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The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects (Phillips/Mericle/Krupa)

- We discuss likely changes to trade, immigration, and fiscal policy under each possible election outcome and estimate the effects on inflation, labor force growth, GDP, and the deficit.
- **Trade policy:** If former President Trump wins, we expect he would raise tariffs on imports from China at an average rate of 20pp and on autos from Mexico and the EU. While market participants should take his proposal of a 10% universal tariff seriously, we do not quite view it as the base case. We do not expect tariff increases if Vice President Harris wins.
- **Immigration policy:** If Harris wins, we expect that net immigration will continue to slow to 1.5mn per year, somewhat above the pre-pandemic trend of 1mn. If Trump wins with divided government, we expect net immigration will fall to 1.25mn. If Republicans sweep, Congress could increase enforcement resources, and we expect net immigration would fall to 0.75mn.
- **Fiscal policy:** Fiscal policy is likely to be tighter under divided government than under single-party control. If Democrats sweep, personal and corporate taxes and benefit spending will likely rise. If Republicans sweep, they will likely stay mostly unchanged. Divided government scenarios would likely result in a modest net increase in receipts, as Congress would likely allow the upper-income portion of the 2017 tax cuts to expire, but little change to benefit programs.
- **Impact on inflation:** We estimate that every 1pp increase in the effective tariff rate would raise core PCE prices by 0.1pp. If Trump wins, tariffs on imports from China and autos will likely come quickly, raising the effective tariff rate by 3-4pp and core PCE inflation by 30-40bp at the peak. The 10% universal tariff is not in our base case but would have roughly triple that impact.
- **Impact on the labor force:** We estimate that the contribution from immigration to labor force growth if Harris wins would be 10,000 per month higher than if Trump wins with divided government and 30,000 per month higher than if Republicans sweep.
- **Impact on GDP:** We estimate that if Trump wins in a sweep or with divided government, the hit to growth from tariffs and tighter immigration policy would outweigh the positive fiscal impulse, resulting in a peak hit to GDP growth of -0.5pp in 2025H2 that abates in 2026. If Democrats sweep, new spending and expanded middle-income tax credits would slightly more than offset lower

Jan Hatzius
+1(212)902-0394 | jan.hatzius@gs.com
Goldman Sachs & Co. LLC

Alec Phillips
+1(202)637-3746 | alec.phillips@gs.com
Goldman Sachs & Co. LLC

David Mericle
+1(212)357-2619 |
david.mericle@gs.com
Goldman Sachs & Co. LLC

Ronnie Walker
+1(917)343-4543 |
ronnie.walker@gs.com
Goldman Sachs & Co. LLC

Manuel Abecasis
+1(212)902-8357 |
manuel.abecasis@gs.com
Goldman Sachs & Co. LLC

Tim Krupa
+1(202)637-3771 | tim.krupa@gs.com
Goldman Sachs & Co. LLC

Elsie Peng
+1(212)357-3137 | elsie.peng@gs.com
Goldman Sachs & Co. LLC

Jessica Rindels
+1(972)368-1516 |
jessica.rindels@gs.com
Goldman Sachs & Co. LLC

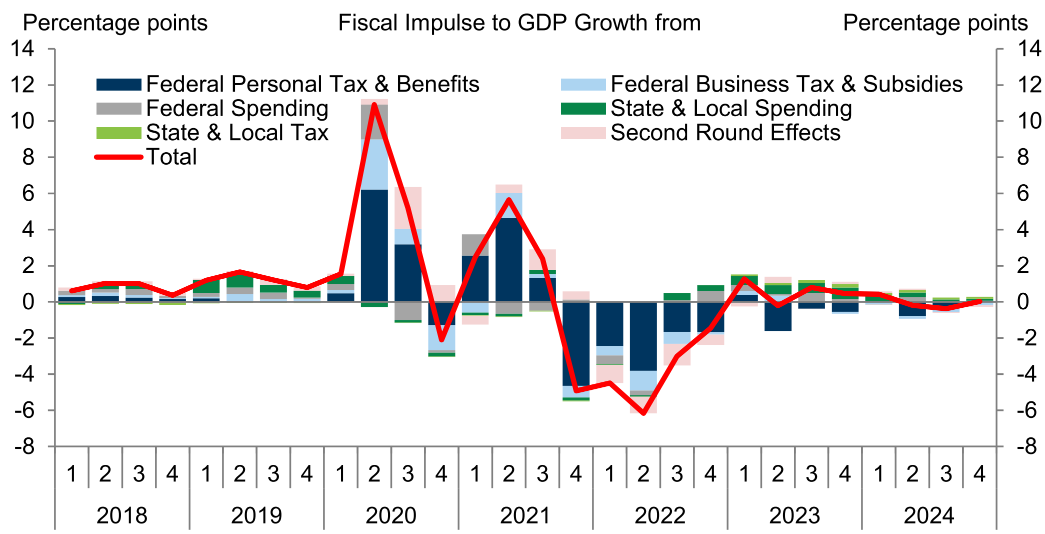
investment due to higher corporate tax rates, resulting in a very slight boost to GDP growth on average over 2025-2026. If Harris wins with divided government, the effects of policy changes would be small and neutral on net.

- **Impact on the fiscal deficit:** The deficit would likely be somewhat larger under single-party control than under divided government. But the primary deficit (excluding interest expense) is likely to remain stable or shrink modestly in all cases, in part because it is already unusually large for an economy at full employment and this is likely to limit appetite for expanding it further.

The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects

There have been few major fiscal policy changes under divided government in 2023 and 2024, and our estimate of the fiscal impulse to GDP growth has been close to neutral on net, as shown in Exhibit 1. But the November elections bring the possibility of changes to trade, immigration, and fiscal policy in 2025 that could have implications for inflation, labor force growth, GDP growth, and the fiscal deficit.

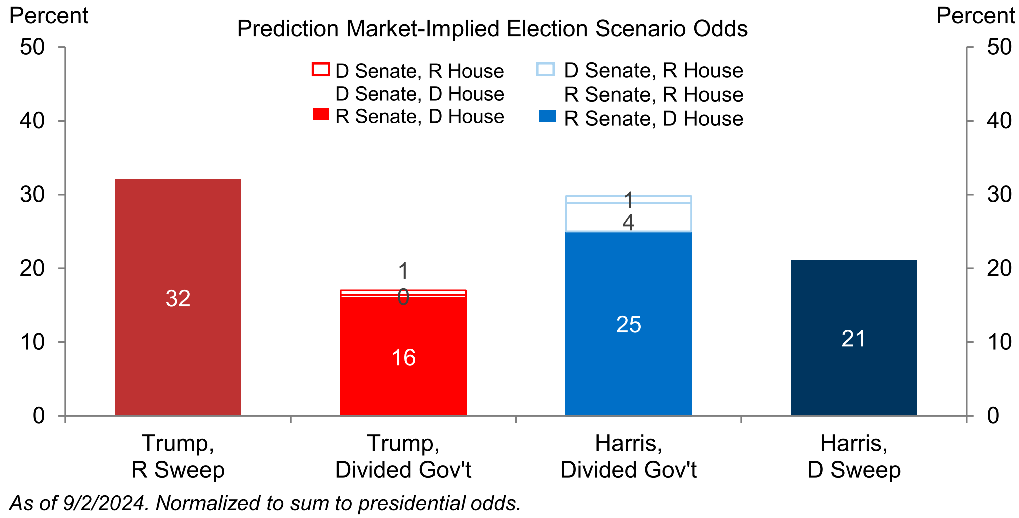
Exhibit 1: Fiscal Policy Changes Have Been Modest and the Fiscal Impulse to GDP Growth Has Been Close to Neutral on Net Under Divided Government in 2023 and 2024



Source: Goldman Sachs Global Investment Research

Exhibit 2 shows that prediction markets imply that the election is still very uncertain. We summarize the possible outcomes into four main scenarios. In Republican and Democratic "sweep" scenarios, one party controls the House, Senate, and White House. In divided government scenarios, the party that does not control the White House controls at least one chamber of Congress. This would most likely mean a Democratic House and a Republican Senate, though other scenarios are possible. Prediction markets imply that if former President Trump is elected, it would more likely be in the context of a Republican sweep (32% probability) than divided government (17%), while if Vice President Harris is elected, it would more likely be in the context of divided government (30%) than a Democratic sweep (21%).

