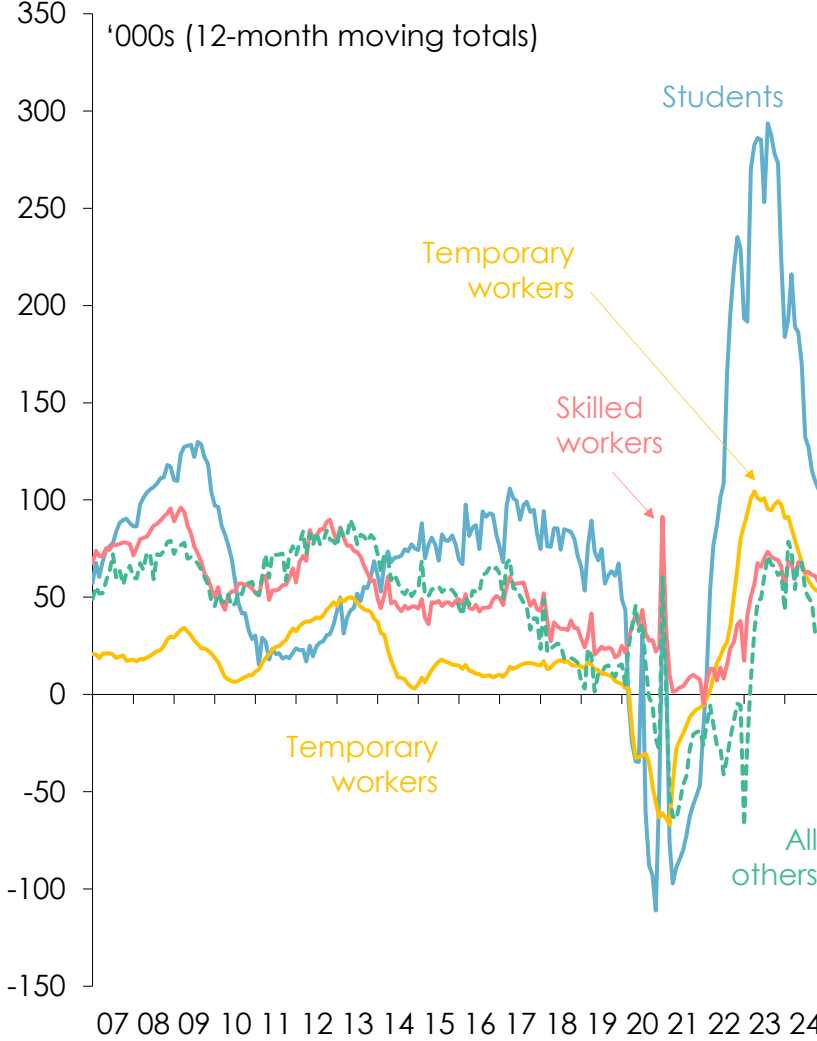
Composition of population growth



Monthly proxies for net immigration



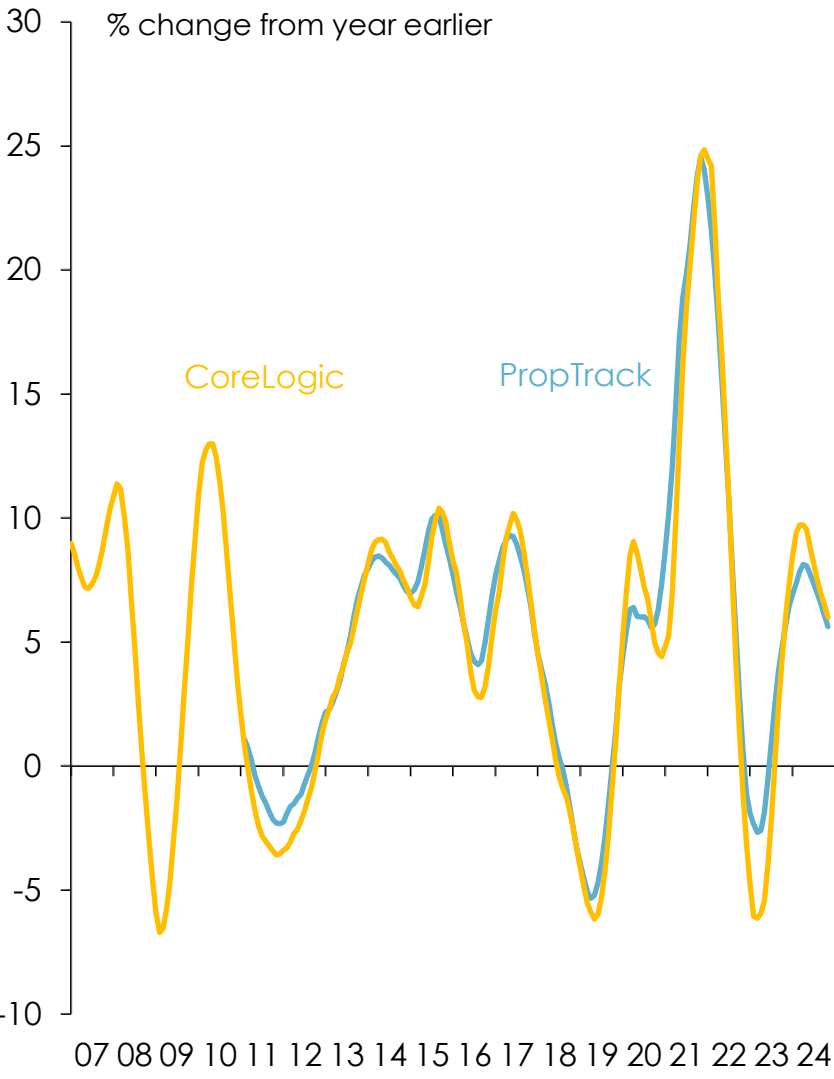
Net arrivals, by category



Sources: ABS, [National, state and territory population](#), March 2024; [Overseas Arrivals and Departures](#), September 2024.

Housing price and cost inflation is slowing, but remains relatively high, especially for renters

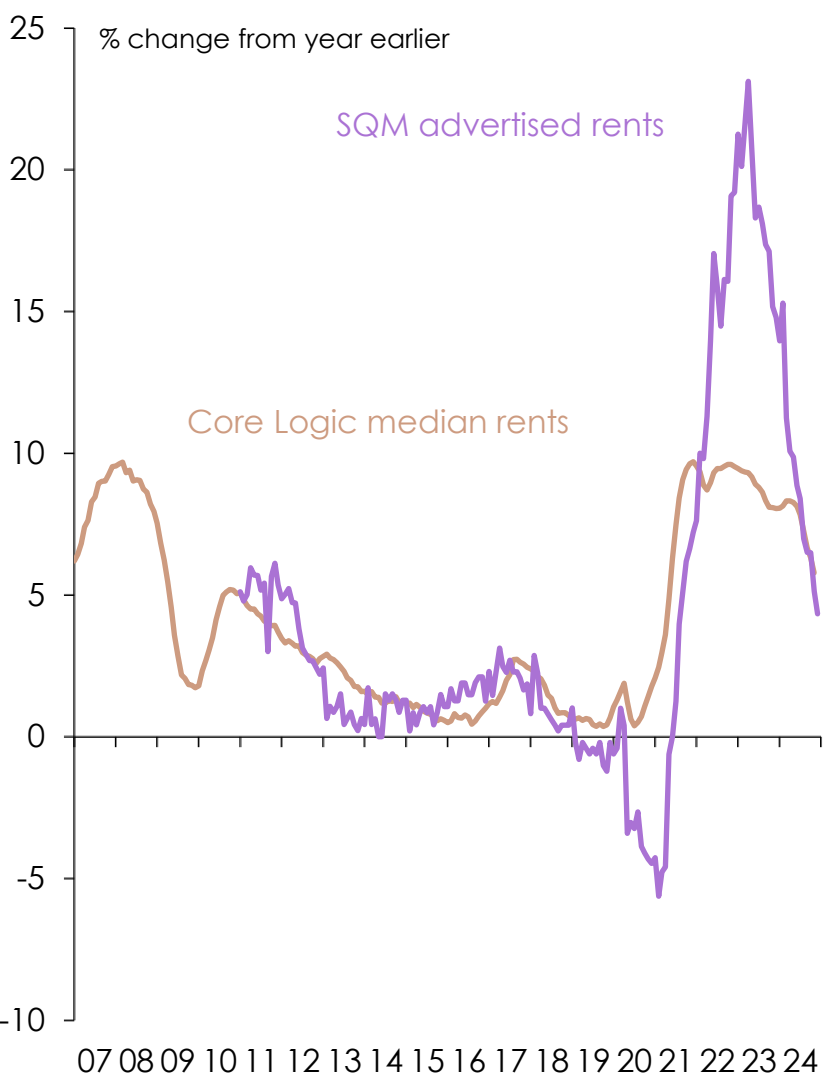
Median dwelling prices



Dwelling construction costs



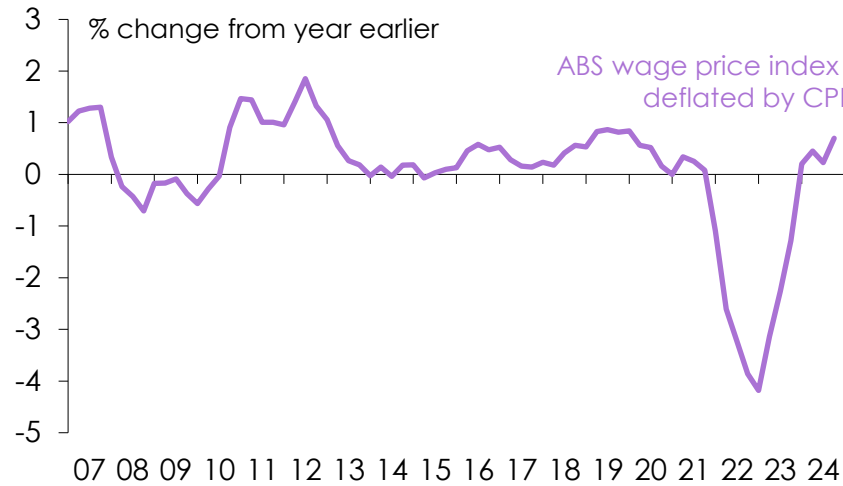
Dwelling rents



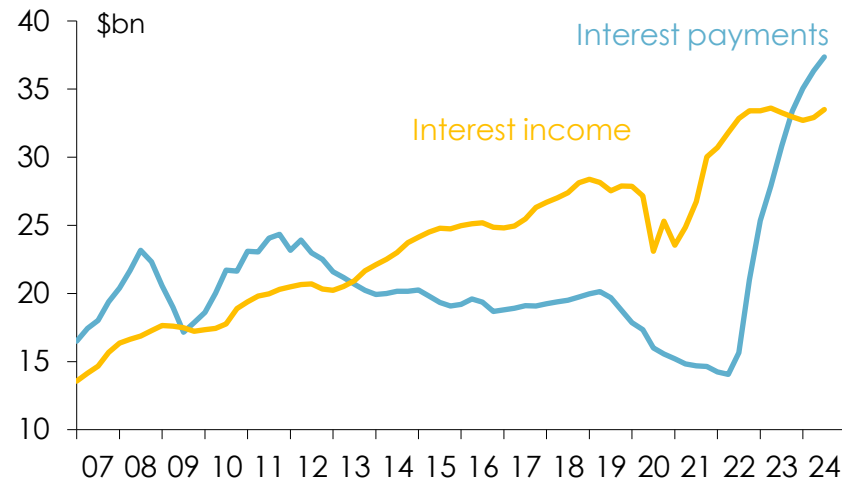
Sources: CoreLogic, [Monthly Housing Chart Pack](#); PropTrack, [Home Price Index](#); ABS, [Producer Price Indexes](#), September quarter 2024; SQM Research, [Weekly Rents - Capital City Average](#).

Another important consideration for the RBA is whether households have saved or spent the tax cuts they started getting on 1st July

