THE BEACON OUTLOOK
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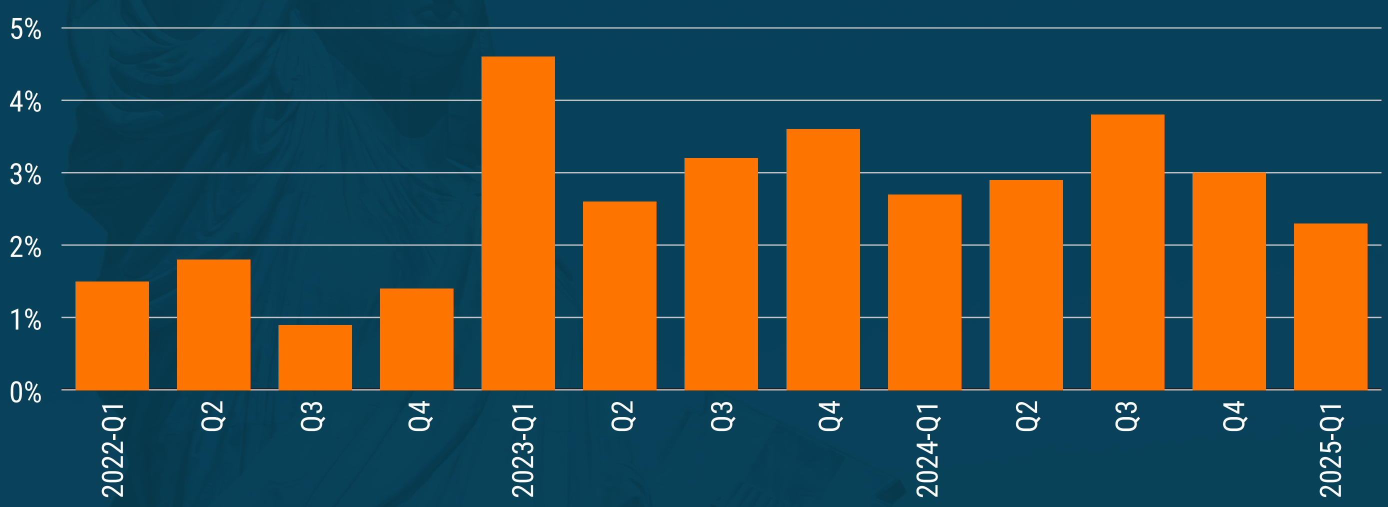
THE U.S. ECONOMY: TRUMP IS ROCKING AN UNSTABLE BOAT

The first 100 days of the second Trump administration has undoubtedly delivered a large shock to the U.S. economy. Still, the small negative growth rate in the first quarter of 2025 is assuredly not the start of a Trump-driven recession.[1] The economy came into 2025 with good momentum, and final demand (real spending by consumers, businesses, and government) growth in the first quarter expanded by 2.3% SAAR. It was the surge in imports—rushing to stockpile before President Trump's tariffs hit—that caused the negative estimate. Beacon Economics anticipates better growth in the second quarter, a point of view supported by strong March consumer spending numbers, as well as April employment numbers.[2]

U.S. REAL FINAL DEMAND GROWTH (%, SAAR)



SOURCE: U.S. BUREAU OF ECONOMIC ANALYSIS. ANALYSIS BY BEACON ECONOMICS

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[1] https://www.bea.gov/news/2025/gross-domestic-product-1st-quarter-2025-advance-estimate
[2] https://fred.stlouisfed.org/series/PCEC96 , https://fred.stlouisfed.org/series/PAYEMS

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Nevertheless, our forecast for the U.S. economy now includes an increased probability of a recession in the next twelve months: we estimate a 30% likelihood in the coming year. This is lower than the average (45%) in the most recent Wall Street Journal 'Economic Forecasting Survey', but it's the highest probability Beacon Economics has estimated since the start of 2020.[3] Our lower estimate does not mean that we are more optimistic than other forecasts—we are very worried about the health of the U.S. economy. But our concern stems more from chronic issues, rather than the acute problems being brought on by the current administration's rapidly changing policies.