Exhibit 2: Prediction Markets Imply That the Outcome of the November Elections Is Very Uncertain



Source: Goldman Sachs Global Investment Research, Polymarket, PredictIt

Post-Election Scenarios for Trade, Immigration, and Fiscal Policy

Divided government scenarios would lead to bipartisan outcomes on questions that require congressional approval (e.g., fiscal matters), and those outcomes would be similar regardless of who controls the White House. In other areas, like trade and immigration policy, the president has more authority but, as discussed below, congressional control might still be relevant.

One-party control allows the majority to pass fiscal policies along party lines via the "budget reconciliation" process, which applies to revenues—usually taxes but tariffs would also be eligible—spending, and/or the debt limit.[1]

Other policy changes generally need 60 votes to pass the Senate due to the legislative filibuster, meaning that legal and regulatory changes—e.g., immigration reform, environmental rules, etc.—need bipartisan support. Senate Democratic Leader Schumer has said he intends to overturn this rule if Democrats win control of Congress and the White House. Whether he would have the support to do so is unclear.[2] Elimination of the filibuster would raise the odds of substantial legal and regulatory changes. It could also lead to more frequent fiscal policy changes, rather than passing one major "reconciliation" bill each year.

[1] Only policies with a direct fiscal impact may be included in a reconciliation bill and the bill cannot increase the deficit after 10 years (this is why the 2017 tax cuts are set to expire after 2025). Annual spending bills ("appropriations") do not pass via reconciliation and changes to Social Security are specifically prohibited from passing via reconciliation. In theory, up to three reconciliation bills – one each for taxes, spending, and the debt limit—may pass after each annual budget resolution Congress approves, but in recent years Congress has passed at most one per year under single-party control.

[2] 49 Democrats voted to change the rule in early 2022, but two (Sens. Sinema and Manchin) objected. Both senators are retiring, and Rep. Gallego, the Democratic candidate running to replace Sinema in Arizona, has said he would support the change, taking the count to 50 (in the event of a tie, the vice president casts the deciding vote).

Tariffs: Higher Under Trump, Mostly Unchanged Under Harris

Former President Trump raised the effective tariff rate by about 1.5pp while in office and has stated he will raise tariffs further if he wins a second term. He has three main proposals on tariffs:

- **Higher tariffs on imports from China.** The official campaign proposal is to repeal permanent normal trade relations (PNTR) with China, leading to a ~40pp increase in the average tariff rate on imports from China. Trump has also discussed a simple 60% tariff (and other rates ranging from 50% to 100%). While PNTR repeal would take an act of Congress, raising tariffs on some or all imports from China would not, as the 2018-2019 experience made clear.
- **A "universal baseline" tariff.** Neither the official campaign position nor the Republican platform mentions a specific tariff rate, but Trump has mentioned a 10% rate on several occasions (more recently he also described this as "10% to 20%").
- **The "Reciprocal Trade Act."** This would match US tariff rates on individual products from each country to that country's tariff on the equivalent product from the US. While the president has fairly clear authority to increase tariff rates on individual products from specific trading partners, this systematic approach would involve legislation passed by Congress.

Trade with the European Union and Mexico in general, and in the auto sector in particular, also seems likely to be a focus in a second Trump administration. Trump has long criticized the EU's value added taxes (VAT) and threatened to impose steep tariffs on auto imports from the EU in his first term. He recently floated a 100% tariff on autos from Mexico built in Chinese-owned factories, and Trump might put other changes on the table ahead of the mandated USMCA review in 2026.

While it is difficult to predict what trade policy might look like under a second Trump administration, we would expect tariffs to rise less than he has proposed, which was also the case following the 2016 election. While tariffs have broader support now than they did when Trump came into office, that support is still mostly limited to tariffs on imports from China. And while it is true that a second Trump administration would be more prepared and more unified around a tariff agenda in 2025, executive authority to impose tariffs has limits.

Exhibit 3: Tariff Scenarios in a Second Trump Administration

GS Odds: If Trump Wins US Election	Country	Coverage	Amount ($bn)	Current Tariff	Incremental Tariff	Possible Final Tariff	Legal Authority
90%	China	Lists 1-2 (no consumer goods)	40	25%	60%	85%	Sec. 301
		List 3 (20% consumer)	120	25%	35%	60%	Sec. 302
		List 4a (mostly consumer)	90	7.5%	10%	17.5%	Sec. 303
		List 4b (mostly consumer)	200	0%	5%	5%	Sec. 304
70%	Mexico	Auto Imports	Very small	0-2.5%	97.5%	100%	Sec. 232
50%	EU	Auto Imports	80	2.5%	22.5%	25%	Sec. 232
40%	Global	All Imports	3100	2.7%	10%	12.7%	IEEPA or Sec. 122
30%	China	All Imports	450	13.7%	40%	53.7%	Revoke Permanent Normal Trade Relations (requires legislative action)
10%	Global	All Imports	3100	2.7%	TBD	TBD	Fair and Reciprocal Trade Act (requires legislative action)

Source: Goldman Sachs Global Investment Research

Exhibit 3 summarizes our views on the probabilities of potential tariffs under a second Trump administration, which we recently wrote about in more depth. If reelected, Trump seems likely to quickly move to raise tariffs on imports from China. However, we do not expect Congress to repeal PNTR, nor do we expect an across-the-board China-focused tariff. Instead, we would expect additional tariffs predominantly on capital goods and intermediate inputs, with less of an increase on consumer products, similar to the 2018-2019 experience. Overall, we expect an increase of around 20pp in the effective tariff rate on imports from China.

We think there is a fair chance that a Trump administration would impose tariffs on auto imports from Mexico, and we view tariffs on auto imports from the EU as a 50-50 proposition.

While the 10% universal tariff is a real proposal that market participants should take seriously, we do not quite view it as the base case in a second Trump administration. Support for broad tariffs is weaker than for those focused on China, as is the legal basis for imposing them. And while former President Trump has often spoken of tariffs as leverage to achieve other goals in negotiations, a universal tariff would not be conducive to bilateral negotiations.

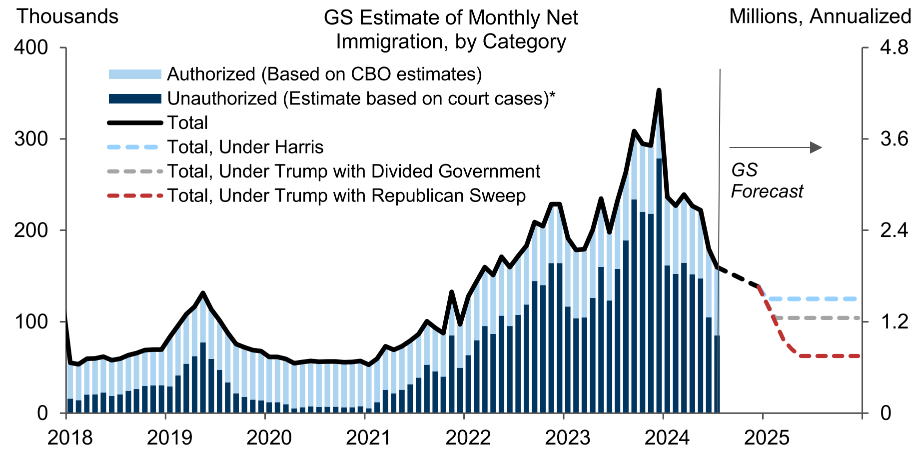
In contrast to the wide range of trade policy outcomes under a Trump administration, tariffs are unlikely to change materially under a Harris administration. Although the Biden administration announced higher tariffs on $18bn in imports from China earlier this year, this is a fraction of the $370bn that Trump targeted during his term, and it seems unlikely that a Harris administration would raise tariffs on China much further.