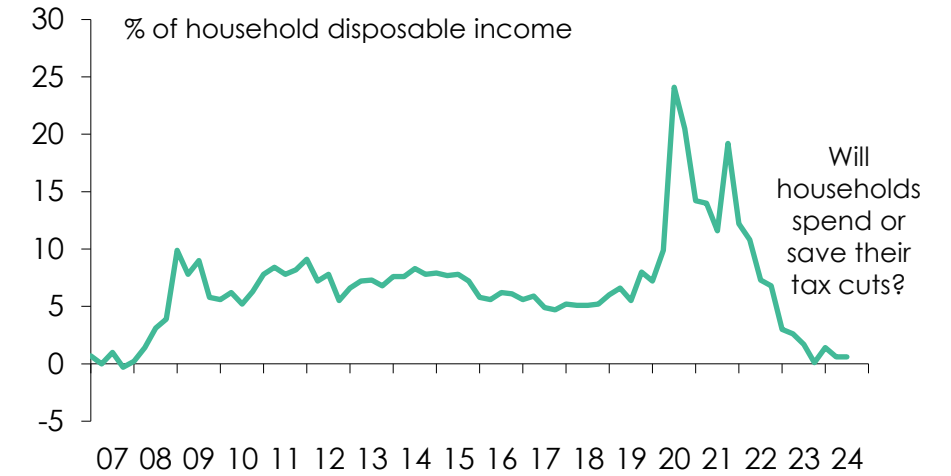
Real wages



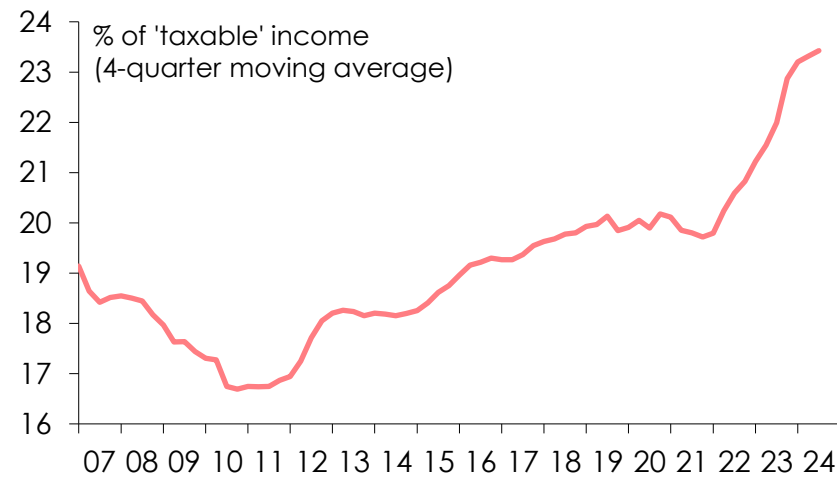
Interest income and payments



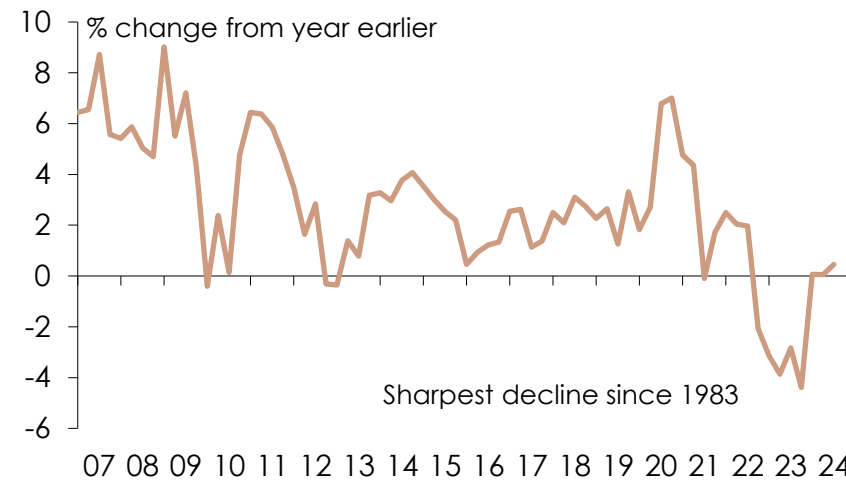
Household saving



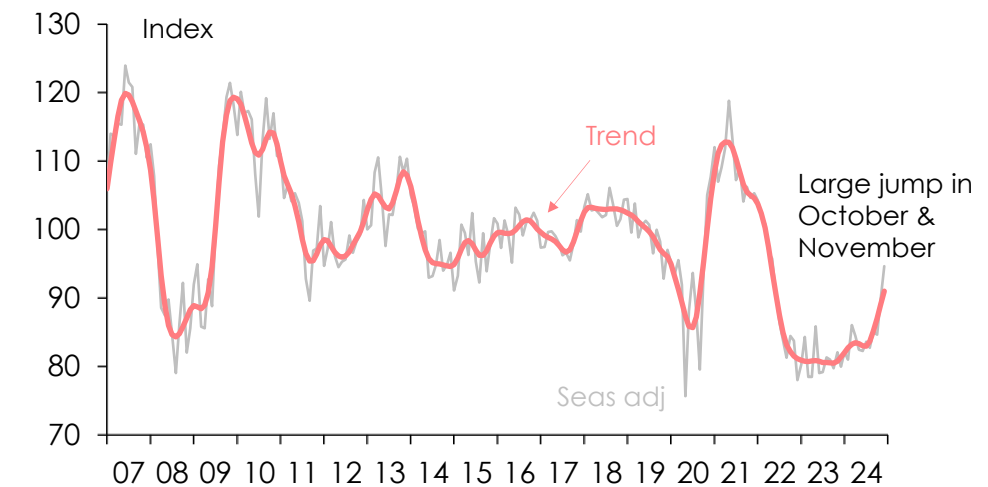
Personal income tax payments



Real household disposable income



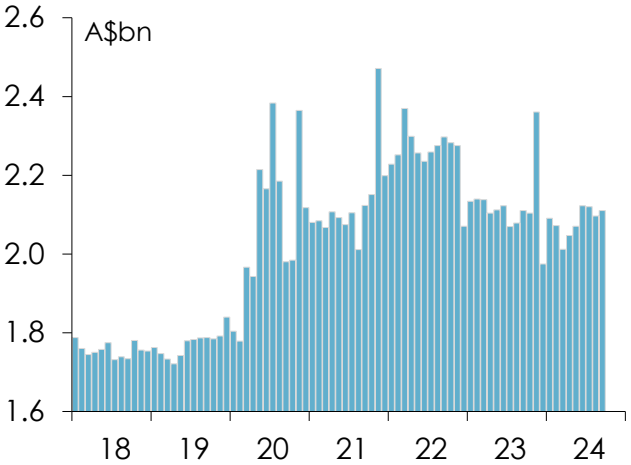
Consumer confidence



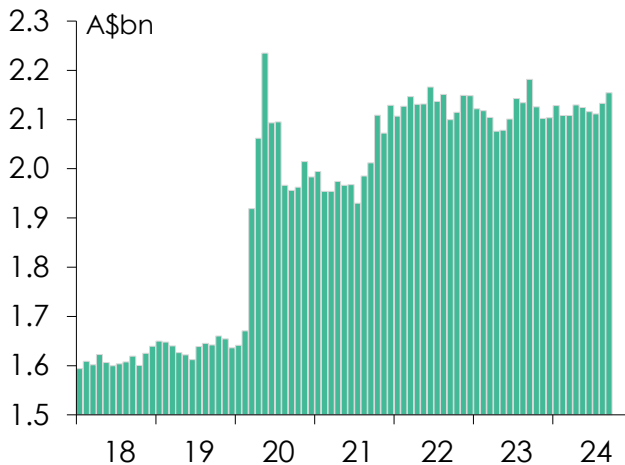
Sources: ABS, [Wage Price Index](#), September quarter 2024, [Consumer Price Index](#), September quarter 2024 and [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2024; Westpac, [Westpac-MI Consumer Sentiment](#), November 2024.

While consumers have cut back spending in some discretionary areas, in others spending remains at a high level

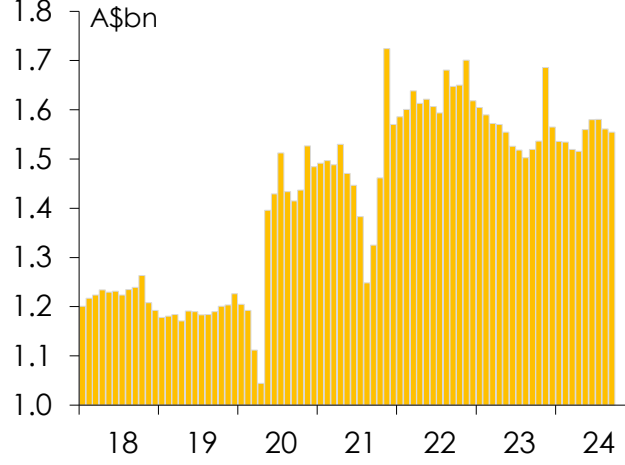
Electronic & electrical goods



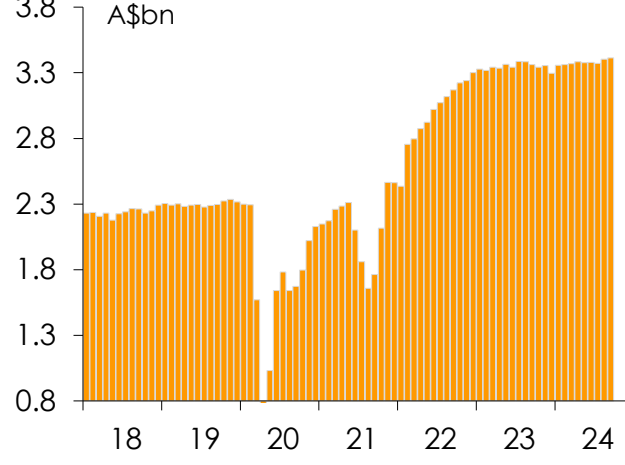
Hardware, building & garden supplies



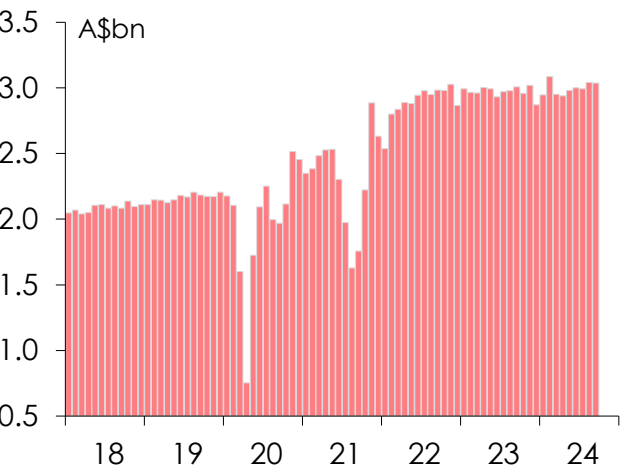
Floor coverings, furniture, housewares etc



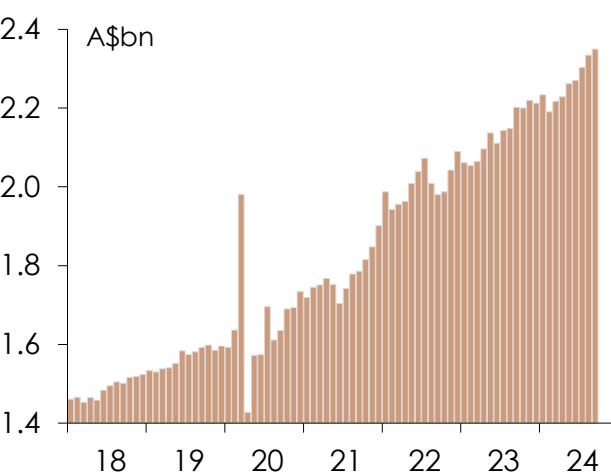
Cafes and restaurants



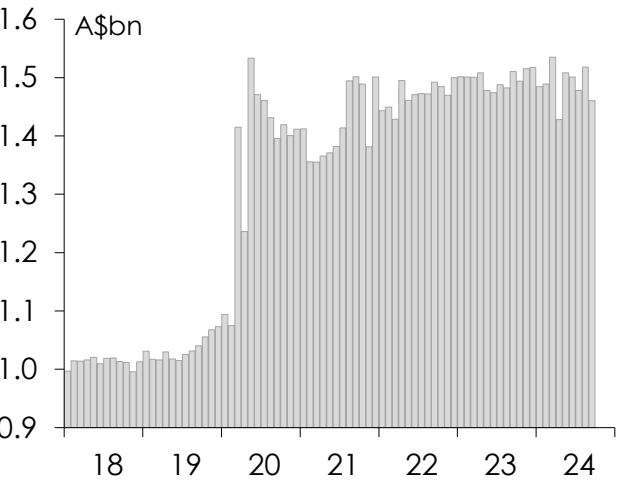
Clothing, footwear & personal accessories



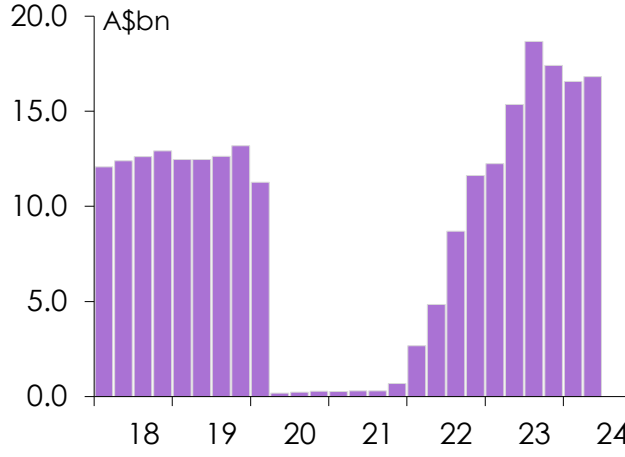
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