> **OUR FORECAST FOR THE U.S. ECONOMY NOW INCLUDES AN INCREASED PROBABILITY OF A RECESSION IN THE NEXT TWELVE MONTHS.**

As chaotic as they may be, we don't believe President Trump's wave of policy gyrations are sufficient to cause a recession in and of themselves. Many of the administration's policies (and policy reversals) have little to do with current economic flows, regardless of their potential long run impact on the nation. The Department of Government Efficiency (DOGE) driven spending cuts are minuscule relative to the scale of Federal spending. Tariffs are clearly the largest risk, and the President has thankfully continued to back down from many of his more draconian threats—at least for now. As for the wobbly and uncertain equity market, it doesn't compare to the ongoing strength of U.S. household finances, namely record high net worth[4] and growing real disposable income[5]. In the end, when it comes to U.S. business cycles, the consumer is king, and spending is driven by income and wealth, not sentiment.

Beacon Economics is most worried about how the rising instability of the markets will impact chronic problems that have been building in the U.S. economy for years. Those chronic problems are the unsustainable structural imbalances that make up the foundational strength of U.S. household finances, namely: asset bubbles and enormous government deficits. Household net worth in the United States is at an all-time high because the nation's asset markets are in the midst of a massive bubble. Household incomes are artificially high because the Federal government has been borrowing rather than taxing to fund a significant portion of its spending.

[3] https://www.wsj.com/economy/trade/us-economic-outlook-trump-b4e3469a?mod=article_inline
[4] https://fred.stlouisfed.org/series/BOGZ1FL192090005Q
[5] https://fred.stlouisfed.org/series/A229RX0

All of this excess has thrust the nation into another massive consumption binge, not unlike during the runup to the Great Recession, marked by an enormous gap in the trade deficit (the difference between what the nation consumes and what it produces). Back then, like now, our consumption was ultimately paid for by strong inflows of foreign capital. On net, the nation imported $1.25 trillion dollars in capital in 2024[6], as a share of GDP that amount was only exceeded in the two years leading up to the Great Recession. The only difference is that back then the foreign capital was converted into household debt, now it is being converted into public debt.

This is why Beacon Economics cautioned in our last U.S. Outlook to pay more attention to what the Trump administration doesn't do—namely attempt to close the Federal deficit, cool over-heated asset markets, and counsel Americans to spend within our means. At some point reality will reassert itself, and the nation will be forced to go through the painful transition of bringing its consumption back in line with its output. In the runup to the Great Recession the trigger was the turning of the housing market and the subsequent collapse of asset backed-security markets. The mechanism will be different this time since it is public rather than private borrowing that is at the heart of the current stress. This means that piercing the fortress around strong consumer finances will have to come from a dramatic reset in public spending, not private lending. But the ultimate outcome will be the same.

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The unknown right now is whether the uncertainty being created by President Trump's wave of wild policy gyrations is sufficient to ignite a broader financial crisis through the nation's external accounts (i.e. the value of the dollar). We saw a brief example of what that might look like in April, when equity and bond markets both fell alongside the dollar. But since the President has backed off from his tariff plans the U.S. stock market has regained well over half the ground it lost since the tariff twists and turns began, and we have seen both the bond market and the $US gain ground. If the President really does refrain from the worst of his inclinations, then there is a high likelihood that the economy will return to the equilibrium state it was in before he took office—and the expansion will continue after this brief crisis point.

[6] https://fred.stlouisfed.org/series/IEANLF

But this wouldn't mean we are out of the woods. While the nation is distracted by the current policy chaos coming from the executive branch, the Republican controlled legislative branch of the U.S. government is shredding budgetary process norms in order to extend and expand Trump's tax cut from his first administration, despite the fact that the Federal deficit in the first three months of 2025 was a whopping $600 billion, 8% of U.S. GDP. Economists have been taking about the risks of Federal debt for a long time, but it has never seemed to matter much to policymakers in the past. Why is it now such a risk? It isn't the level of debt that is the greatest risk, but rather the pace at which we are adding to that debt. Consider that in 2024, the nation's Federal debt grew by $2.2 trillion, while the external capital account deficit was $1.25 trillion. In other words, well over half of the capital that is funding the Federal deficit came from the rest of the world. Read: The U.S. government is very dependent on a strong dollar.

Of course, these foreign investors are not likely to directly buy treasuries. They are more likely chasing U.S. equities, perhaps real estate assets, or maybe even cryptocurrency. The Federal Reserve's effort to tighten the U.S. money supply in 2022 and 2023 failed to pop the asset bubble they created via their excessive pandemic stimulus in 2020 and 2021 because it was offset by the net $2.3 trillion in global portfolio investment that has poured into the U.S. economy since then.[7] The asset bubble has been Sirens' call for attracting this foreign investment. Indeed, the demand to invest in the United States pushed the real value of the dollar to a 40-year high.[8] The beginning of the end will start with a rapid depreciation of the dollar when foreign investors start to pull their capital out.