Immigration: Slows Slightly Under Harris but Further Under Trump

On immigration, former President Trump has pledged to reduce unauthorized immigration and has promised to carry out the "largest domestic deportation in American history." However, as we have written previously, there are legal and logistical limits to executive action. Trump could cut back humanitarian parole policies that the Biden administration expanded, which accounted for around 800k in net immigration in 2023. How much a Trump administration could reduce unauthorized border-crossings is less clear, for three reasons. First, many border-crossers claim asylum. Courts blocked the Trump administration's 2018 attempt to restrict these claims and it might be difficult for the next administration to go beyond the Biden administration's June 2024 asylum restrictions. Second, some border-crossers never come into contact with US authorities, so policy changes alone might have little effect in those cases. Third, the majority of border-crossers who come into contact with US authorities are released into the country pending further proceedings, due in part to capacity constraints.

We expect a second Trump administration would reduce immigration to a level similar to the first Trump administration. Control of Congress could also influence the resources available to enforce existing immigration policies. For this reason, we assume that net immigration slows to 750k/year—slightly below the 2017-2019 rate—in a Republican sweep but that it runs 1.25mn/year—slightly above the 2017-2019 average—in a Trump/divided government scenario.

Exhibit 4: We Estimate Net Immigration of 1.5mn Under Harris, 1.25mn Under Trump With Divided Government, and 0.75mn Under a Republican Sweep in 2025



*We estimate unauthorized immigration using monthly court case data (new cases not resulting in detention - court cases resulting in deportation) and data on the number of unauthorized immigrants released under parole, reported by CBP. We also assume that an additional 10-15% of unauthorized immigrants do not have official court cases. **Authorized immigrants include students, temporary workers, and lawful permanent residents, based on CBO's annual estimate. The monthly estimates include immigrants below age 16.

Source: Goldman Sachs Global Investment Research

In a Harris administration, we assume only a modest further reduction in net immigration, with few additional policy shifts but a general downward trend in the number seeking entry after the surge in 2022-2023.

Immigration reform legislation does not look particularly likely under any political scenario in 2025, but elimination of the filibuster might raise the odds of changes to immigration laws, allowing for a greater range of potential outcomes. Immigration reform that clears the backlog of 3.7 million pending immigration court cases—one of the goals of the failed bipartisan effort this year—could be disruptive in the short run. For example, this year to date, roughly 1/3 of resolved cases ended in removal or voluntary departure orders.

Fiscal Policy: Taxes Higher Under Democratic Control, Mostly Unchanged Under Republican Control

The election result will affect fiscal policy in three general ways. First, it will influence the overall fiscal stance: fiscal policy is likely to be tighter under divided government scenarios than single-party control, and Democratic control would be more likely to lead to deficit reduction than Republican control, though some deficit reduction from current levels is possible under either scenario.

Second, the composition of the budget will differ by election result. Taxes and benefit spending are both likely to rise under Democratic control, while they would likely stay mostly unchanged under Republican control (though tariffs would likely rise, as noted above). Divided government scenarios would likely result in a modest net increase in receipts, as Congress would likely allow the upper-income portion of the 2017 tax cuts to expire, but little change in benefit programs.

Third, the election outcome will affect when changes occur, with single-party control likely to lead to earlier action. Republicans, in particular, would likely start the budget reconciliation process early in the year, potentially passing a bill by mid-year. Democrats might take slightly longer, as their plans involve a number of new policies, but we would expect action by Q3. By contrast, tax extensions might not pass under a divided outcome until the final days of 2025.

Regardless of party control, expiring tax cuts will be the dominant fiscal issue in 2025. The individual tax cuts enacted in 2017 expire at the end of 2025, when taxes would rise by 1% of GDP if Congress does not act. A number of business tax incentives in that law are slated to phase out—some have already—as are a few other items like expanded health insurance subsidies passed in the Inflation Reduction Act. Overall, absent congressional action these expirations and phaseouts would tighten fiscal policy by around 1.25% of GDP in 2026.

Exhibit 5: Both Candidates Have Major Fiscal Proposals But Not All Will Pass and Policies in Some Areas Are Still Unclear

Proposal	Trump			Harris	
	$bn/10yrs	% of GDP		$bn/10 yrs	% of GDP
TCJA expiration upper income individual (incl. estate)				725	0.2
Other personal tax increases (Biden proposals)				1,850	0.5
Exclude tips from tax	-200	-0.1		-200	-0.1
Exclude Social Security benefits from tax	-1700	-0.5			
Total change vs. current policy, individual taxes	**-1,900**	-0.5		**2,375**	0.7
TCJA business expirations				550	0.2
Other business tax cuts	-700	-0.2			
Other business tax increases (Biden proposals)				2,075	0.6
Total change vs. current policy, business taxes	**-700**	-0.2		**2,625**	0.8
Unspecified tax increases to offset TCJA middle-class extension				0 to 2,700	0 to 0.8
New tariff revenue	1,000 to 4,500	0.3 to 1.3			
Total revenue change vs. current policy (low)	**-1,600**	**-0.4**		**5,000**	**1.4**
Total revenue change vs. current policy (high)	**1,900**	**0.6**		**7,700**	**2.2**
Child Tax Credit/EITC				1,350	0.4
Homebuyer credit				300	0.1
Repeal IRA energy incentives	-650	-0.2			
Medicare prescription drug price cuts				-200	-0.1
New benefits (child care, paid leave, health, etc)				0 to 2000	0 to 0.6
Total spending proposals (low)	**-650**	**-0.2**		**1,450**	**0.4**
Total spending proposals (high)	**-650**	**-0.2**		**3,450**	**1.0**
Net budgetary effect vs. current policy (low)	**2,550**	**0.7**	**0**	**6,250**	**1.8**
Net budgetary effect vs. current policy (high)	**-950**	**-0.3**	**0**	**1,550**	**0.4**

*Cost estimates assume all policies in effect over ten years, compared to an assumption that current policy continues. Positive budgetary effect figures indicate deficit reduction

Source: Goldman Sachs Global Investment Research

Vice President Harris has not presented a full fiscal plan, but so far her proposals mostly follow President Biden's proposals, including higher corporate and upper-income individual taxes (a 1.5% of GDP tax increase compared with current policy). However, we expect that, even in a Democratic sweep, Congress would not pass the full range of tax increases. For example, we think a 25% corporate rate is more likely than a 28% rate. We also expect only a modest increase in the capital gains rate (e.g., a 5pp increase), and we expect congressional Democrats might pursue a surtax on high incomes over a more complicated tax on unrealized gains, as they did in the House-passed Build Back Better Act (BBBA) in 2021, which failed in the Senate. We also believe Democrats might temporarily extend or reinstate some business investment policies enacted in 2017, but at a less generous rate than Republicans prefer (e.g., 50% bonus depreciation).

Harris has also expanded on Biden's middle-class initiatives in two areas. First, she proposes a $25k credit for first time homebuyers, up from Biden's $10k proposal (Biden also proposed a similar credit for home-sellers). While we do not believe a Democratic Congress would support a $25k credit, we assume a $10k credit under a Democratic sweep.

Second, Harris proposes a $6,000 child credit in the year of birth. Her expanded child credit otherwise appears to follow Biden's: $3,600 per child under age 6, $3,000 per child otherwise, and the extra first-year credit, which has a modest fiscal effect (less than $10bn/year). We expect that Congress would enact such a proposal under a Democratic sweep scenario, including making it fully refundable—i.e., households would receive the full credit even if it exceeded their tax liability—and advanceable—payments would be made on a monthly basis during the tax year, rather than via tax refunds the following spring. A higher credit amount also looks likely under a divided government scenario as part of a year-end compromise on tax cut extensions, but we would not expect it to be made fully refundable or advanceable in that scenario.