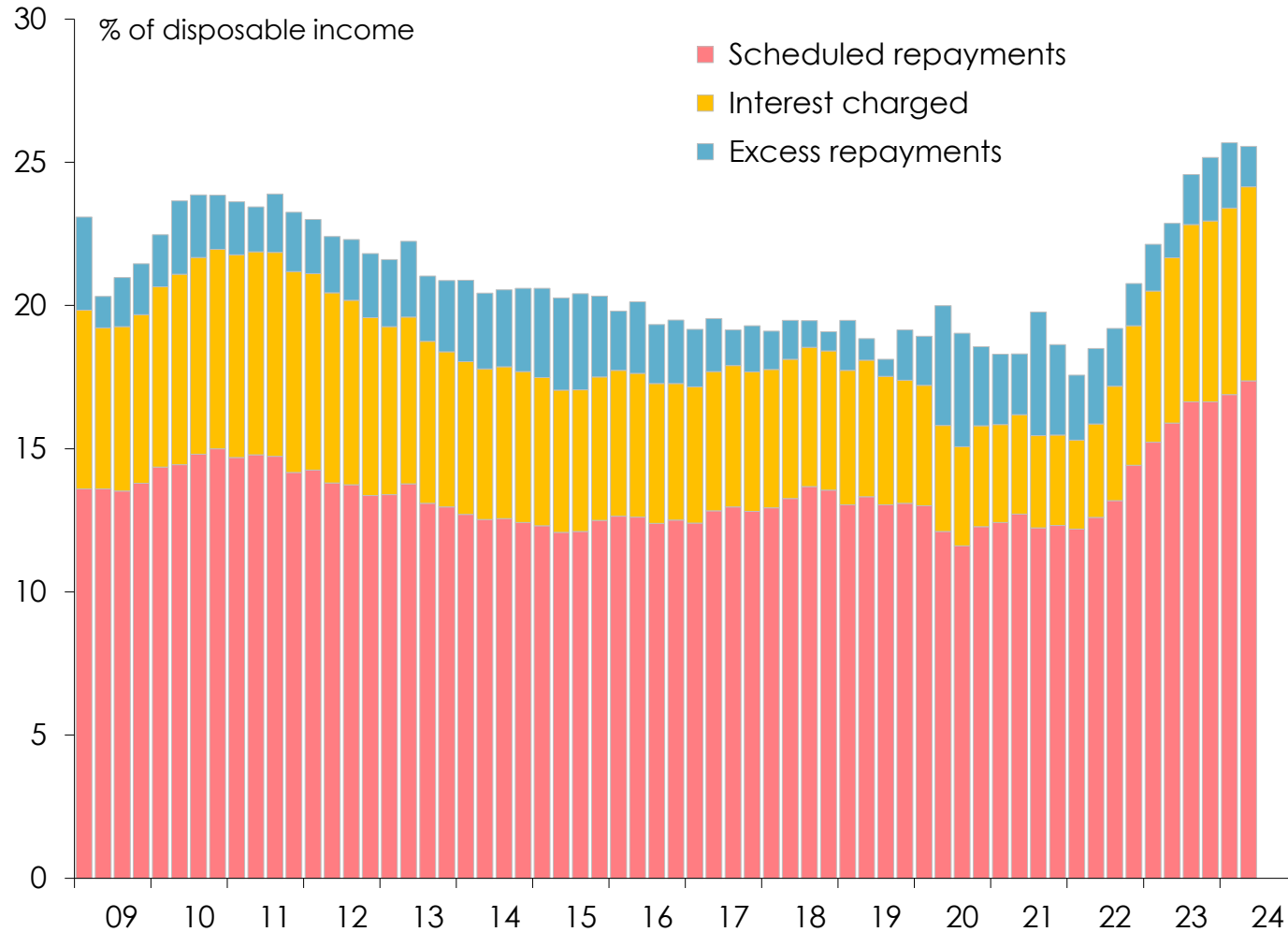
Overseas travel



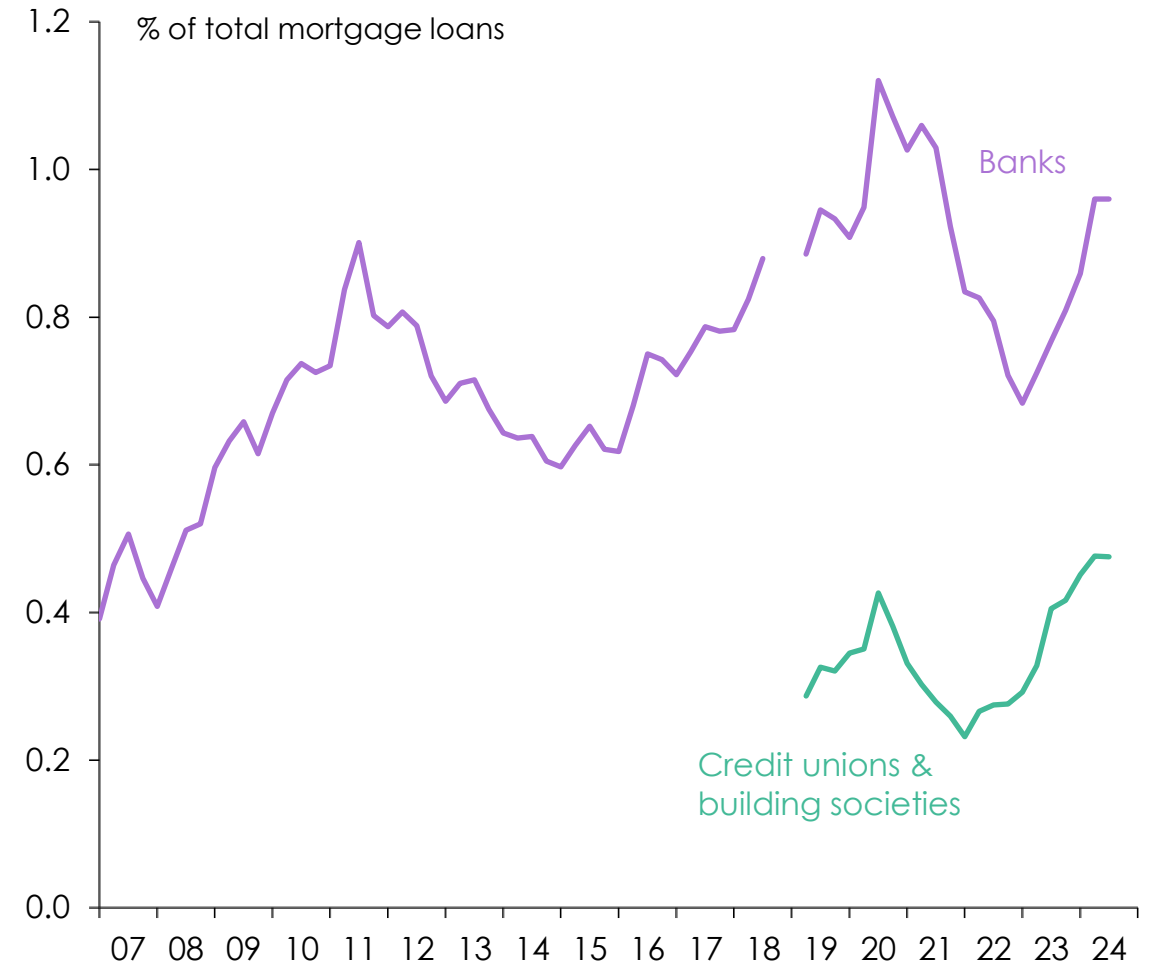
Sources: ABS, [Retail Trade](#), September 2024 and [Balance of Payments and International Investment Position](#), June quarter 2024. Data on spending on overseas travel is (as of December 2023) only available quarterly.

Mortgage-holders are (in aggregate) still making 'excess repayments' of principal, and delinquency rates though rising remain low

Mortgage interest and principal repayments as a percentage of disposable income



Mortgage lenders' non-performing loan ratios

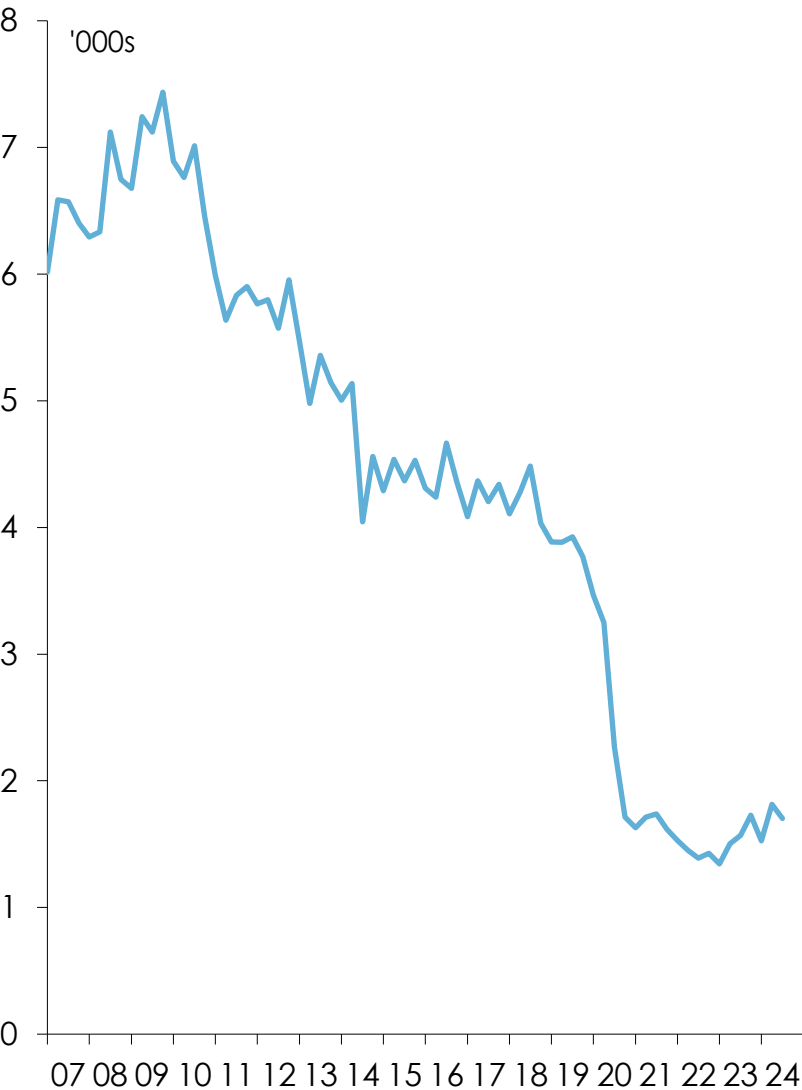


Note: Disposable income in this chart is gross disposable income from the national accounts plus interest payments on dwellings.

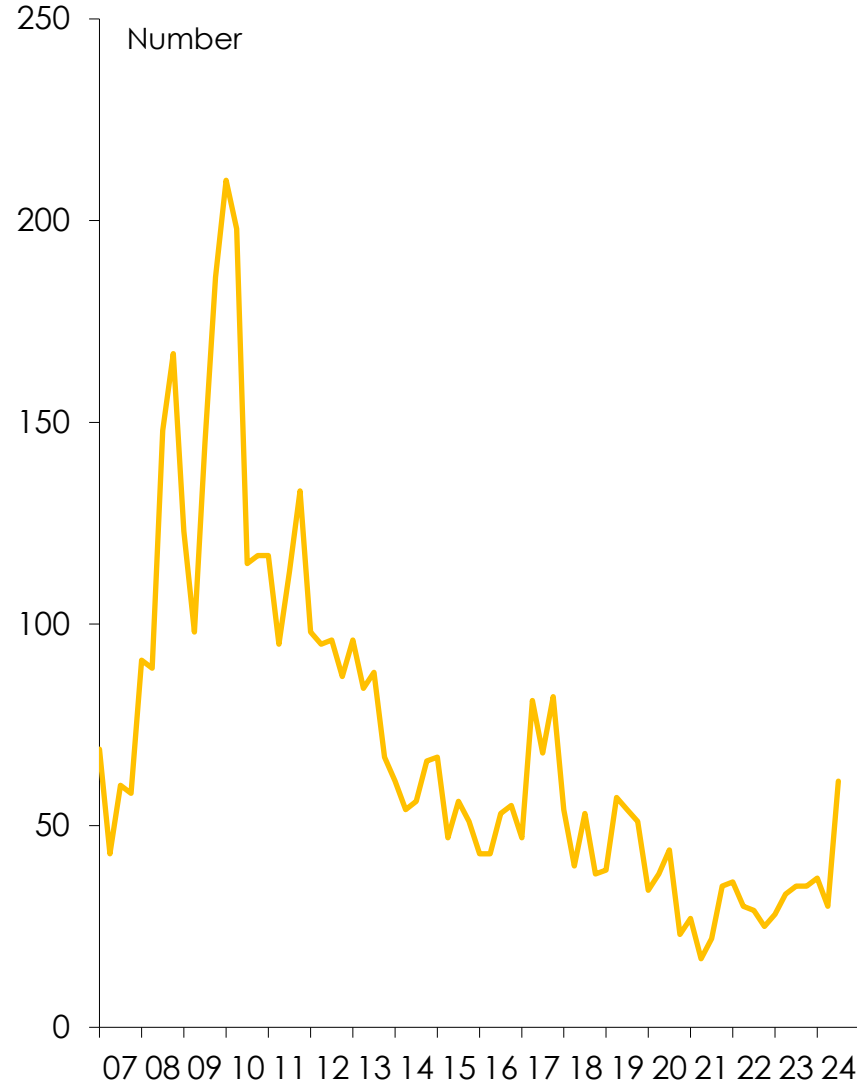
Sources: Reserve Bank of Australia, [Housing Loan Payments](#); ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2024; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution property exposures statistics](#), September 2004 to June 2024.

Financial stress is likely to increase (from very low levels) in 2024-25 – with businesses more affected than individuals