Through their actions, President Trump is trying to light the fuse while Congress is pouring on more explosive fuel—which seems like a skit from a vaudeville show rather than governance in the most powerful nation on the planet. And if the President fails to light the fuse, the fuel pile will still be there waiting for the right spark. Clearly this is unsustainable and the longer it continues the harder the reset will be on the national and global economy. If you are wondering how Congress could be so irresponsible, remember that our political choices reflect the national narrative—and that narrative, amazingly, is that Americans are suffering despite all the obvious signs of overconsumption. This is exactly where the risks to the ongoing U.S. economic expansion lie—within the gap between the believed narrative and objective, data-based, economic reality.

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[7] https://fred.stlouisfed.org/series/IIPUSNETIQ
[8] https://fred.stlouisfed.org/series/RTWEXBGS

THE FIRST 100 DAYS

The debate between Donald Trump and Kamala Harris in the runup to the 2024 election boiled down to which candidate was more qualified to fix the “broken” U.S. economy. Yet in reality, the economy President Trump inherited in January is overheated—plain and simple. It has been ever since the Federal Reserve poured $5 trillion into the U.S. money supply in a wild over-response to the pandemic in 2020. While the Fed tried to take the punchbowl away starting in 2022, it only cured the resultant inflation problem, not the asset bubble or Federal deficit problem. Jerome Powell and company didn’t “stick the landing” because we haven’t actually landed yet.

Signs of this overheating are everywhere if you are willing to look. Household savings rates are below 5%, even as consumer spending is running above 68% of GDP, a near all-time high. The nation’s current account deficit is now larger than 4% of GDP. The only time it was higher was in the runup to the Great Recession. In 2024 the U.S. economy consumed $1.1 trillion more than it produced. All this excess consumption has been funded through the accumulation of public debt, which has gone from $23.2 trillion to $36.2 trillion in five years. [9]To put this in context, Federal debt per U.S. resident rose by 50% from 2019 to 2024, when it hit $106,000. The current Federal deficit is 6% of GDP—over $15,000 per household—the largest full-employment deficit since World War II.

Amazingly, despite the spending spree and record high level of spending, consumer sentiment in the U.S. has fallen. And that’s true whether we look at data from the University of Michigan, Gallup, the Federal Reserve, or the Conference Board. All metrics measuring Americans’ views on the health of the economy are substantially lower now than they were in 2019 despite the fact that things are objectively better. [10]

And this is not because of rising inequality where a small minority are responsible for the expansion in consumer spending. Data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey shows a proportionately equal increase in spending for households at every income level from 2019 to 2023, the most recent data available.[11] Data from the Atlanta Fed Wage Tracker shows that lower income workers have been experiencing greater than average earnings growth.[12] And a recent Congressional Budget Office report found that poverty in the United States is at an all-time low.[13] None of this should suggest that the wealth accumulation and conspicuous consumption of the top .1% is anything short of grotesque,

[9] https://fred.stlouisfed.org/series/GFDEBTN

[10] The only time the numbers were lower in the University of Michigan’s Sentiment Index was in the quarter before President Obama first entered the White House as the nation was struggling to contain the fallout from the failure of Lehman Brothers and the resultant collapse in lending markets. We are a far cry from those years.

[11] https://www.bls.gov/news.release/cesan.nr0.htm

[12] https://www.atlantafed.org/chcs/wage-growth-tracker#Tab1

[13] https://www.cbo.gov/publication/60809

but that should not divert from the reality that real quality of life has improved for the vast majority of Americans in the past two decades.

On the other hand, the growth of the Federal debt and the size of the nation's current account deficit should send warning signs to global investors. Yet, up until the last few weeks, the rest of the world hasn't shown any sign of concern over this obvious problem. While Americans are unhappy with their relative affluence, financial markets are blithely ignoring the growing risks of investing in the United States. What an interesting world we live in.

Now, with Trump back in office, the blizzard of policies, policy reversals, and executive actions has kept the news cycle spinning at top speed. The Economic Policy Uncertainty Index for United States has shot up to its third highest level on record, behind only a period in early 2020 during the Covid shutdowns, and when Lehman Brothers failed in the late summer of 2008.[14] Yet there is a lot more smoke than fire here. Lasting changes to U.S. political or economic systems can only occur through new legislation from Congress, not through executive action. Many of the administration's executive actions have already been reversed by the courts, as have many of the budget cuts put into place by DOGE.