Harris's plans so far leave two important fiscal questions unanswered. First, it is unclear how she would address the expiring 2017 tax cuts. In his budget proposal earlier this year, President Biden had committed to extend tax cuts on income under $400k while offsetting the cost with further unspecified tax increases on upper incomes and corporations. Harris seems to endorse this position, but the source of this $2.7 trillion/10yrs (0.8% of GDP) in new revenue is equally unclear in the Harris plan as it is in Biden's. Even in a Democratic sweep scenario, Congress is unlikely to enact the full range of tax increases Biden and Harris have proposed, and it seems even less likely that a Democratic Congress would enact all of those tax increases plus nearly $3 trillion/10yrs more. Instead, we believe the most likely outcome is that Democrats simply do not offset much if any of the cost of extending the middle-income tax cuts.

Second, it is unclear whether Harris supports the new spending Biden proposes on subsidies for childcare, paid leave, education and home care benefits, and continuation of expanded health insurance subsidies, at a cost of around 0.6% of GDP. Harris's campaign rhetoric thus far suggests she would support most or all of these, but the campaign has not yet endorsed them. Enacting these spending plans along with the tax increases the Biden budget specifies would lower the deficit by around 0.4% of GDP. We assume that these policies become law under a Democratic sweep but not under other scenarios.

Former President Trump's plan has three substantial fiscal proposals beyond imposing tariffs and extending the 2017 tax cuts in their entirety: ending taxation of Social Security benefits, at a cost of $1.7 trillion/10years (0.5% of GDP), repealing the IRA energy incentives, saving $650bn/10years (0.2% of GDP), and cutting the corporate tax rate to 15%, which would reduce tax receipts by $700bn/10years (0.2% of GDP).

None looks likely to pass, however. It is unclear whether congressional Republicans support the Social Security tax change but there is little chance Democrats would support it. While most other fiscal policy changes could pass along party lines via the reconciliation process, changes to Social Security cannot. While most Republicans are likely to support scaling back certain IRA incentives—electric vehicle credits, in particular—there is much less support for outright repeal. And while Republicans supported lowering the corporate tax rate in 2017, there appears to be little enthusiasm for further reductions, with some House Republicans contemplating *raising* the rate to pay for other priorities. While a Republican sweep would likely lead to some new tax policies as tax cuts are being extended, major changes seem unlikely.

A divided government scenario seems likely to lead to similar fiscal policy outcomes under either Trump or Harris. Congress would likely extend most of the expiring tax cuts apart from the upper-income provisions but for a shorter period (2-4 years). We would expect at least some expansion of the child credit and SALT deduction under divided government as well. We would also expect a reinstatement of more generous business investment policies as part of a bipartisan compromise. We think spending would likely increase more slowly under divided government than one-party control, particularly if Republicans control one or both chambers of Congress but Harris wins the White House.

Exhibit 6: Tax Changes Most Likely Under a Democratic Sweep, But Some Policies Might Change in Other Scenarios

	Current policy	Republican sweep (proposed)	Republican sweep (expected)	Trump w/ Divided	Harris w/ Divided	Democratic sweep (proposed)	Democratic sweep (expected)
Individual tax							
Top marginal rate	37% (39.6% after 2025)	37%	39.6%	39.6%	39.6%	39.6%	39.6%
Top rate on cap gains/dividends (incl. NII)	23.80%	N/A	23.8%	23.8%	23.8%	44.6%	28.8%
Minimum tax (incl. unrealized gains)	N/A	N/A	No	No	No	Yes	No
Net Investment Income Tax	3.80%	N/A	3.8%	3.8%	3.8%	5% on broader base	3.8% on broader base
Surtax on upper income	N/A	N/A	No	No	No	N/A	5% on income $10mn+, 8% on $25mn+
State and local tax deduction limit	$10k (unlimited after 2025)	$10k	$20k	$20k	$20k	Unlimited	$80k
Passthrough deduction	20% (0% after 2025)	20%	20%	20%	20%	N/A	20% (<$400k)
CTC & EITC*	$2000 ($1000 after 2025)	N/A	$2,000	$3,000	$3,000	$3000 (refundable, advanceable)	$3000 (refundable, advanceable)
Homebuyer assistance	No	No	No	No	No	$25k credit	$10k credit
Tip exclusion	No	Yes	No	No	No	Yes	No
Social security benefits	Partially Taxable	Excluded	Taxable	Taxable	Taxable	Taxable	Taxable
Business tax							
Corp rate**	21%	15%	21%	21%	21%	28%	25%
Corp min tax	15%	N/A	15%	15%	15%	21%	19%
Bonus Deprec.	60% in 2024 (phases down 20pp/yr through 2026)	100%	100%	100%	100%	0%	50%
R&D Expensing	100% expensing until 2023, 5-yr amortization from 2024	N/A	Restored	Restored	Restored	N/A	Restored
Interest deductibility	30% of EBIT from 2023	N/A	30% of EBITDA	30% of EBITDA	30% of EBITDA	30% of EBIT, other new limits	30% of EBIT, other new limits
Buyback tax	1%	N/A	1%	1%	1%	4%	2%
Cross-Border	GILTI: 50% of foreign intangible income deductible (37.5% from 2026); BEAT: 10% tax on payments to foreign subsidiaries; FDII: 37.% of domestic intangible income deductible (21.9% from 2026)	N/A	Limited Changes	Limited Changes	Limited Changes	Country-by-country GILTI, Undertaxed Profits Rule (UTPR)	Country-by-country GILTI, Undertaxed Profits Rule (UTPR)
Tariffs							
On imports from China	N/A	60pp	20pp	20pp	No	No	No
Universal baseline tariff	N/A	10pp	No	No	No	No	No
Reciprocal Tariff Act	N/A	Yes	No	No	No	No	No
Tariffs on EU Autos***	N/A	N/A	22.5pp	Yes	No	No	No
Discretionary Spending (Federal Consumption & Investment)							
Discretionary spending 2025-2026 (real growth)		N/A	5%	2.5%	-1%	N/A	5%
Mandatory Spending (Benefits, Fiscal Transfers & Subsidies)							
ACA subsidies	Tied to income, only incomes under $125k/yr (family of 4) eligible after 2025.	End expanded subsidy	End expanded subsidy	Extend expanded subsidies	Extend expanded subsidies	Extend expanded subsidies	Extend expanded subsidies
Medicare drug pricing reductions	Medicare negotiates prices on 10 drugs/year	Yes	No	No	No	Negotiate 50 drugs per year	Negotiate 50 drugs per year
New childcare, family leave benefits	No direct federal benefit	No	No	No	No	N/A	Yes (0.3% of GDP)
IRA	Federal investment and production incentives	Repeal	Modest reductions	Limits on EV credits	Limits on EV credits	No change	No change
CHIPS	Subsidies and tax credits for domestic chip fabs	No change	No change	No change	No change	No change	No change
Immigration							
Net annual immigration in 2025-2026		N/A	750k	1.25 million	1.5 million	N/A	1.5 million

* Vice-presidential candidate JD Vance has said he would support a child tax credit of up to $5000,but this is not an official campaign proposal
** Former President Trump recently said in an interview he would lower the corporate tax rate to 15%, but this is not an official campaign proposal
*** Former President Trump has not specifically proposed tariffs on EU autos in the campaign, but he did in 2019-2020. We assume a 50% chance of these tariffs in a Trump scenario.

Source: Goldman Sachs Global Investment Research

Regulation: A Lighter Touch Under Trump, Mostly Status Quo Under Harris

We would expect a second Trump administration to result in an easier regulatory climate for several sectors. We would expect that energy and financial services would, in particular, see lighter regulation in a second Trump term. For energy, this would mean lifting hurdles to oil and gas development, as well as expanding LNG exports and reversing restrictions on greenhouse gas emissions. Financial regulation could also shift, more quickly in the case of consumer finance but potentially more gradually in the case of capital and liquidity requirements.

Other sectors might see less of a shift. Antitrust enforcement seems likely to ease somewhat, though we would expect a Trump administration to continue to pursue some of the major pending cases in the tech sector. The regulatory environment for healthcare is also likely to change less, as former President Trump pursued drug pricing restrictions in his first term, albeit different ones from those the Biden administration is now implementing.