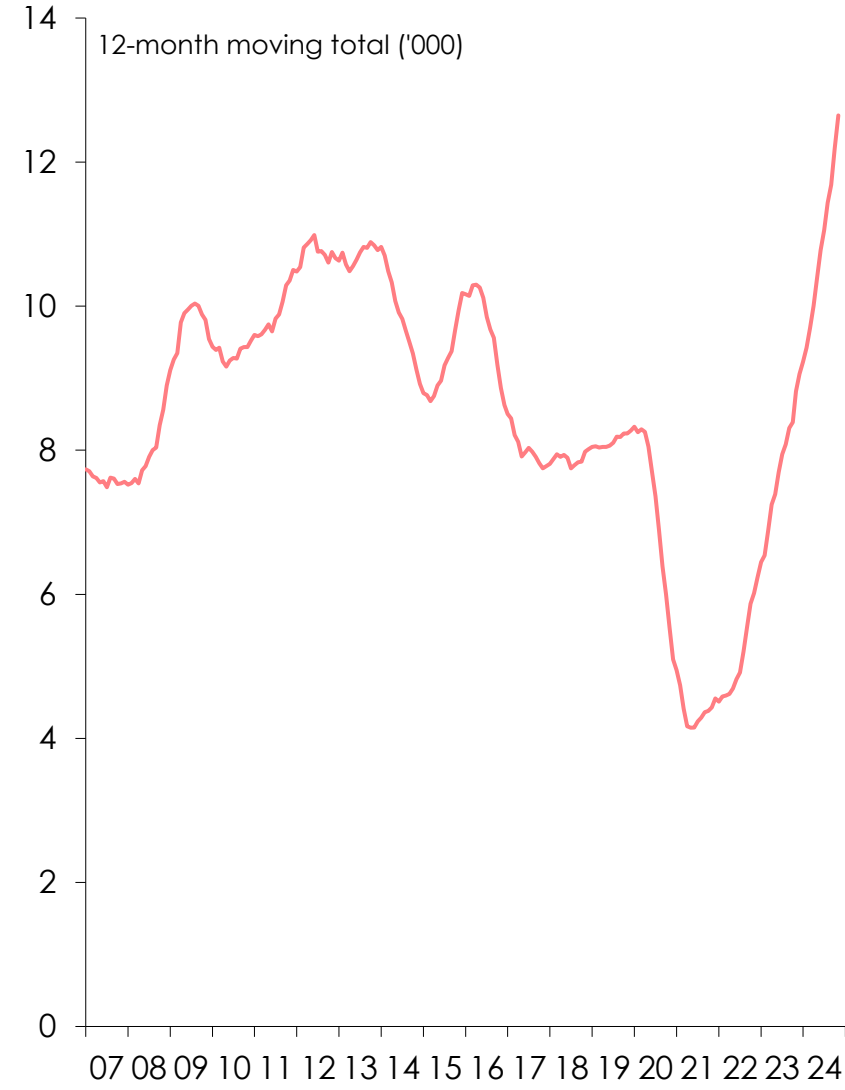
Bankruptcies



Personal insolvencies



Companies entering administration



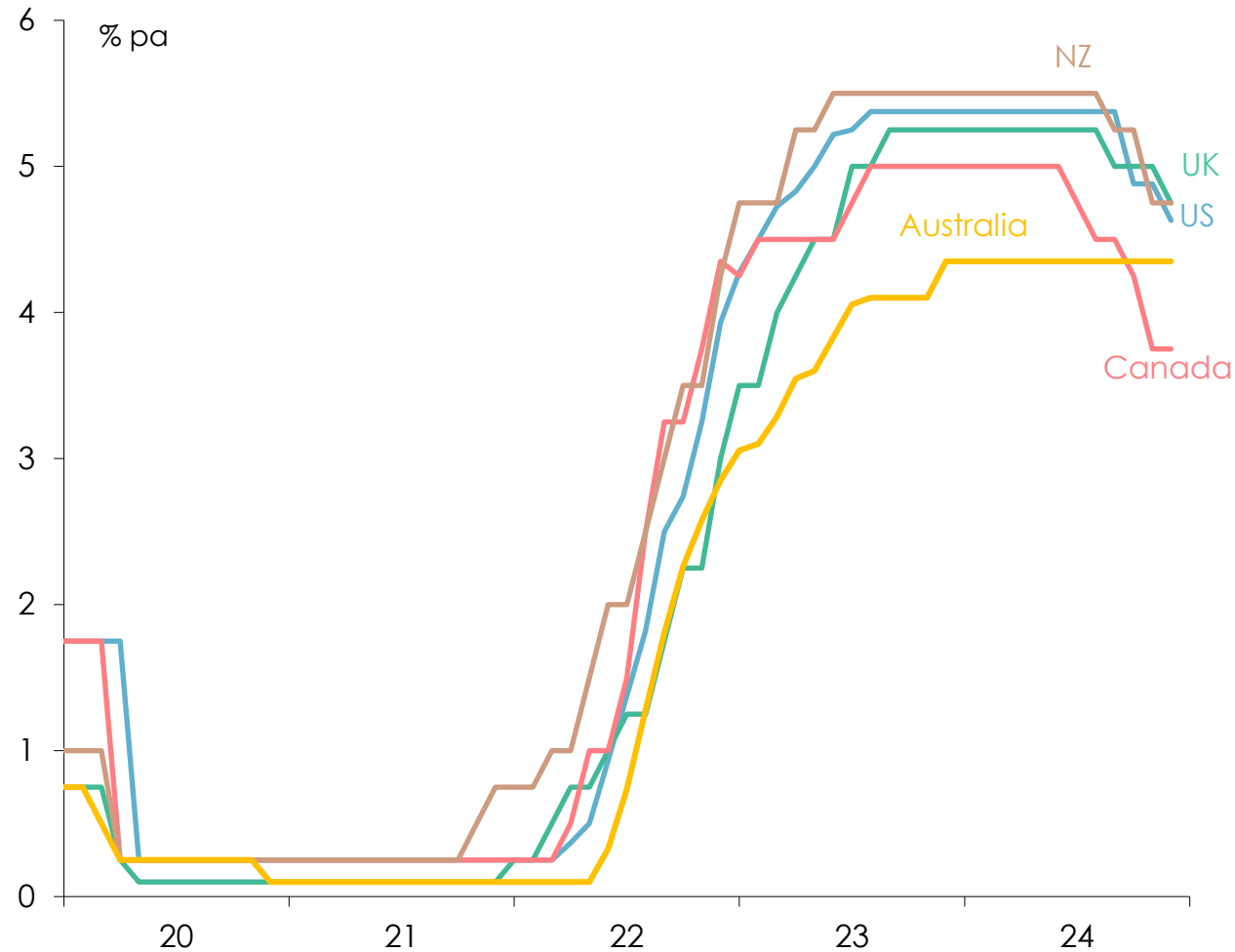
Sources: Australian Financial Security Authority, [Quarterly personal insolvency statistics](#), June 2024; Australian Securities and Investments Commission (ASIC), [Insolvency statistics \(current\)](#), October 2024.

The RBA was later to start raising rates than its peers, and didn't raise them as much – so it will be slower to start cutting rates, and will cut them by less

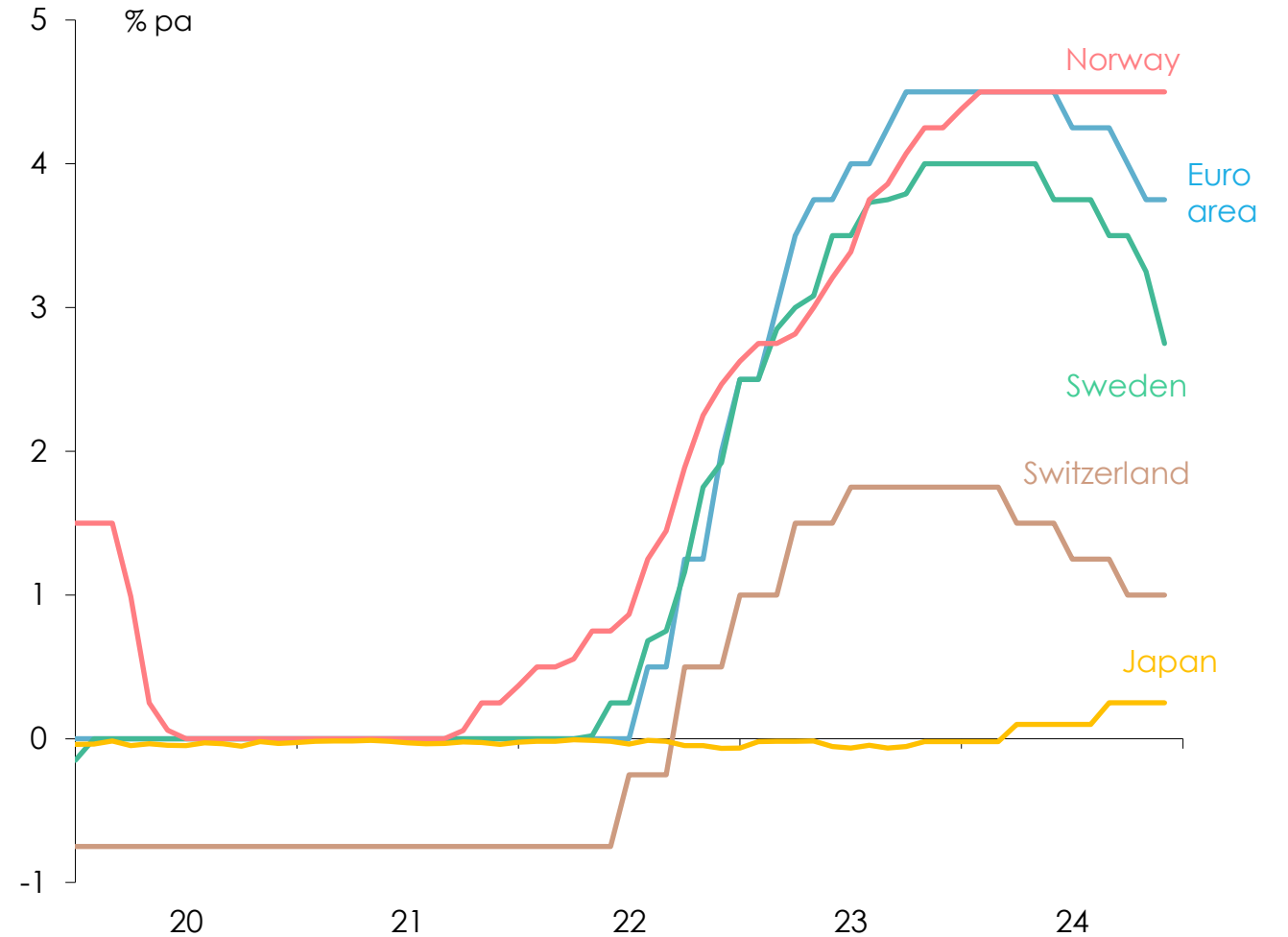
- ❑ The Reserve Bank has consciously and deliberately made a different 'trade-off' between inflation and unemployment than its 'peer' central banks in other countries (the Fed, BoE, BoC and RBNZ)
 - the RBA has been willing to 'tolerate' inflation being above its (slightly softer) target range (of 2-3% pa) for longer than its peers have been willing to 'tolerate' inflation being over their targets (of either 2%, or 1-3%), in order to preserve as much as possible of the gains made during 2021 and 2022 in reducing unemployment and under-employment to levels previously considered unattainable, or unsustainable
 - that's the main reason (along with higher levels of household debt than in most other economies, and a much greater preponderance of variable-rate mortgages) why the RBA started raising interest rates later than, and has raised them by less than, its peers
- ❑ 'Underlying' inflation has come down more slowly in Australia than in the US, Canada and New Zealand (although at about the same pace as the UK) ...
- ❑ ... but unemployment hasn't risen nearly as much as in Canada or New Zealand
 - and although the rise in unemployment in Australia has been similar to that in the US, the US hasn't had nearly as much growth in its population as Australia, and it has had much more stimulatory fiscal policy than Australia (a budget deficit of 6½% of GDP in the US cf. budget surplus in Australia)
- ❑ The corollary of interest rates having started to rise later and having risen by less in Australia than in the US, the UK, Canada and New Zealand is that rates will take longer to start falling, and fall by less, than in those countries
- ❑ That said, the RBA does appear to be setting a 'high bar' for establishing confidence that inflation is headed towards being 'sustainably' within the 2-3% target band
 - with the [Minutes](#) of the RBA's November Board meeting recording that they would need "more than one good quarterly inflation outcome to be confident that such a decline in inflation was sustainable"

Most other central banks (apart from the Bank of Japan) have begun cutting interest rates – but the RBA and Norges Bank are ‘outliers’

Monetary policy interest rates – Australia and comparable countries



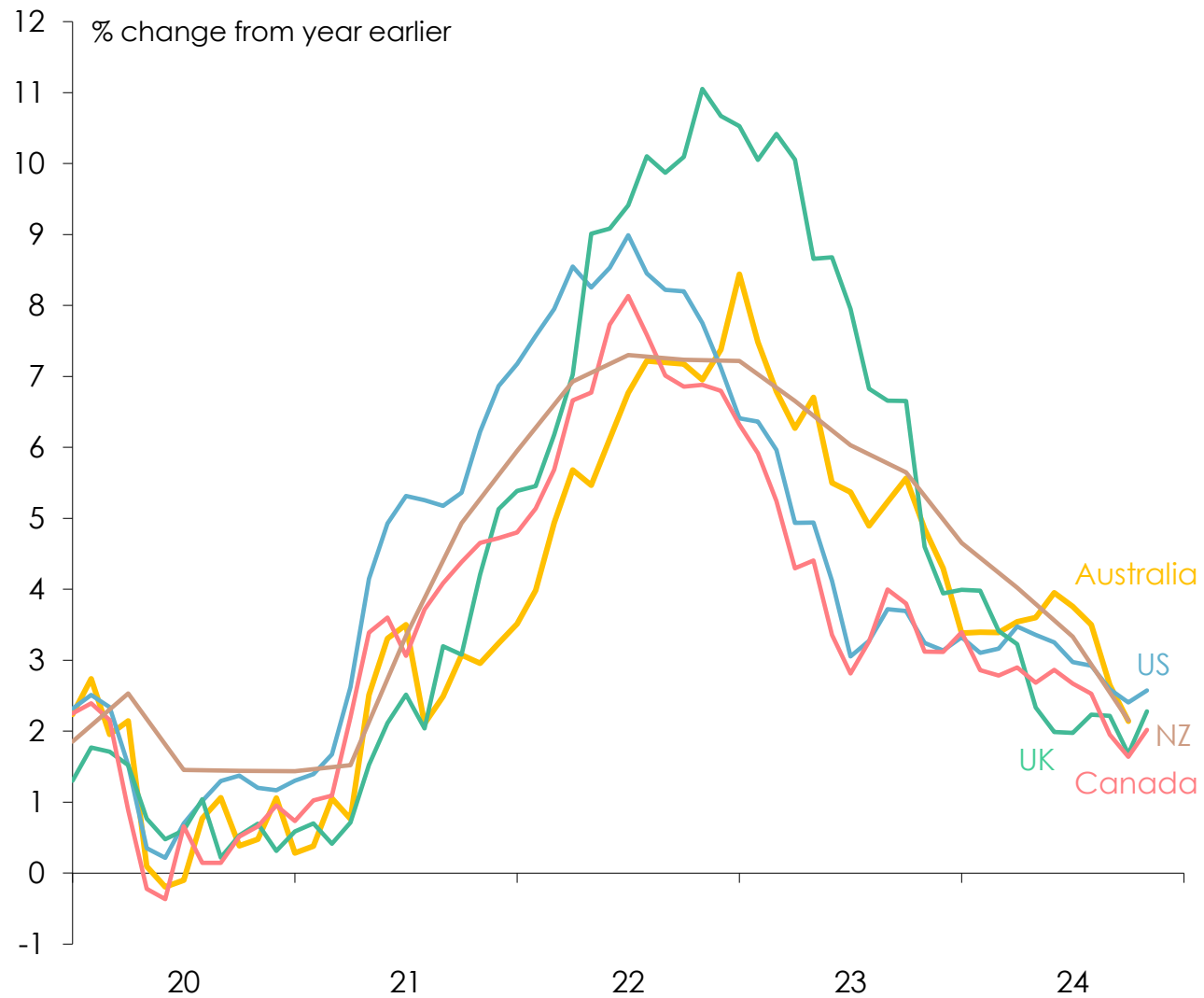
Monetary policy interest rates – Europe and Japan