Even on the trade front, President Trump's proposed policies are not quite as damaging as you might think. For example, if the United States ends up with a 20% average tariff on all imported goods, this amounts to a roughly $600 billion dollar tax on trade for the year ahead.[15] But it would be split between businesses, consumers, and foreign exporters. U.S. households pay over $5 trillion per year in taxes and social insurance, while non-financial corporate profits are $3 trillion per year. These are hits, but they won't cause a U.S. recession, particularly since the economy President Trump inherited has the strongest growth trends and lowest unemployment rate since President George W. Bush entered his second term two decades ago (see the table at the end of this outlook). That's the key here. The only way the U.S. economy will be pushed into a recession is when the broader turmoil finally penetrates the fortress of household finances.

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[14] https://fred.stlouisfed.org/series/USEPUINDXD

[15] If the trade war turned into a full embargo, then yes—this could cause a recession. But Trump has backed off quite a bit already and seems to be looking for an exit even on his battle with China.

THE BEGINNING OF THE END

So, when will it all collapse? It boils down to flows of foreign capital into the United States. If these flows slow and the dollar starts to depreciate even as the U.S. government continues to expand its borrowing, the only possible outcome is a sharp hike in U.S. interest rates. Federal Reserve policy in such an environment is hamstrung because cutting short run interest rates puts even more downward pressure on the value of the dollar, and this will cause long run interest rates to rise. The rise in rates will put pressure on borrowers, and none will be more pressured than the largest borrower of them all—the U.S. government. A 1% increase in interest rates ultimately leads to a $400 billion increase in interest costs for the U.S. government, over 1% of GDP. This process will start a spiraling deficit cycle that will inevitably lead to:

- sharp spending cuts,
- sharp tax hikes,
- an inflationary binge by the Federal Reserve through the use of quantitative easing to fill in the gaps,
- and in the worst case, an actual Federal government debt default.

All of this lies in the future. At the moment, the U.S. economy still has plenty of momentum and will not fall into a recession for the next few quarters. But the risks are growing. And ultimately, when (not if) these issues come to a head, remember that Trump is not the source of these problems, but a symptom of them. Our false economic narratives are to blame, and these beliefs were born in the era of 'miserabilism' that took hold in the wake of the Great Recession.

> **AT THE MOMENT, THE U.S. ECONOMY STILL HAS PLENTY OF MOMENTUM AND WILL NOT FALL INTO A RECESSION FOR THE NEXT FEW QUARTERS. BUT THE RISKS ARE GROWING.**

So how do we sum up our forecast? Beacon Economics believes 2025 will see continued growth—but we also see dangerous clouds on the U.S. economy's horizon. For the last few years, we have found ourselves on the optimistic side of the forecasting community. Yet, today's trends leave little doubt that the end of the current economic expansion is becoming more apparent. The imbalances that are building today are as profound and dangerous as they were in the runup to the Great Recession. This time, however, the source of the pain is on the public rather than the private side of the ledger, which means how it shakes out will differ, but the size of the shock could end up being even larger.

These circumstances have to be viewed in the context of the larger issue: the imbalance between Americans' widely believed false narrative of economic decline and economic reality. If we're unhappy with our current 'affluent' circumstances, how will our narrative morph when forced to confront the outcomes of our distended spending? The bitter truth is someone is going to have to pay the bill, and the fight over who will have serious consequences for the future of our nation.

From 2005 to 2009 Americans went from being happy and confident about their future to the painful reality that they had to move their spending back in line with their incomes. But we never paid back all the money we borrowed in that run up—we simply replaced it with public debt. Now, we are yet again overconsuming and running up the Federal debt, but we can't even appreciate the party while it's going on. This reality check could end up having an even greater impact on our already fraught political environment. Beacon Economics strives not to be alarmist, but in the end, the United States could be facing a turning point on par with what happened in the 1930's and 1860's. This could truly be the beginning of the end mentioned by Ray Dalio in a recent post. [16] Only time will tell.