That said, while reduced regulation could in principle boost economic activity, our prior work in this area on a bottom-up basis suggests that deregulation during the first Trump administration had a limited macroeconomic impact.

Vice President Harris has thus far indicated little difference from President Biden on the regulatory front, though her plans to address pricing in certain sectors have attracted attention. Specifically, her economic plan includes enforcement against price-fixing in the rental housing market, against anti-competitive practices in the pharmaceutical industry, and against "price-gouging" and "excessive profits" on food and groceries. However, we do not expect these proposals to have a substantial impact, for two reasons. First, while some of this might be possible through existing consumer protection and antitrust authority, the Biden administration has not used this authority ahead of an election in which inflation has been a central issue, and it seems unlikely that these would become a higher priority after the election once inflation has normalized. Second, many of her regulatory proposals rely on new legislation. Under a divided government scenario, this is unlikely. It would also be unlikely in a Democratic sweep scenario under current Senate rules. However, as noted earlier, if Senate Democrats eliminate the filibuster, legal and regulatory changes could potentially pass along party lines.

The Impact of Post-Election Policy Changes on the Economy

The Impact on Inflation

Of the potential post-election policy changes, tariffs would have the largest impact on inflation. While policy changes in other areas could affect inflation through their effects on the output gap and labor market tightness, standard estimates of the slope of the Phillips curve coupled with the fairly modest growth effects we estimate below suggest that the effect through this channel would be small.

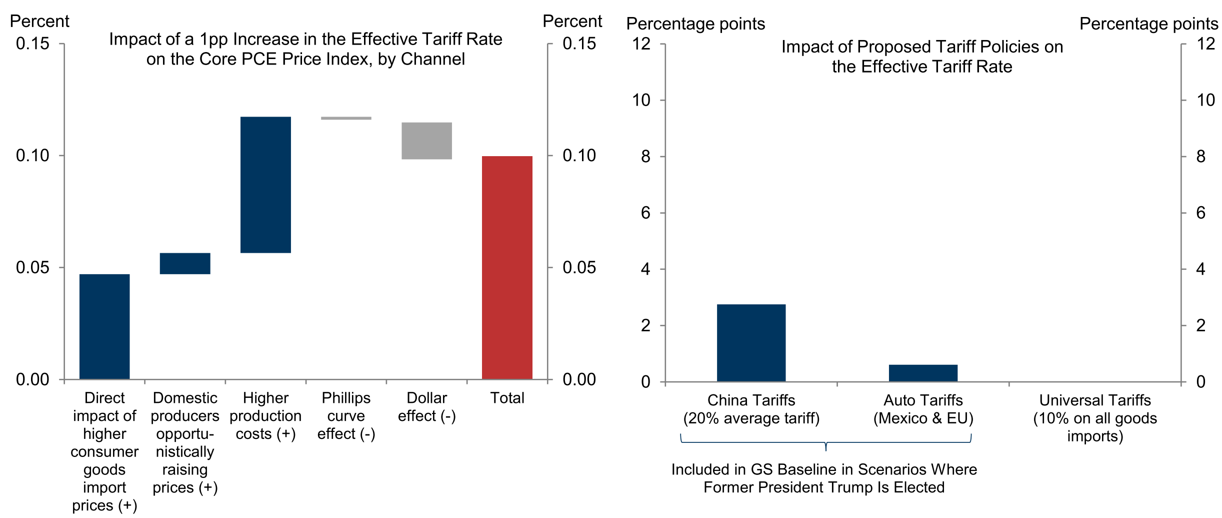
To estimate the impact of former President Trump's tariff proposals, we build on our earlier analysis of the lessons from the last trade war during former President Trump's first term. Both our research and academic studies found that the impact of the earlier tariffs was on the high end of the range of initial estimates because the costs of those tariffs fell, somewhat surprisingly, entirely on US businesses and consumers and because domestic producers took advantage of the tariff protection to raise prices.

Our estimate of the impact of tariffs on inflation rests on the following assumptions. First, the costs of future tariffs would fall 15% on foreign exporters, 15% on US wholesalers or retailers, and 70% on US consumers. Second, domestic producers of items subject to tariffs would raise their own prices to a degree proportionate to what occurred last time. Third, 70% of the increase in the cost of imported intermediate inputs would be passed through to consumer prices. And fourth, the dollar would appreciate to a degree proportional to the moves observed in windows around tariff announcements in the last trade war, providing a partial deflationary offset.[3]

Based on these assumptions, we estimate that every 1pp increase in the effective tariff rate would raise core PCE prices by 0.1pp, as shown on the left of Exhibit 7. This would be a one-time price level effect with a one-time impact on inflation, not a recurring source of high inflation like an overheated labor market or unanchored inflation expectations.

The right side of Exhibit 7 shows that we estimate the tariffs on imports from China that we think are likely to be implemented would raise the effective tariff rate by about 2.8pp and the auto tariffs would raise it by about 0.6pp. The universal 10% tariff is not in our base case, but if implemented it would have about triple the impact of the other two tariff policies combined.

Exhibit 7: We Estimate That Each 1pp Increase in the Effective Tariff Rate Would Raise Core PCE Prices by About 0.1pp, and That Likely Tariffs on Imports from China and Auto Imports If Trump Wins Would Raise the Effective Tariff Rate by About 3.4pp Combined



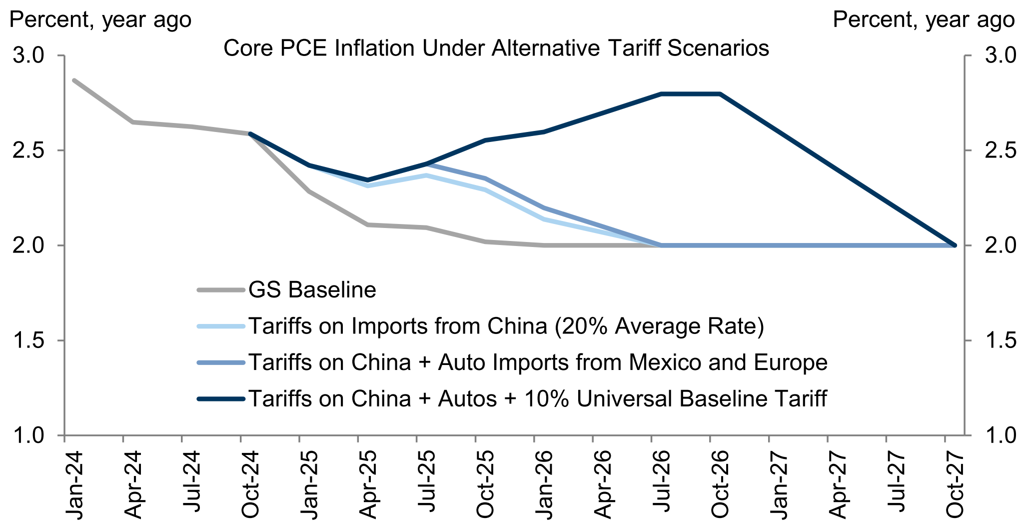
Source: Goldman Sachs Global Investment Research

Exhibit 8 shows how these three tariff policies would affect our baseline forecast for year-over-year core PCE inflation, which slows to about 2% next year in the absence of

[3] For more details, see Ronnie Walker, "The Effect of Tariffs on Government Revenue, Growth, and Inflation: Lessons From the Last Trade War," US Economics Analyst, April 6, 2024. The 70% input cost passthrough estimate comes from Joseph Briggs, "Who Pays for Input Cost Increases? Evaluating the Impact on Prices and Profit Margins," US Economics Analyst, November 29, 2021.

new tariffs. We assume that former President Trump would begin to implement tariffs on imports from China and on autos from the EU and Mexico in the first half of 2025, and we estimate that they would boost core PCE inflation by about 30-40bp at the peak. A universal 10% tariff would likely take longer but would have a larger impact on inflation, likely boosting it to a peak of 2.75-3% depending on the speed of implementation.