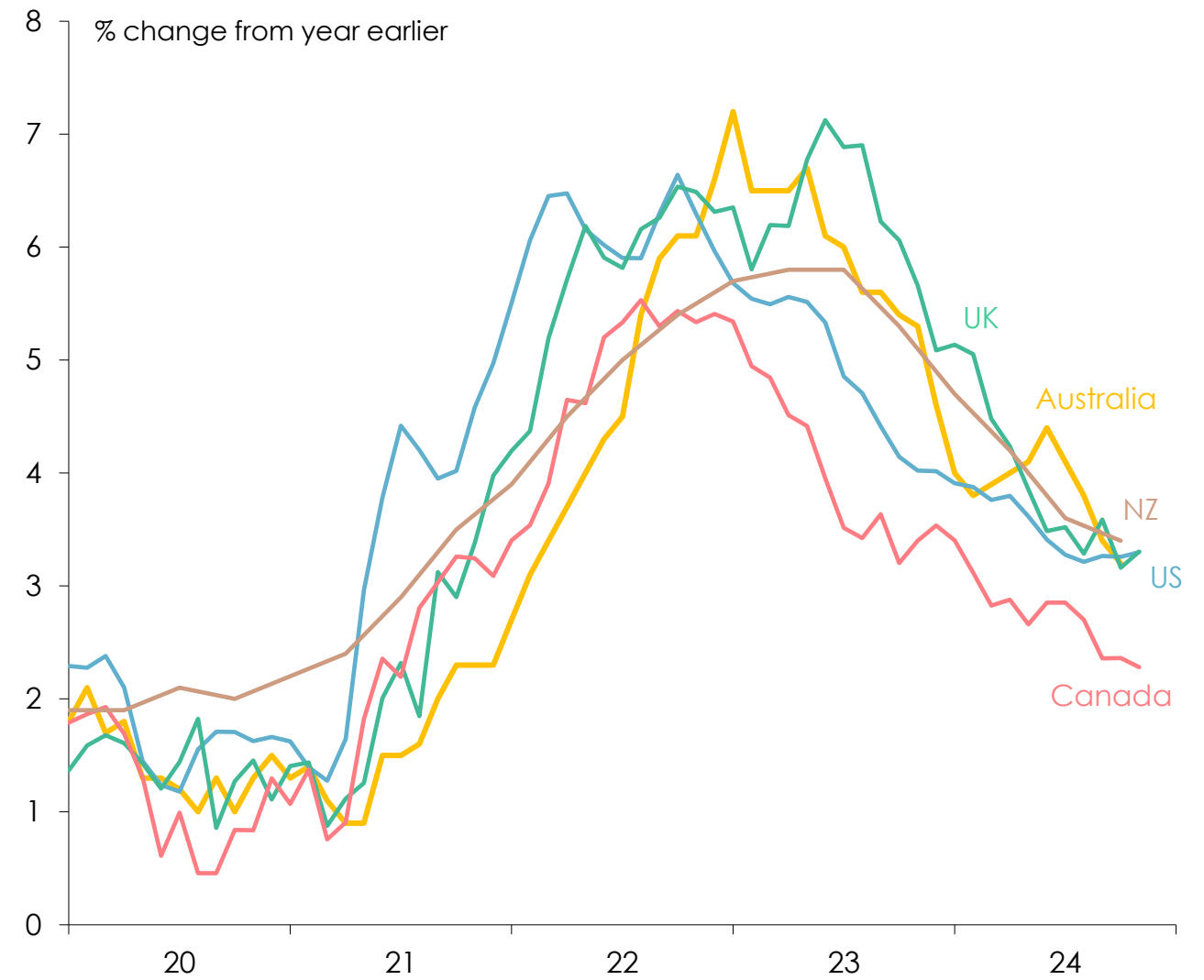
Sources: US Federal Reserve; Bank of Canada; European Central Bank; Bank of England; Reserve Bank of Australia; Reserve Bank of New Zealand; European Central Bank; Sveriges Riksbank; Norges Bank; Schweizerische Nationalbank; Bank of Japan.

'Underlying' inflation hasn't fallen as much in Australia as it has done in the US, the UK, Canada and New Zealand

'Headline' inflation



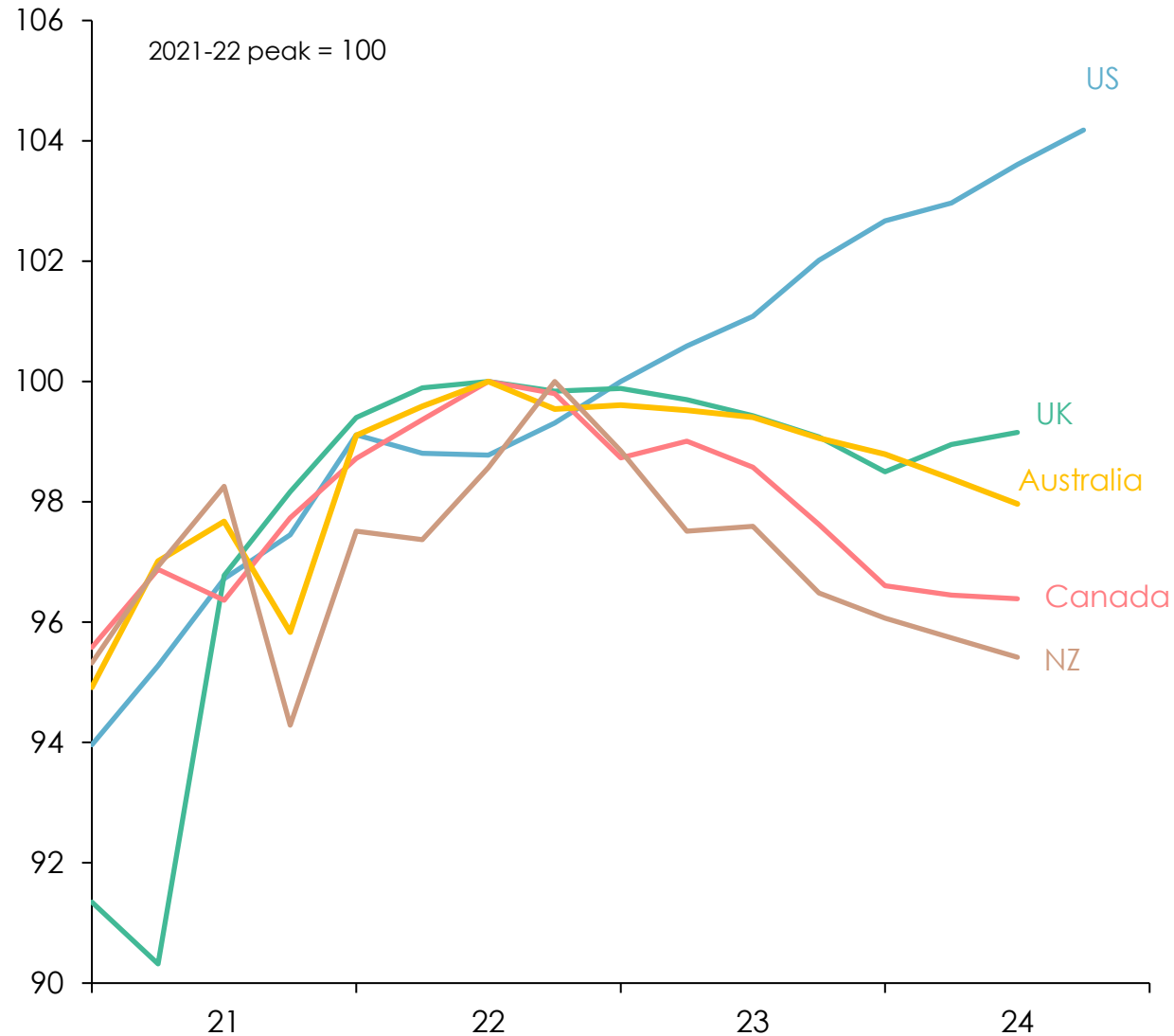
'Core' or 'underlying' inflation



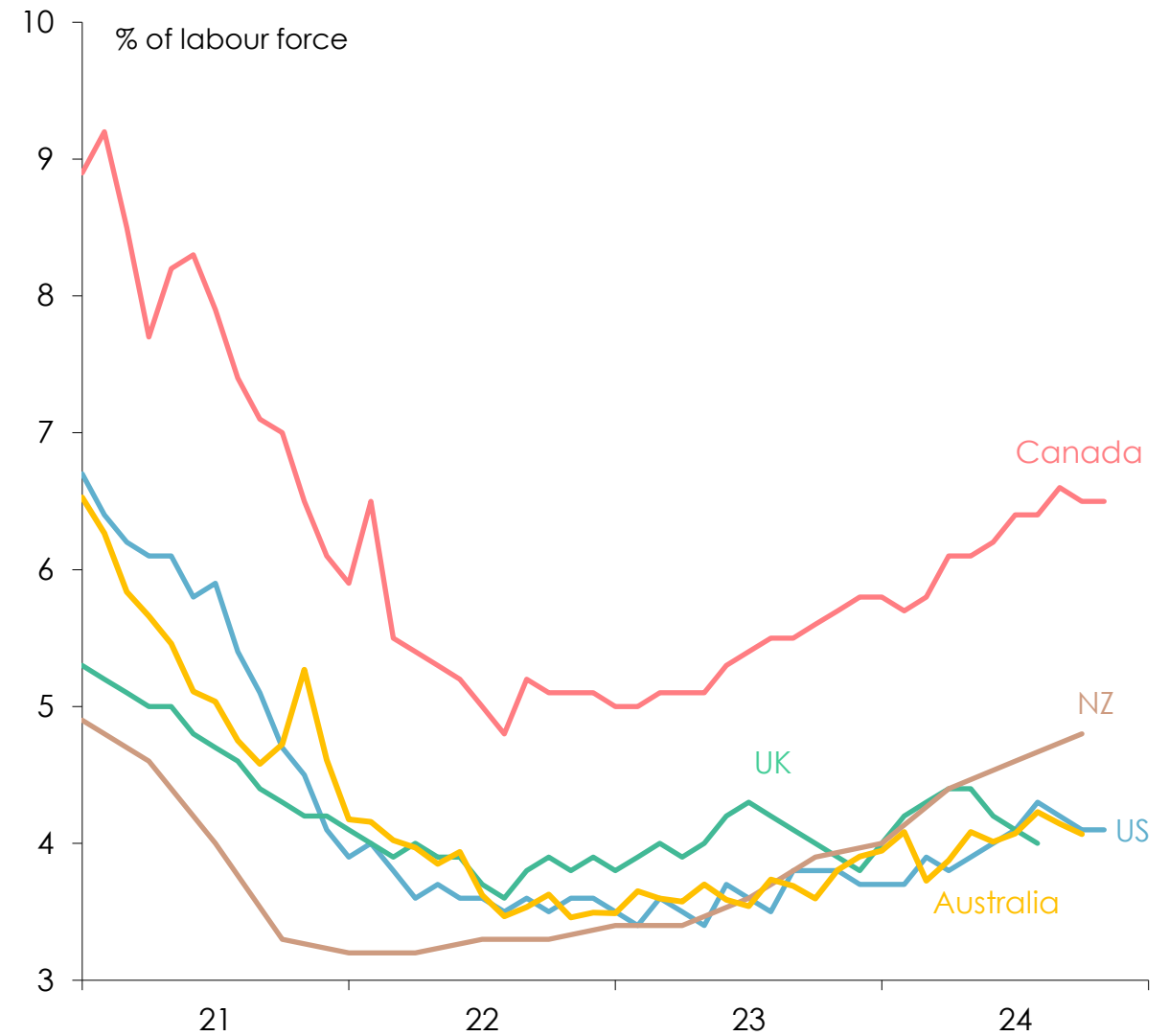
Note: 'Core' inflation in the US, UK and Canada is the annual change in the CPI excluding food & energy; 'underlying' inflation in Australia is the 'trimmed mean' and in NZ is derived from a statistical model. Sources: US [Bureau of Labor Statistics](#); [Statistics Canada](#); UK [Office for National Statistics](#); [ABS](#); [StatsNZ](#); [RBNZ](#).

But economic activity hasn't contracted as much in Australia as in NZ or Canada, and unemployment has risen by less than in the US or UK