ECONOMIC CONDITIONS IN U.S. ELECTION QUARTERS, 2008 TO 2024

	Q4 08 Obama	Q4 12 Obama	Q4 16 Trump	Q4 20 Biden	Q4 24 Trump
REAL GDP GROWTH YOY GROWTH	-2.5%	1.6%	2.2%	-1.0%	2.5%
UNEMPLOYMENT RATE	6.9%	7.8%	4.8%	6.8%	4.1%
INFLATION (PCE) YOY GROWTH	0.1%	1.6%	1.7%	1.3%	2.6%
30-YEAR FIXED RATE MORTGAGE	5.8%	3.4%	3.8%	2.8%	6.6%
REAL PER CAPITA DPI	$40,219	$42,342	$43,846	$49,476	$51,637
HOUSEHOLD DEBT (% GDP)	99.0%	84.5%	77.9%	77.5%	70.0%
HOUSEHOLD NET WORTH (% GDP)	393.7%	413.9%	469.3%	562.3%	539.5%
UM: CONSUMER SENTIMENT	57.7	79.4	93.1	79.8	72.1
FEDERAL DEFICIT % GDP	-4.6%	-6.5%	-3.1%	-16.2%	-6.9%
FEDERAL DEBT: % GDP	73.2%	100.1%	104.6%	125.7%	121.9%
CURRENT ACCOUNT (% GDP)	-4.3%	-2.3%	-2.0%	-3.3%	-4.0%
NET INT INVESTMENT (% GDP)	-27.3%	-27.8%	-43.3%	-66.7%	-80.3%
$DOLLAR (BROAD REAL)	98.2	87.9	108.0	105.7	119.5
SHILLER P/E RATIO	15.67	21.24	27.08	32.51	37.22

[16] https://www.linkedin.com/pulse/its-too-late-changes-coming-ray-dalio-jtwwe

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U.S. FORECAST -OUTPUT

	Current	Forecast			
	Q1-25	Q2-25	Q3-25	Q4-25	Q5-25
REAL GDP ($ BILLIONS, $2012)	23,526.1	23,612.7	23,636.2	23,702.7	23,804.7
% CHANGE FROM PRECEDING PERIOD, SAAR	-0.3	1.5	0.4	1.1	1.7
CONSUMPTION	16,345.6	16,392.4	16,369.8	16,395.1	16,458.9
% CHANGE FROM PRECEDING PERIOD, SAAR	1.8	1.1	-0.5	0.6	1.6
FIXED INVESTMENT	4,346.8	4,259.6	4,241.9	4,260.0	4,293.5
% CHANGE FROM PRECEDING PERIOD, SAAR	7.8	-7.8	-1.7	1.7	3.2
NONRESIDENTIAL	3,595.5	3,505.6	3,493.8	3,504.5	3,525.9
% CHANGE FROM PRECEDING PERIOD, SAAR	9.8	-9.6	-1.3	1.2	2.5
RESIDENTIAL	799.6	784.3	775.5	781.4	792.3
% CHANGE FROM PRECEDING PERIOD, SAAR	1.3	-7.4	-4.4	3.1	5.7
CHANGE IN PRIVATE INVENTORIES	140.1	173.0	36.2	-154.2	-190.0
GOVERNMENT	3,981.7	4,005.4	4,010.8	4,022.2	4,034.7
% CHANGE FROM PRECEDING PERIOD, SAAR	-1.5	2.4	0.5	1.1	1.3
EXPORTS	2,648.8	2,610.0	2,572.2	2,551.0	2,541.8
% CHANGE FROM PRECEDING PERIOD, SAAR	1.8	-5.7	-5.7	-3.3	-1.4
IMPORTS	4,023.1	3,860.9	3,621.3	3,392.5	3,349.0
% CHANGE FROM PRECEDING PERIOD, SAAR	41.3	-15.2	-22.6	-23.0	-5.0

SOURCES: U.S. BUREAU OF ECONOMIC ANALYSIS, FORECAST BY BEACON ECONOMICS

U.S. FORECAST - INFLATION

	Current	Forecast			
	Q1-25	Q2-25	Q3-25	Q4-25	Q5-25
CONSUMER PRICE INDEX (% CHANGE, YEAR-OVER-YEAR)	2.7	2.4	3.4	3.5	3.2

SOURCES: U.S. BUREAU OF ECONOMIC ANALYSIS, FORECAST BY BEACON ECONOMICS

U.S. FORECAST - KEY INDICATORS

	Current	Forecast			
	Q1-25	Q2-25	Q3-25	Q4-25	Q5-25
INDUSTRIAL PRODUCTION (INDEX)	103.8	102.3	101.1	100.4	100.2
TOTAL NONFARM (QUARTERLY CHANGE, 000S)	543.0	439.3	142.8	56.9	62.5
UNEMPLOYMENT RATE (%)	4.1	4.2	4.4	4.5	4.5

SOURCES: U.S. BUREAU OF LABOR STATISTICS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (US), FORECAST BY BEACON ECONOMICS

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About Beacon Economics

Founded in 2006, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis required to understand the significance of on-the-ground realities and to make informed business and policy decisions.

Learn more at www.BeaconEcon.com

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