Exhibit 8: The Tariffs on Imports from China and on Autos That We Would Expect If Former President Trump Is Elected Would Boost Core PCE Inflation by 30-40bp Above Our 2% Baseline Forecast



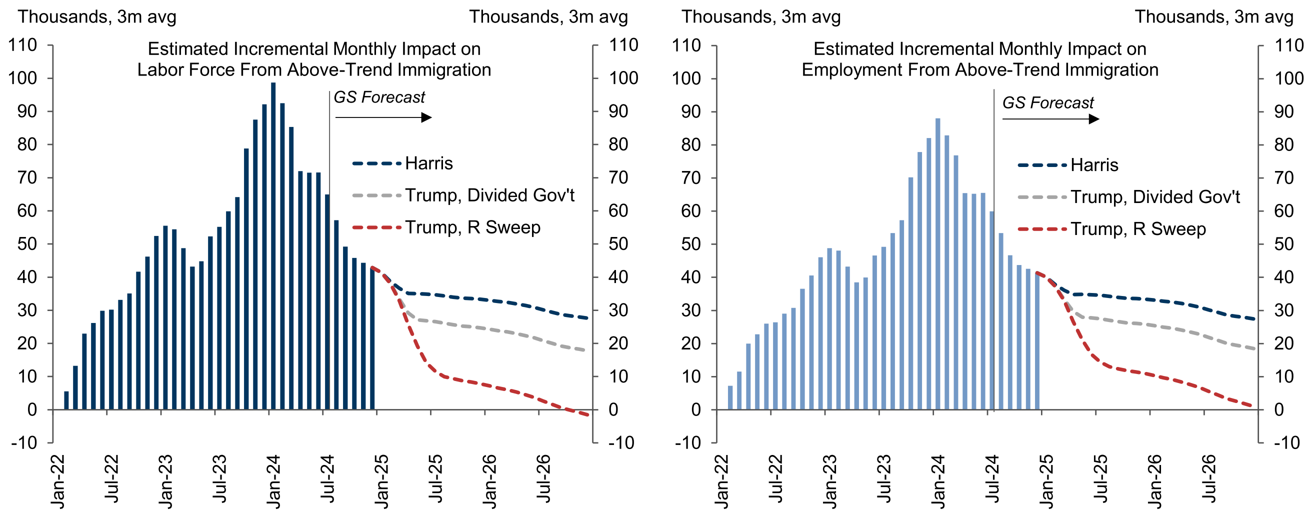
Source: Goldman Sachs Global Investment Research

The Impact on Labor Force Growth

Immigration policy would have a mechanical impact on the growth rate of the labor force. Since 2022, net immigration has been well above the pre-Covid trend of about 1mn per year and has provided a large boost to labor force and employment growth, though it has slowed sharply so far this year. To estimate how these contributions would evolve, we combine our assumptions about immigration levels in each post-election scenario shown in Exhibit 4 with our earlier analysis of the rate at which new immigrants enter the labor force and find jobs in their first years in the US.

Exhibit 9 shows that the contribution from above-trend immigration to labor force and employment growth is likely to continue to slow under any post-election outcome. We estimate that the contribution from immigration to labor force growth would be about 30,000 per month higher if Vice President Harris is elected than in the Republican sweep scenario. The contribution from immigration would eventually fall below the pre-Covid trend in the Republican sweep scenario—in which we assume net immigration would be about 750,000 per year—but this would take some time because of the ongoing boost from immigrants who entered the US in 2022-2024 entering the labor force with a lag.

Exhibit 9: The Contribution from Immigration to Labor Force Growth Would Be About 30,000 Per Month Higher If Vice President Harris Is Elected Than in a Republican Sweep Scenario

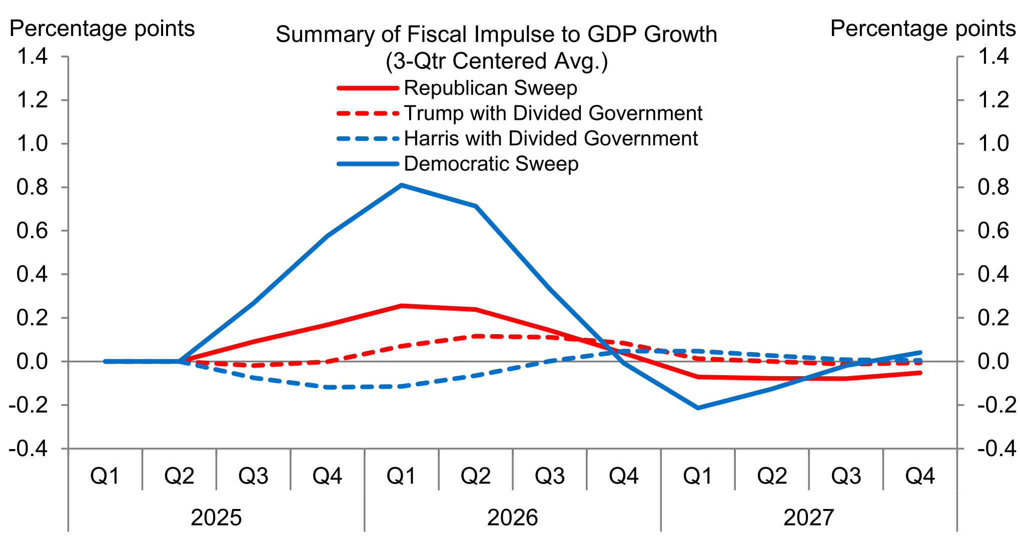


Source: Goldman Sachs Global Investment Research

The Impact on GDP

Exhibit 10 shows an updated version of our earlier detailed analysis of the fiscal impulse to GDP growth under each post-election scenario, estimated relative to a current policy baseline (i.e., we start from an assumption that expiring tax cuts are extended). The Democratic sweep scenario produces the most positive fiscal impulse in 2025 and 2026, with a peak impact on quarterly annualized GDP growth of +0.8pp, primarily because of the impact of increasing the child tax credit on consumer spending. The Republican sweep scenario provides the second largest GDP growth boost over the next two years, with a peak impact of +0.2pp.

Exhibit 10: New Benefits and a Larger Child Tax Credit in a Democratic Sweep Would Boost Consumption and Federal Spending



Source: Goldman Sachs Global Investment Research

Exhibit 11 shows our estimates of the total impact of all post-election policy changes on GDP growth.

We estimate the growth effects of changes to trade, immigration, and corporate tax policy as follows. For tariffs, we rely on our earlier analysis of the growth impact that assumes foreign retaliation and an impact on financial conditions proportional to the impact in 2018-2019. For immigration, we combine our estimates of the impact on employment above with our estimate that recent immigrants earn about two-thirds as much as other workers. For changes to the corporate tax rate and bonus depreciation policy, we rely on estimates from economic research of the impact of the 2017 tax cuts on investment and assume that equity prices would fall slightly more than the rise in the statutory tax rate.[4]

In each of the four scenarios, changes to either trade, immigration, or corporate tax policy offset the growth effects of the fiscal impulse (mainly personal tax and spending changes) over the next two years.

In a Republican sweep (top left), tariffs and tighter immigration policy would provide a negative offset to the positive fiscal impulse and the small investment boost from restoring bonus depreciation to 100%, resulting in a net hit to GDP growth in 2025 that peaks at -0.5pp before abating in 2026.