Real per capita gross domestic product

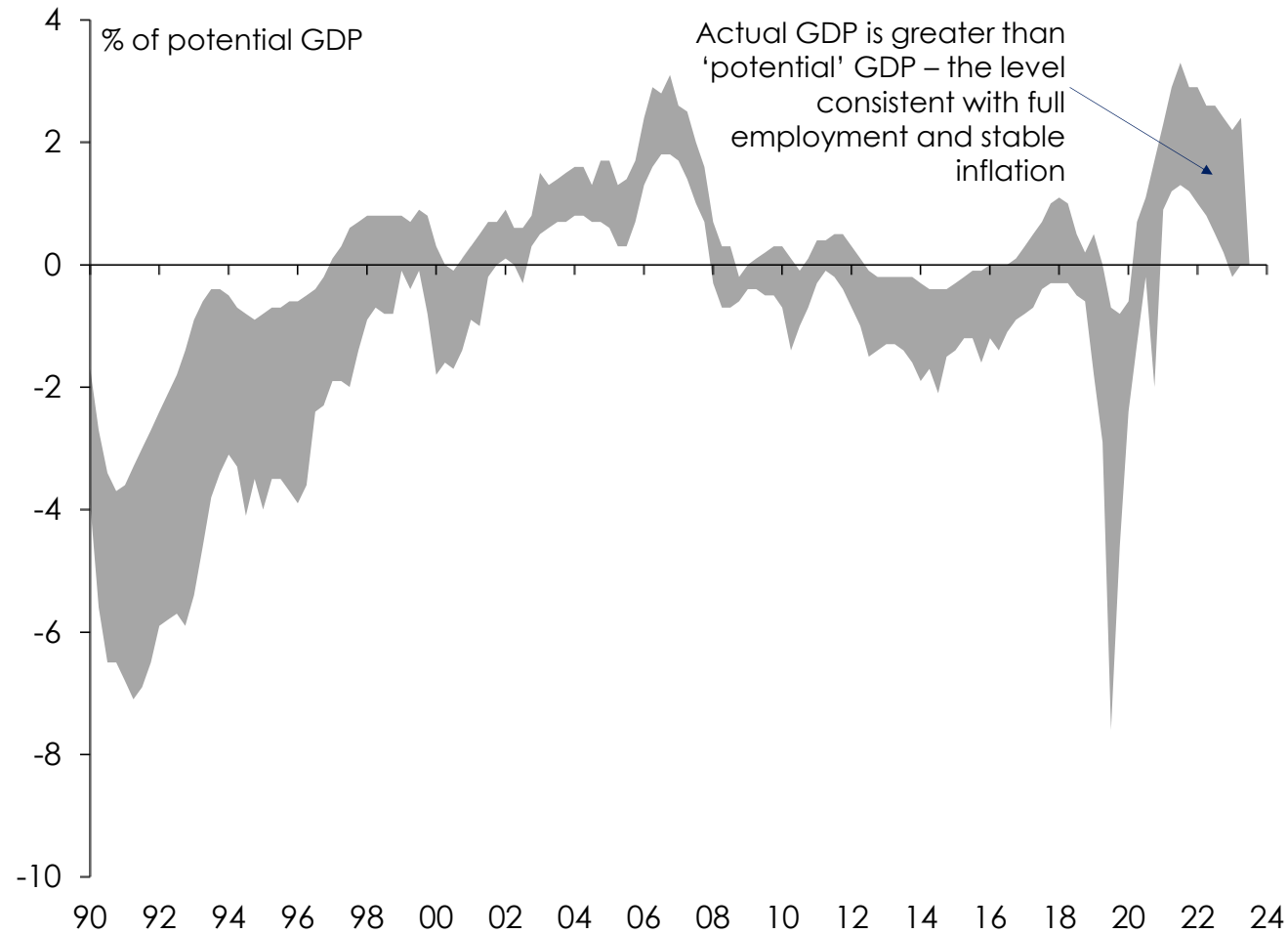


Unemployment rates

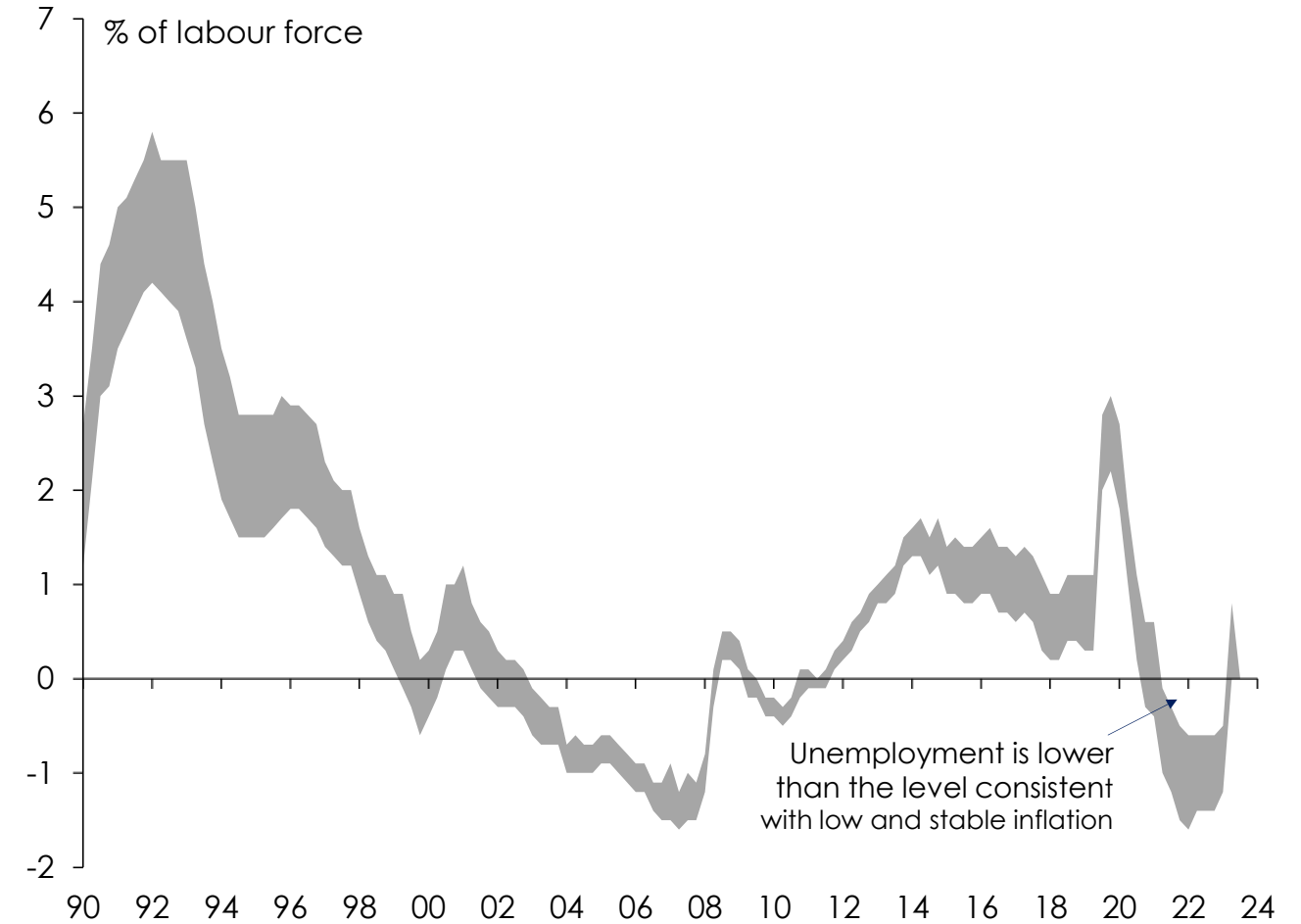


Despite the slowing in economic growth and rise in unemployment, the RBA assesses that the economy is still running at 'above normal' capacity

Estimates of the 'output gap' (the difference between actual and 'potential' real GDP)



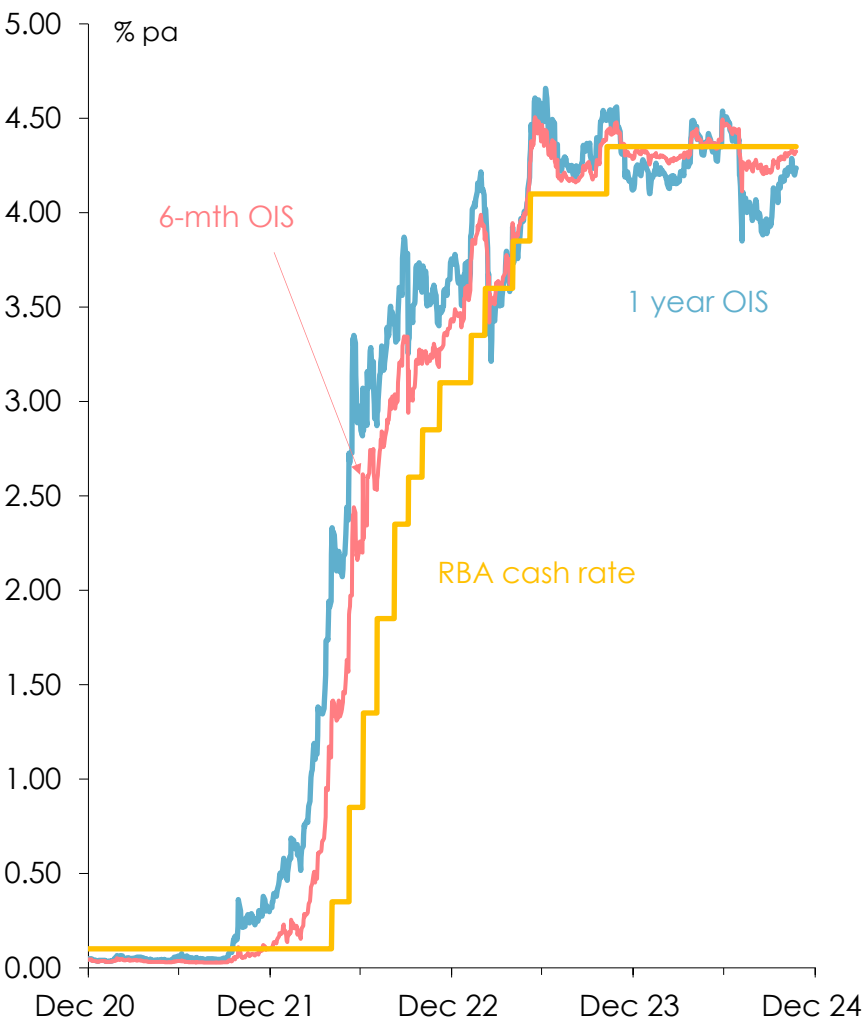
Estimates of the difference between actual unemployment and 'full employment'



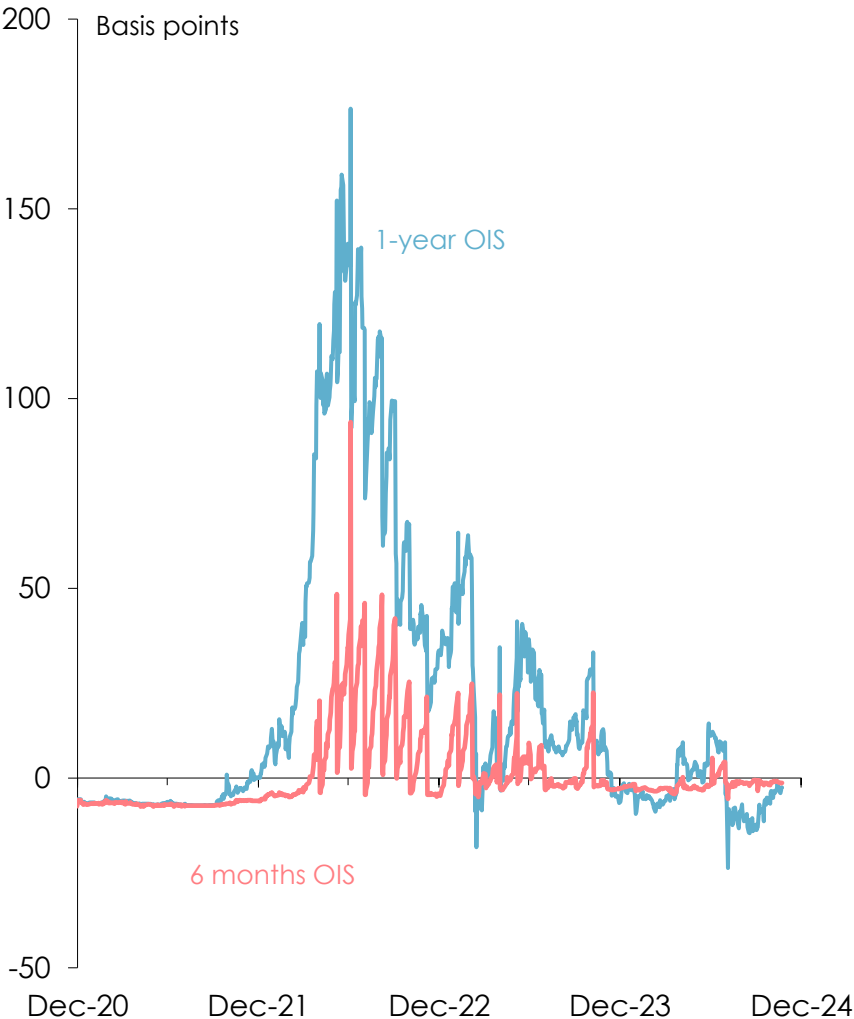
Note: Shaded regions show illustrative ranges of central gap estimates from a range of models encompassing different measures and definitions of 'potential GDP' and 'full employment'; the estimates are subject to 'substantial uncertainty'. Sources: Reserve Bank of Australia, [Statement on Monetary Policy: Assessment of spare capacity](#), 5th November 2024.

Financial markets are no longer expecting the RBA to start cutting rates in February – the most favoured time is now May 2025

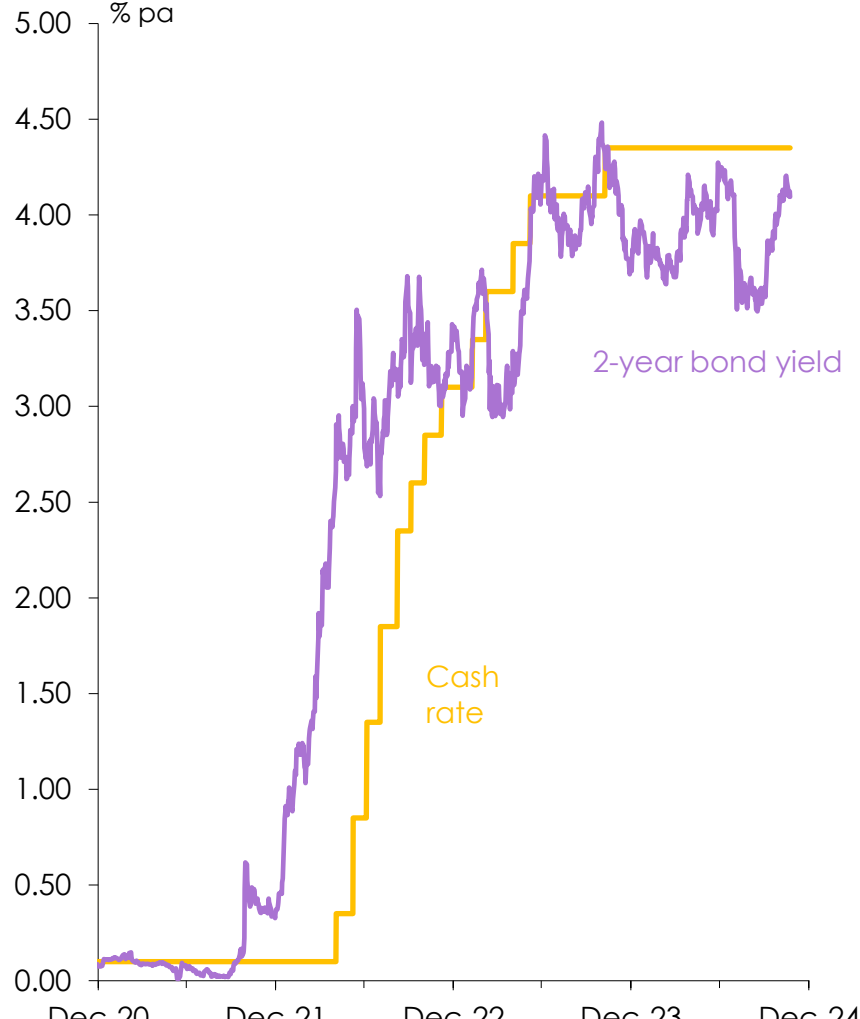
RBA cash rate vs OIS rates



OIS-cash rate spreads



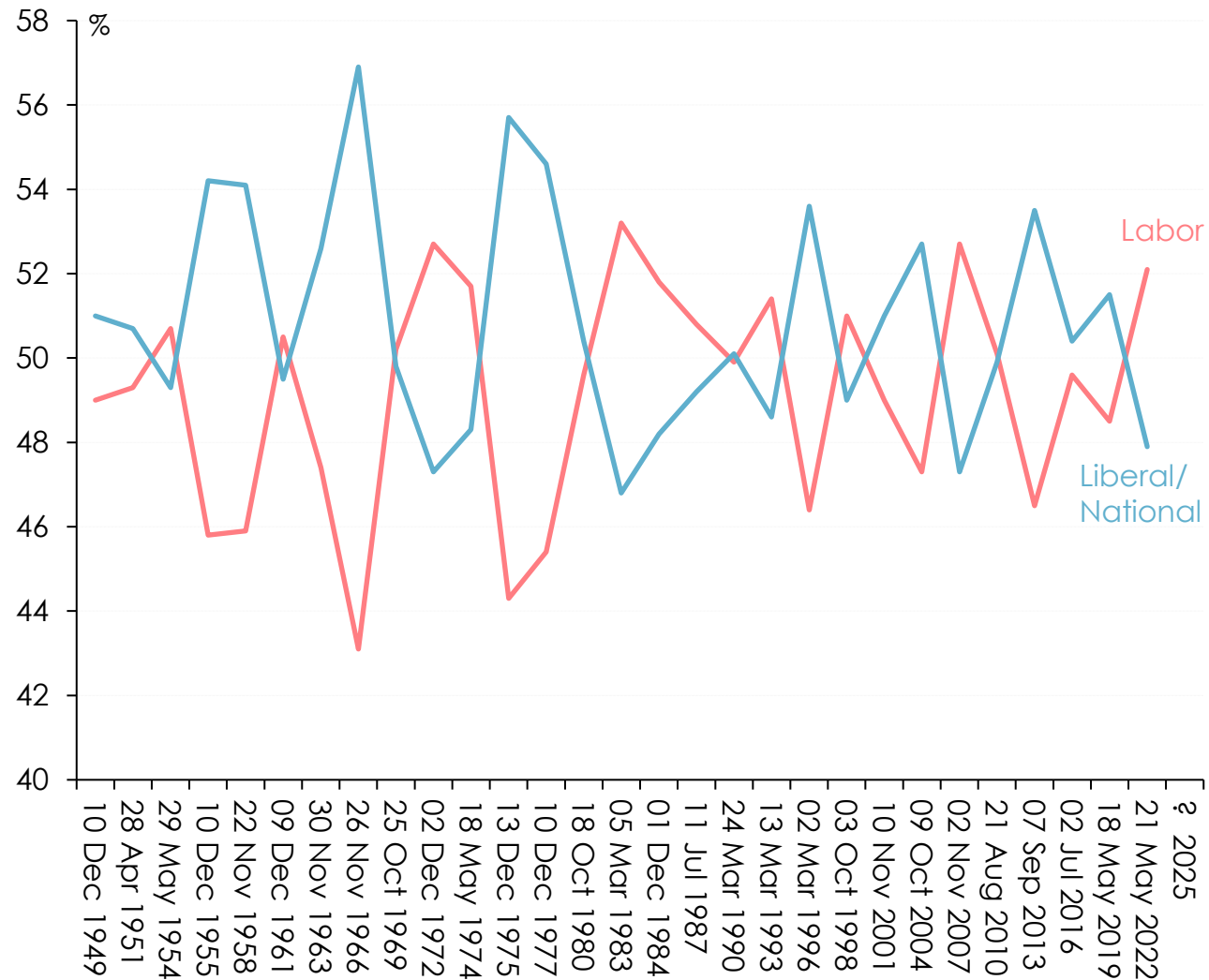
RBA cash rate vs 2-year bond yield



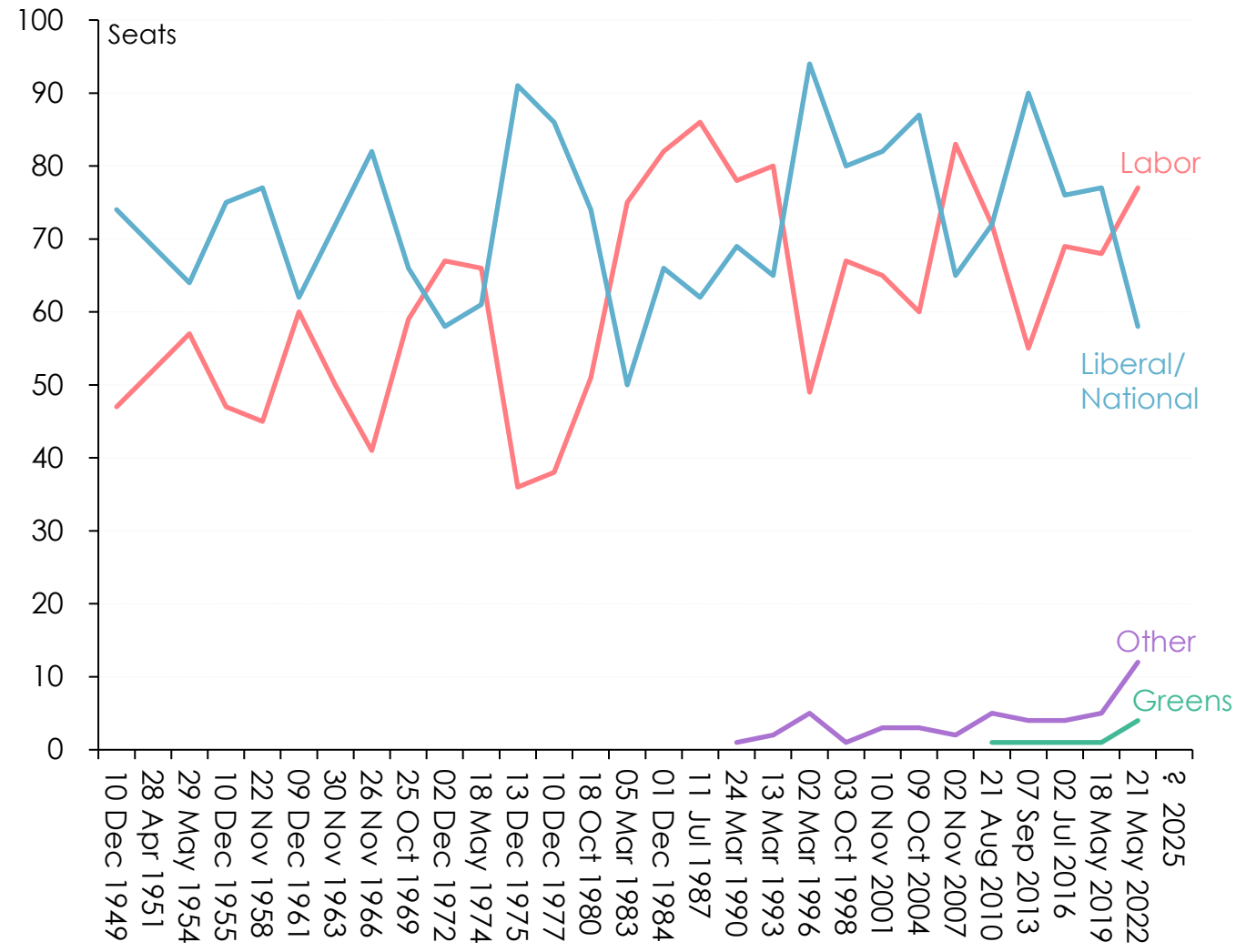
The 2025 Australian election

The Albanese Labor Government goes into the 2025 election with the thinnest majority of any first-term Federal Government in the post-war era

Share of two-party-preferred vote



Seats in the House of Representatives

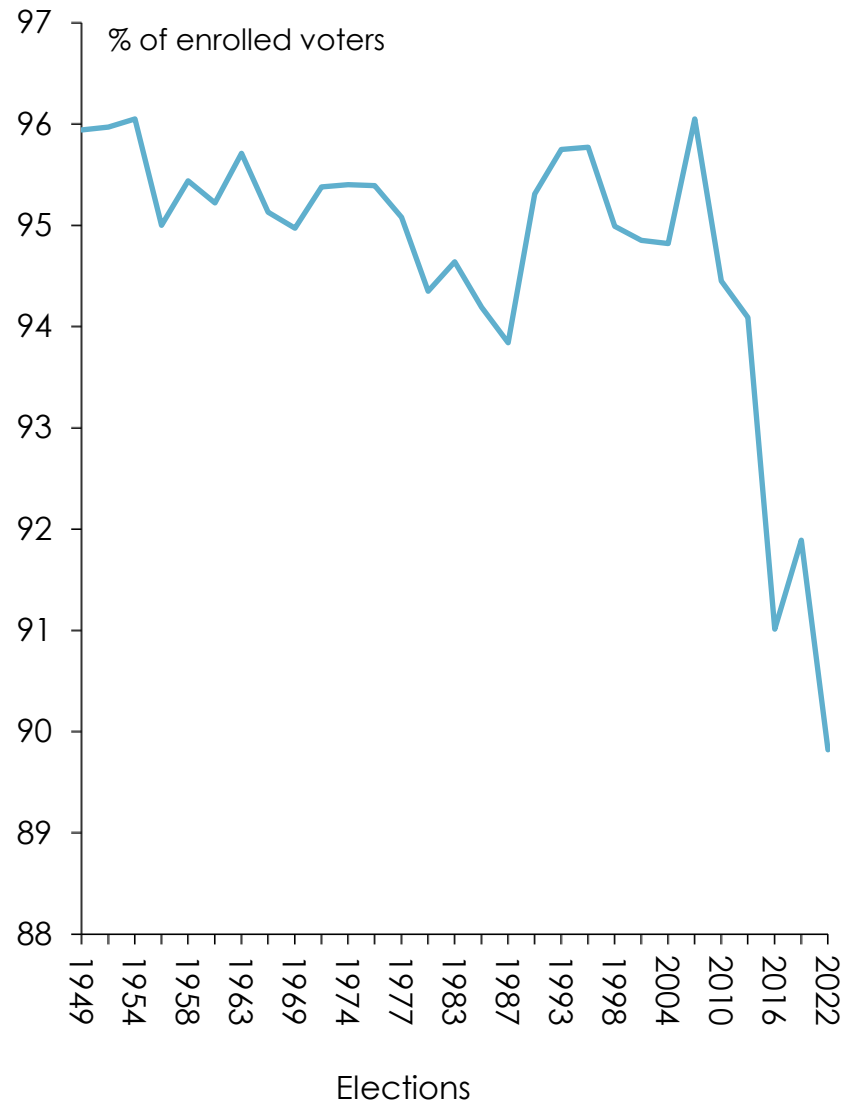


Note: Share of the two-party-preferred vote is for the House of Representatives election.

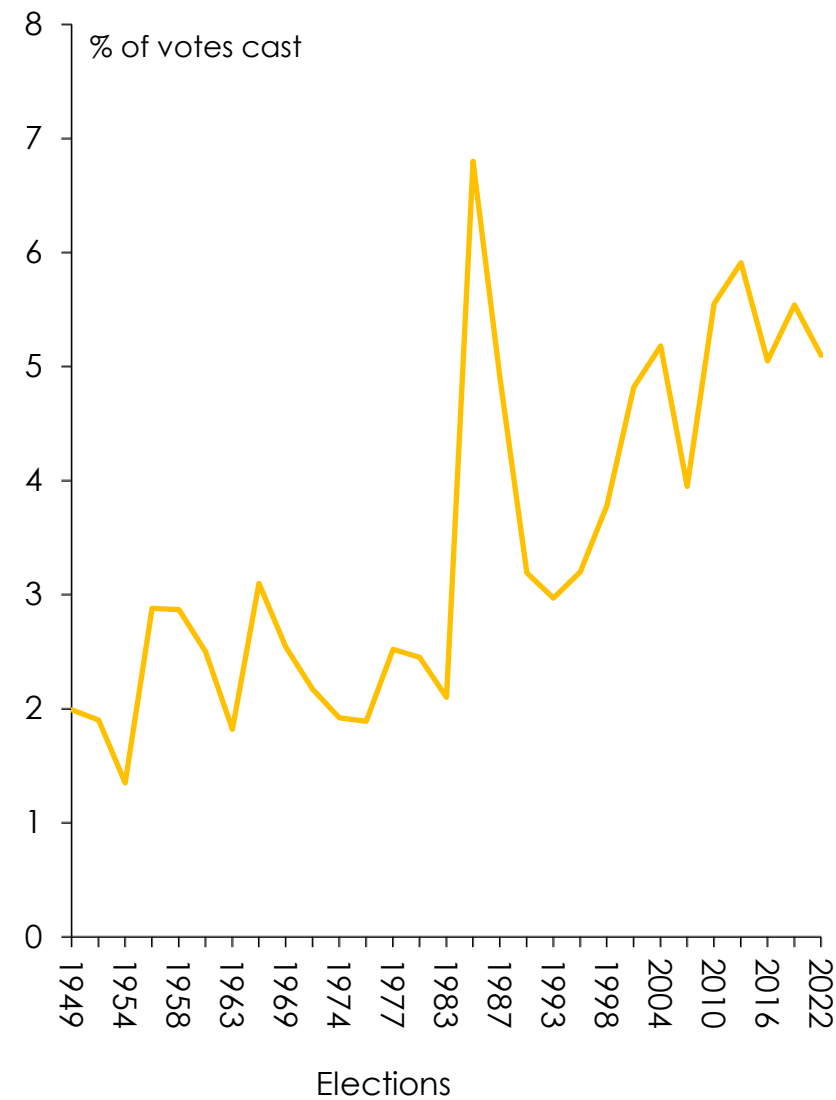
Sources: Australian Electoral Commission, [Tally room archive](#); Wikipedia, [List of Australian federal elections](#).