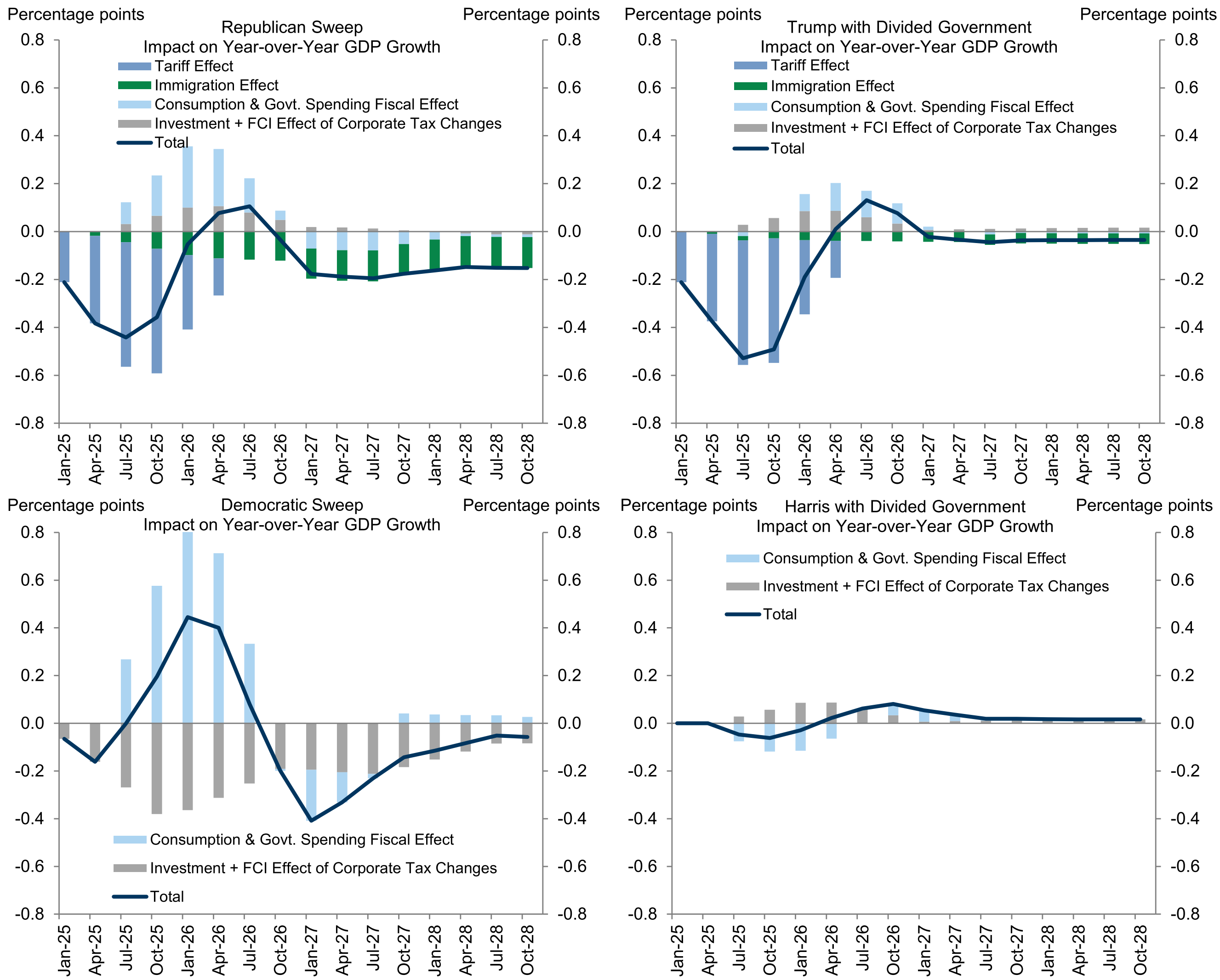
In a Trump win with divided government (top right), both the hit from reduced immigration and the boost from the fiscal impulse would be smaller, resulting in a similar net impact on GDP growth as in the Republican sweep scenario.

In a Democratic sweep (bottom left), the increase in the corporate tax rate and the assumed slight reduction in bonus depreciation to 50% (vs. 60% currently) deliver a large enough growth hit to roughly offset the boost from the fiscal impulse, resulting in a net neutral effect on GDP growth on average over 2025-2026.

In a Harris win with divided government (bottom right), restoring bonus depreciation to 100% offsets the modest drag from the fiscal impulse, again resulting in a neutral effect on GDP growth over 2025-2026.

4 Gabriel Chodorow-Reich Harvard, Matthew Smith, Owen Zidar, and Eric Zwick, "Tax Policy and Investment in a Global Economy," 2024; Gabriel Chodorow-Reich Harvard, Owen Zidar, and Eric Zwick, "Lessons from the Biggest Business Tax Cut in US History," 2024.

Exhibit 11: Changes to Trade and Immigration Policy and the Impact of Changes to Corporate Tax Policy on Business Investment Would Offset the Growth Effects of the Fiscal Impulse in All Four Scenarios



Immigration and tariff effects are not shown in the Harris scenarios because we assume net immigration of 1.5mn and no new tariffs under our baseline and under the Harris scenarios.

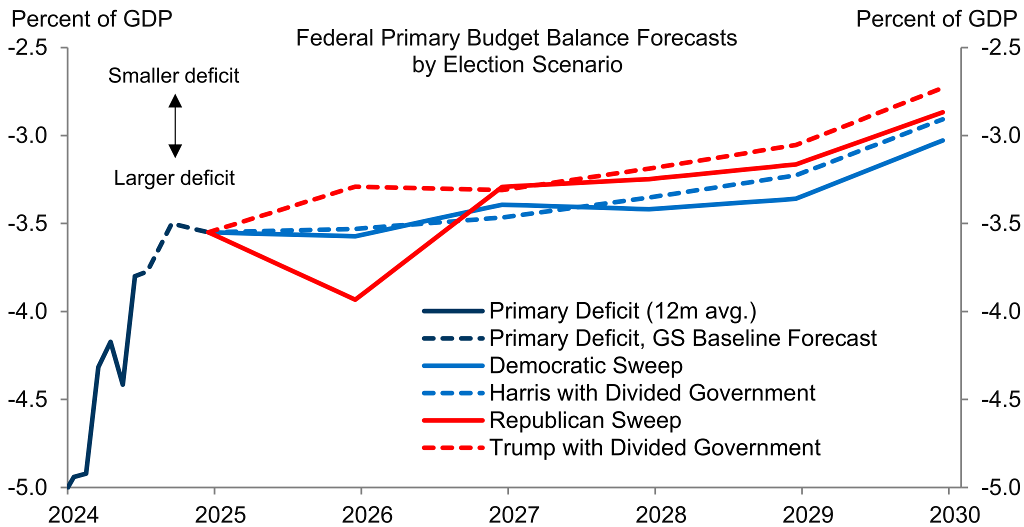
Source: Goldman Sachs Global Investment Research

The Impact of Post-Election Policy Changes on the Fiscal Deficit

Exhibit 12 shows how we would expect the federal primary balance, the deficit excluding interest payments, to evolve in each scenario. Initially, a Republican sweep would widen the deficit the most mainly because more of the tax cuts set to expire in 2025 would be extended, while a Trump win with divided government would narrow the deficit somewhat because of the revenue boost from tariffs.

But in all scenarios the primary deficit would eventually end up close to or slightly smaller than our forecast of its size at the end of 2024. One reason for this is that the starting point for the federal primary balance is already nearly 5% of GDP more negative than the 1-2% of GDP surplus that the federal government has run on average historically when the economy was at full employment. This starting point and the broader challenge of fiscal sustainability are likely to limit willingness to expand the deficit meaningfully further.