Three indications of increasing voter disaffection with political processes in Australia

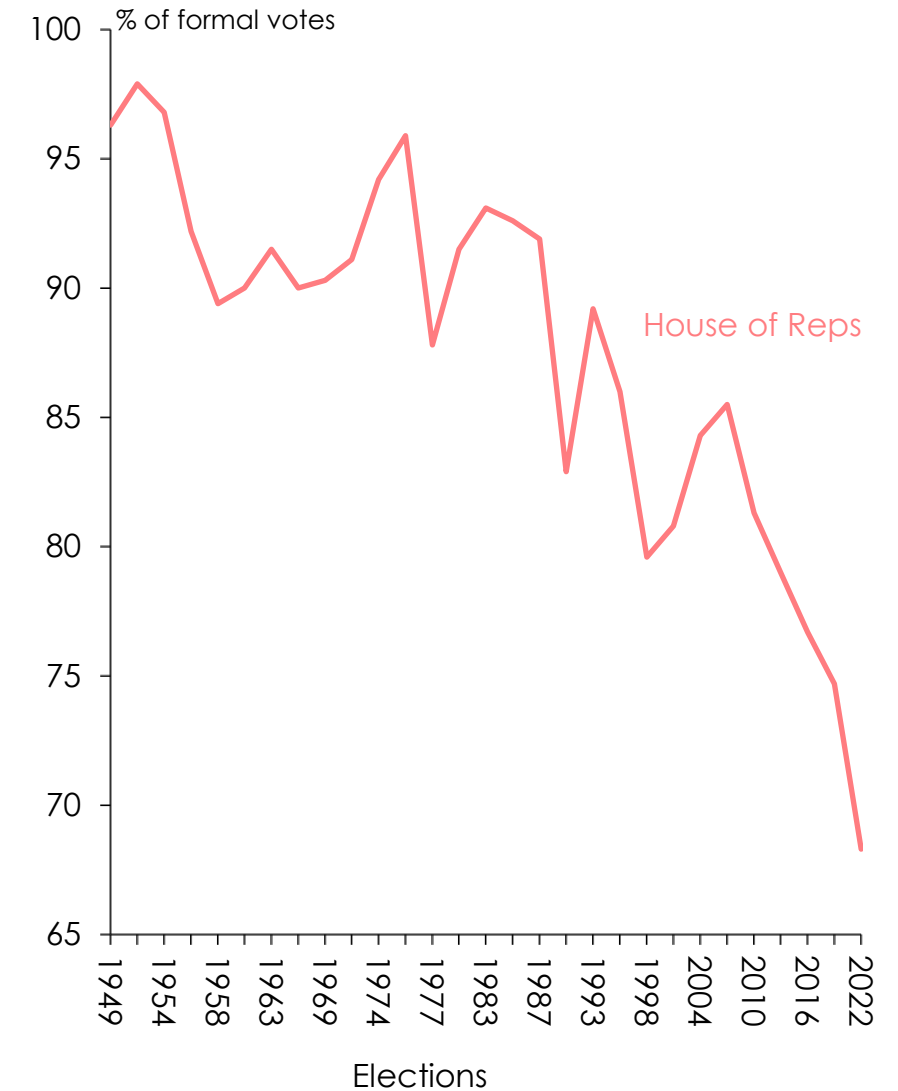
Voter turnout



Informal vote

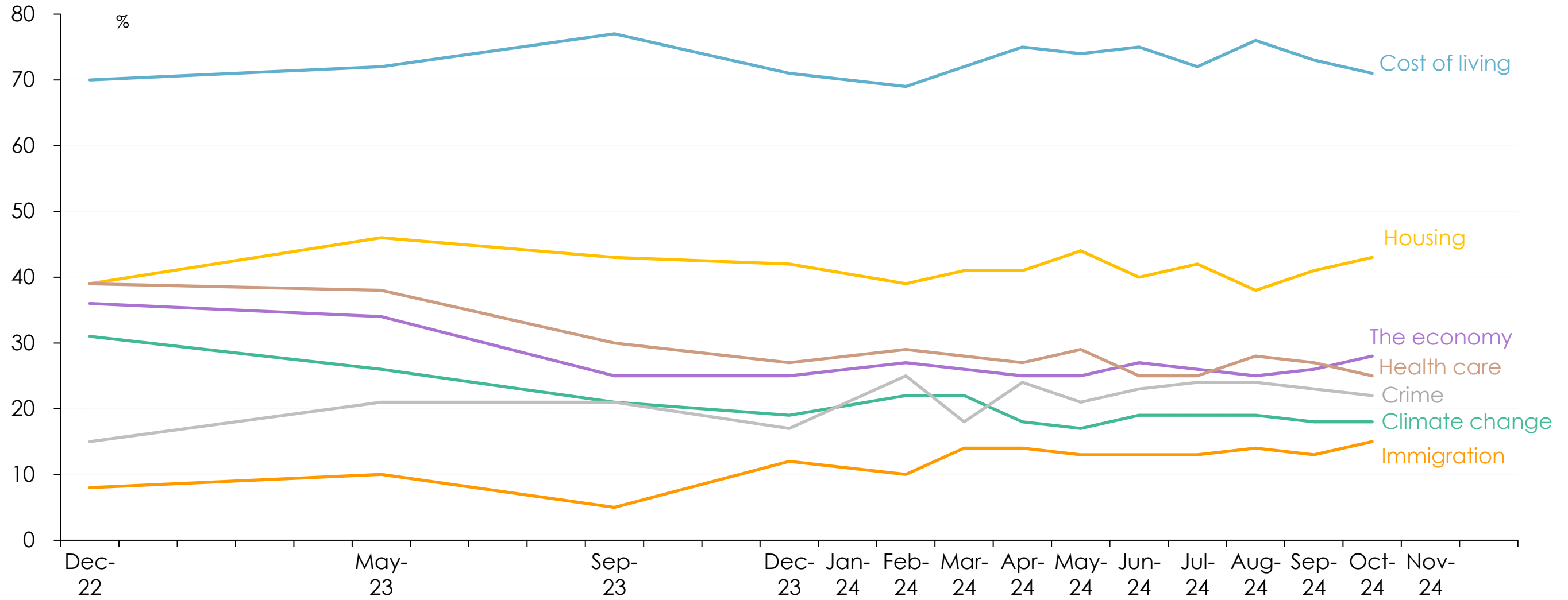


Vote for two major parties



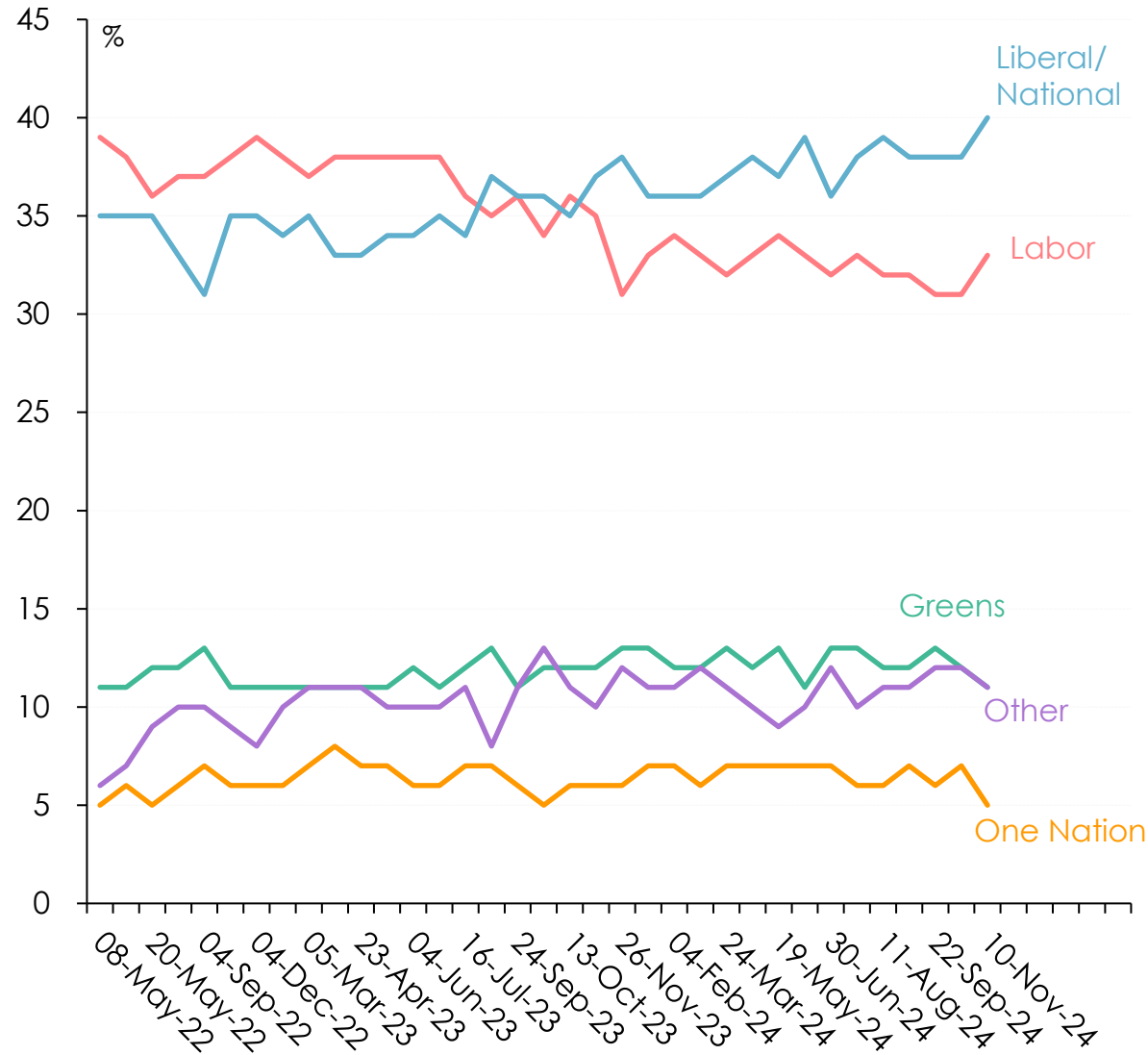
Next year's election will be primarily about 'cost of living' – but crime and immigration have crept us as issues, while climate change has declined

Issues of concern to voters

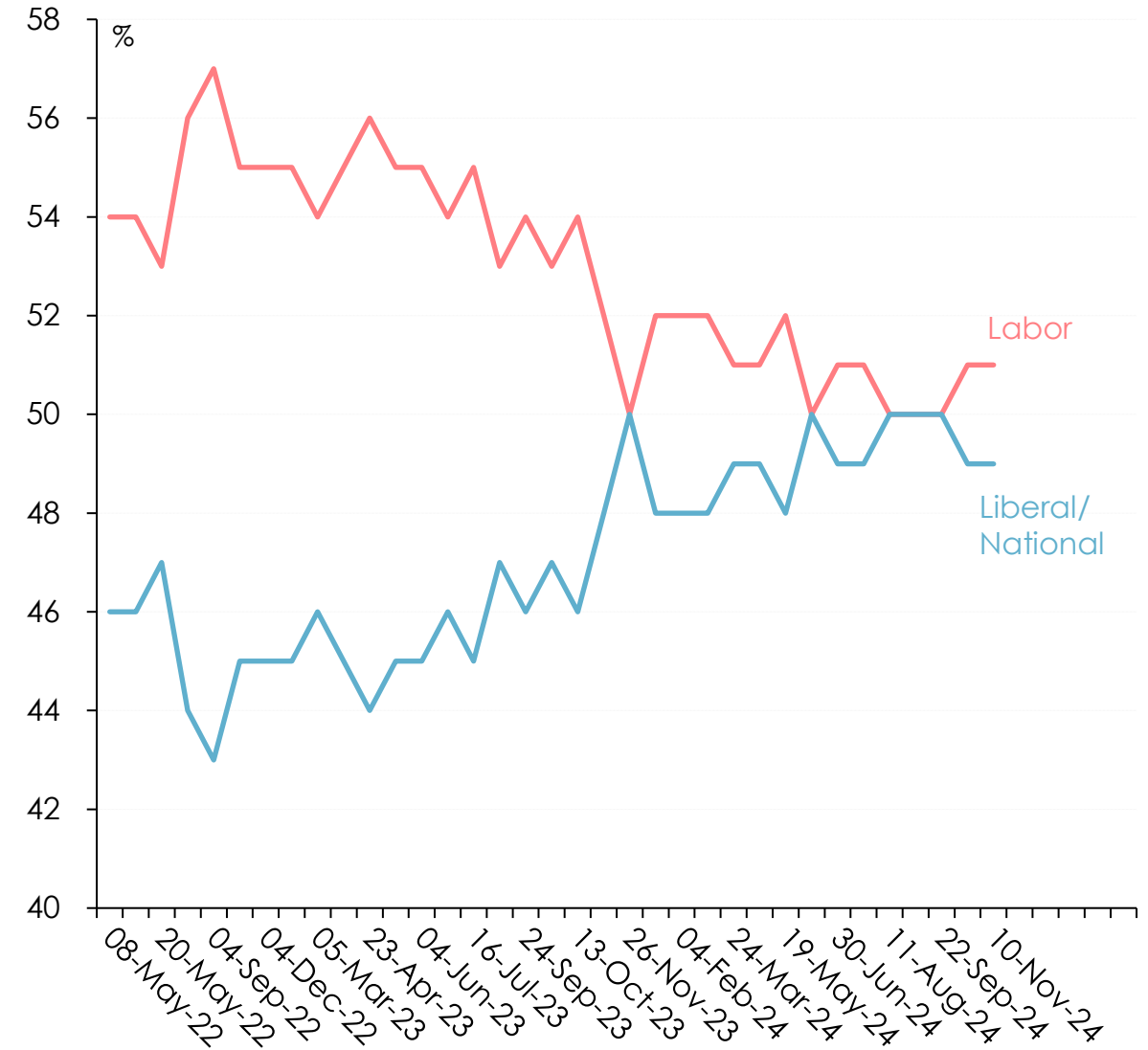


Political uncertainty is likely to increase in Australia ahead of next year's election which could produce a 'hung Parliament'

Primary vote



Two-party preferred vote



Source: The Australian, [Newspoll](#).

Politics and economics – implications for Australia

- ❑ **The second Trump Administration’s policies will likely result in higher US inflation and higher long-term interest rates**
 - which will eventually ‘spill over’ into other countries, including Australia
 - although that won’t have any impact on the RBA’s actions (or lack of actions) in the first half of 2025
- ❑ **The US dollar will likely be stronger than otherwise, at least in the near term, as a result of larger capital inflows into the US (attracted by higher long-term interest rates and expectations of a more attractive business climate flowing from the deregulation and tax cuts promised by the Republicans)**
 - although longer term if Trump succeeds in eroding the independence of the US Federal Reserve the US dollar will likely end up weaker
- ❑ **Despite continuing to be one of the few countries with which the US runs a trade surplus, Australia might not find it as easy to secure exemptions from US tariffs as it did during the first Trump Administration**
 - there’s less political alignment between the current Australian Government and the likely composition of the second Trump Administration than there was between the Turnbull & Morrison Governments and key personnel in the first Trump Administration
- ❑ **The US and Australia are likely to have very different approaches to climate change and emissions reduction**
 - unless next year’s election results in a Coalition government in Australia
- ❑ **Although no first-term federal government has failed to get a second term since 1931, the Albanese Government has a thinner margin than any first-term federal government since 1941**
 - the Coalition is likely to exploit widespread concern about cost-of-living pressures and the general anti-incumbency mood which that’s generated around the world this year, as well as other themes that ‘worked’ for the Republicans in the US elections
 - opinion polls currently suggest the most likely outcome of the election which has to be held no later than 17th May (but could be held in March), is a minority Labor Government (supported by Greens or ‘teals’), but a minority LNP Coalition Government (supported by other independents) is by no means implausible