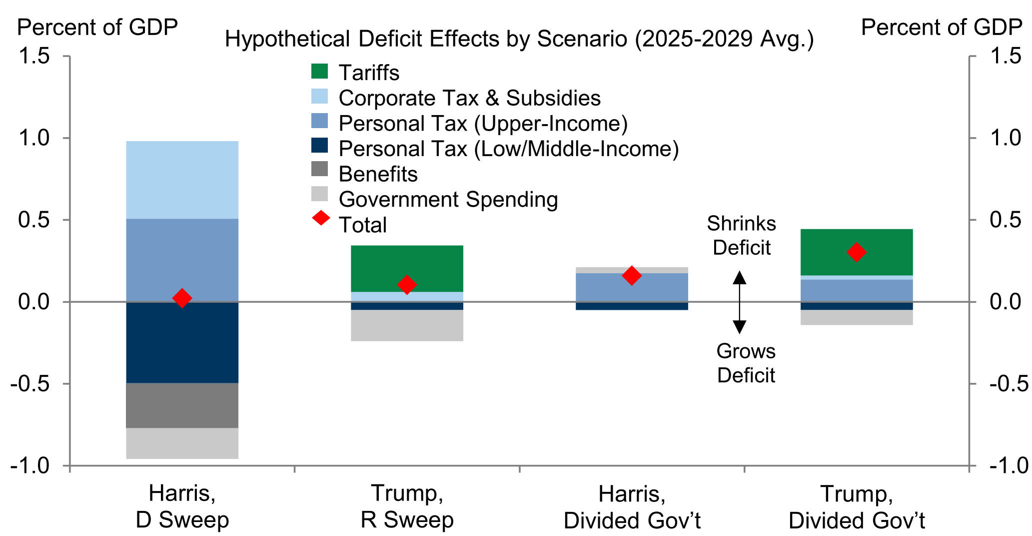
Exhibit 12: The Primary Deficit Would Likely End Up Close to or Slightly Smaller Than Its End-2024 Level in All Four Post-Election Scenarios, in Part Because It Is Already Nearly 5% of GDP More Negative Than the Modest Surpluses the US Has Usually Run in a Full Employment Economy



Source: Goldman Sachs Global Investment Research, Treasury

Exhibit 13 summarizes the fiscal changes we expect in each scenario over the course of the next administration and their impact on the deficit. The revenue and expenditure changes would be very different across the scenarios. But again, while the deficit would likely be somewhat larger on average under single-party control than under divided government, the differences are not dramatic.

Exhibit 13: Single-Party Government Would Likely Imply Slightly Wider Deficits Than Divided Government on Average over the Next Administration, Thought the Differences Are Not Dramatic



Source: Goldman Sachs Global Investment Research

Alec Phillips

David Mericle

Tim Krupa

The US Economic and Financial Outlook

THE US ECONOMIC AND FINANCIAL OUTLOOK
(% change on previous period, annualized, except where noted)

	2022	2023 (f)	2024 (f)	2025 (f)	2026 (f)	2027 (f)	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
OUTPUT AND SPENDING														
Real GDP	1.9	2.5	2.8	2.3	2.0	2.0	2.2	2.1	4.9	3.4	1.4	3.0	2.7	2.4
Real GDP (annual=Q4/Q4, quarterly=yoy)	0.7	3.1	2.4	2.2	1.9	2.0	1.7	2.4	2.9	3.1	2.9	3.1	2.6	2.4
Consumer Expenditures	2.5	2.2	2.5	2.5	2.0	2.0	3.8	0.8	3.1	3.3	1.5	2.9	3.4	2.5
Residential Fixed Investment	-9.0	-10.6	3.8	0.3	2.8	2.4	-5.3	-2.2	6.7	2.8	16.0	-2.1	-5.8	0.0
Business Fixed Investment	5.2	4.5	4.0	4.2	4.3	3.7	5.7	7.4	1.5	3.8	4.4	4.6	4.0	2.5
Structures	-2.1	13.2	4.0	-0.7	2.9	3.0	30.3	16.1	11.2	10.9	3.4	-1.6	-2.4	-7.0
Equipment	5.2	-0.3	3.4	7.5	5.1	3.2	-4.1	7.7	-4.4	-1.1	1.6	10.8	7.4	6.8
Intellectual Property Products	9.1	4.5	4.4	4.0	4.3	4.5	3.8	2.7	1.8	4.3	7.7	2.6	4.5	4.0
Federal Government	-2.8	4.2	1.9	0.2	0.0	0.0	5.2	1.1	7.1	2.4	-0.2	3.2	0.0	0.0
State & Local Government	0.2	4.0	3.4	1.1	1.0	1.0	4.6	4.7	5.0	6.0	3.0	2.3	1.2	1.0
Net Exports ($bn, '17)	-1,051	-928	-1,006	-1,050	-1,075	-1,068	-935	-928	-931	-919	-960	-1,010	-1,030	-1,020
Inventory Investment ($bn, '17)	128	44	68	80	60	60	27	15	78	55	29	69	86	87
Nominal GDP	9.1	6.3	5.2	4.3	3.8	4.1	6.3	3.8	8.3	5.1	4.5	5.5	4.3	4.3
Industrial Production, Mfg.	2.7	-0.5	0.7	3.8	3.5	3.3	0.3	0.0	-0.5	-1.5	-0.9	2.6	4.7	4.0
HOUSING MARKET														
Housing Starts (units, thous)	1,552	1,421	1,373	1,453	1,529	1,545	1,369	1,455	1,380	1,481	1,407	1,340	1,369	1,377
New Home Sales (units, thous)	637	666	694	768	776	810	636	698	682	646	663	690	692	730
Existing Home Sales (units, thous)	5,087	4,101	4,085	4,242	4,295	4,552	4,317	4,187	4,020	3,880	4,200	4,050	4,002	4,089
Case-Shiller Home Prices (%yoy)*	7.5	5.3	3.8	4.4	4.9	4.9	2.4	-0.1	2.6	5.3	6.4	5.9	4.3	3.8
INFLATION (% ch, yr/yr)														
Consumer Price Index (CPI)**	6.4	3.3	2.6	2.2	2.2	2.2	5.7	4.0	3.6	3.2	3.2	3.2	2.7	2.6
Core CPI **	5.7	3.9	2.9	2.3	2.3	2.3	5.5	5.2	4.4	4.0	3.8	3.4	3.2	3.0
Core PCE** †	4.9	2.9	2.6	2.0	2.0	2.0	4.8	4.6	3.8	3.2	2.9	2.6	2.6	2.6
LABOR MARKET														
Unemployment Rate (%)^	3.5	3.7	4.2	4.0	3.9	3.9	3.5	3.6	3.8	3.7	3.8	4.1	4.2	4.2
U6 Underemployment Rate (%)^	6.5	7.1	7.7	7.4	7.2	7.1	6.7	6.9	7.0	7.1	7.3	7.4	7.8	7.7
Payrolls (thous, monthly rate)	377	251	179	109	75	75	305	274	213	212	267	168	140	140
Employment-Population Ratio (%)^	60.1	60.1	60.0	59.9	59.8	59.6	60.4	60.3	60.4	60.1	60.3	60.1	60.0	60.0
Labor Force Participation Rate (%)^	62.3	62.5	62.6	62.4	62.2	62.0	62.6	62.6	62.8	62.5	62.7	62.6	62.7	62.6
Average Hourly Earnings (%yoy)	5.4	4.5	3.9	3.4	3.2	3.2	4.6	4.6	4.5	4.3	4.2	3.9	3.7	3.6
GOVERNMENT FINANCE														
Federal Budget (FY, $bn)	-1,376	-1,694	-1,900	-2,000	-2,050	-2,150	--	--	--	--	--	--	--	--
FINANCIAL INDICATORS														
FF Target Range (Bottom-Top, %)^	4.25-4.5	5.25-5.5	4.5-4.75	3.5-3.75	3.25-3.5	3.25-3.5	4.75-5	5-5.25	5.25-5.5	5.25-5.5	5.25-5.5	5.25-5.5	5-5.25	4.5-4.75
10-Year Treasury Note^	3.88	3.88	4.25	4.10	4.10	4.10	3.48	3.81	4.59	3.88	4.20	4.36	4.25	4.25
Euro (€/$)^	1.07	1.11	1.05	1.15	1.15	1.15	1.09	1.09	1.06	1.11	1.08	1.07	1.08	1.05
Yen ($/¥)^	132	141	155	130	125	120	133	144	149	141	151	161	149	155

* Weighted average of metro-level HPIs for 381 metro cities where the weights are dollar values of housing stock reported in the American Community Survey. Annual numbers are Q4/Q4.
** Annual inflation numbers are December year-on-year values. Quarterly values are Q4/Q4.
† PCE = Personal consumption expenditures. ^ Denotes end of period.
Note: Published figures in bold.
Source: Goldman Sachs Global Investment Research.

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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