Flash Economics

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Should we consider stagflation in the United States?

The economic policies implemented by Donald Trump (deportation of illegal immigrants and suspension of asylum, expected tariffs of 25% on US imports from Canada, Mexico and the European Union, additional duties of 10% on imports from China) will clearly be inflationary.

We are already seeing a rise in US consumers' one-year forward inflation expectations and a sharp drop in consumer confidence since February 2025 (we know that consumer confidence is strongly correlated with expected inflation), all of which will lead to a stagnation in stock market indices and a pull-back in long-term interest rates.

The economic picture in the United States is therefore likely to be very different in 2025 from what it was in 2024. We will see a fairly sharp slowdown in growth, especially as other countries take retaliatory measures in response to the tariffs imposed by the United States, and a fairly strong surge in inflation, in other words the emergence of a stagflationary equilibrium.

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Inflationary economic policy in the United States

Donald Trump's economic policy (deportation of illegal immigrants, global curbs on immigration, suspension of asylum, 25% tariffs on imports from Canada, Mexico and the European Union, additional 10% duties on imports from China) **is clearly inflationary**. There will be additional pressure on the labour market, leading to higher wage increases and, since there is little substitutability between imported goods and US-produced goods, little effect on the volume of US imports, but a sharp rise in the price of imports.

If we look at **the one-year inflation expectations** as measured by the Conference Board (**Charts 1A/B**), we see that US households' inflation expectations have been rising since the beginning of 2025.

Chart 1A
United States: Consumer's inflation expectations for the year ahead (as %, Conference Board)

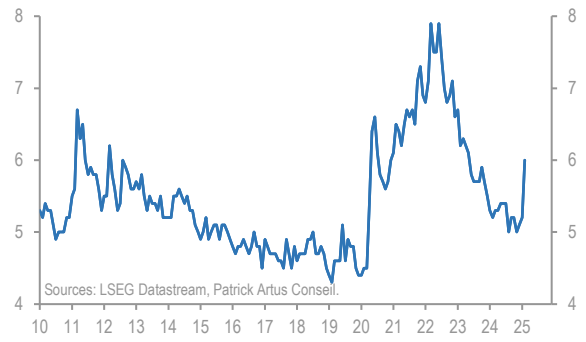
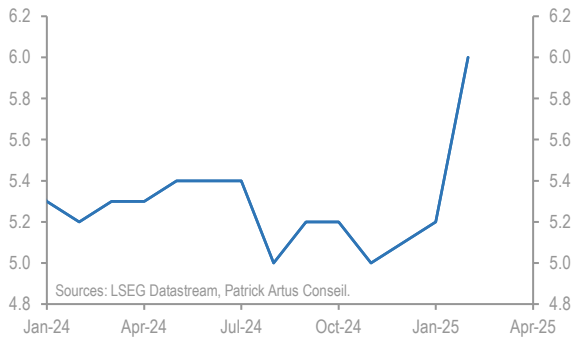


Chart 1B
United States: Consumer's inflation expectations for the year ahead (as %, Conference Board)



We know that **inflation has a negative impact on US household** confidence, and hence on consumption, since wages are not fully indexed to inflation in the United States. Indeed, consumer confidence falls sharply at the start of 2025 (**Charts 2A/B**), and the expectations index drops to a level consistent with a US recession (**Charts 3A/B**).

Chart 2A
United States: Consumer confidence index (Conference Board, 1985 = 100)

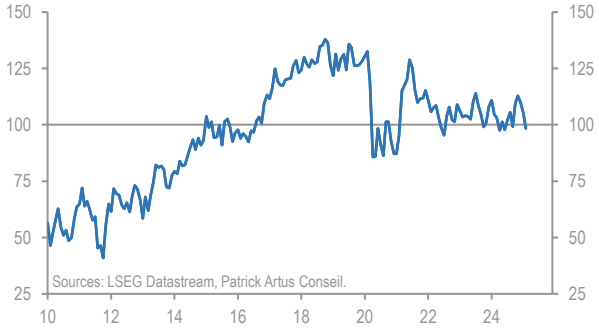


Chart 2B
United States: Consumer confidence index (Conference Board, 1985 = 100)

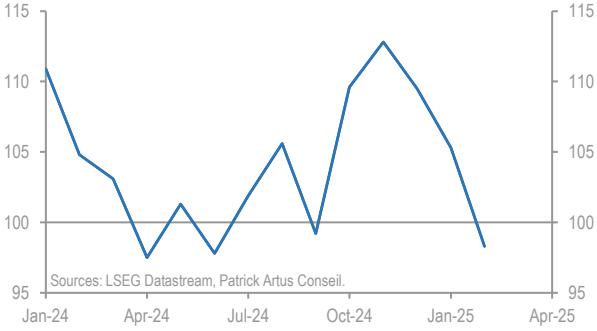


Chart 3A
Unites States: Consumer confidence index - Expectations index (Conference Board, 1985 = 100)

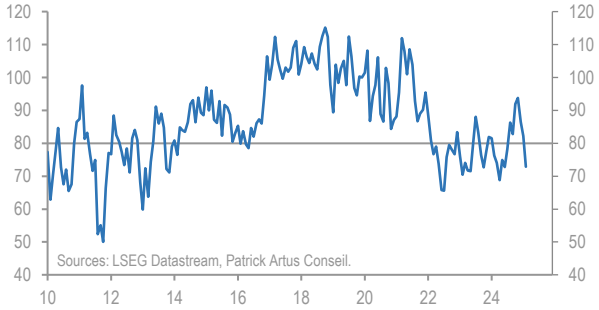
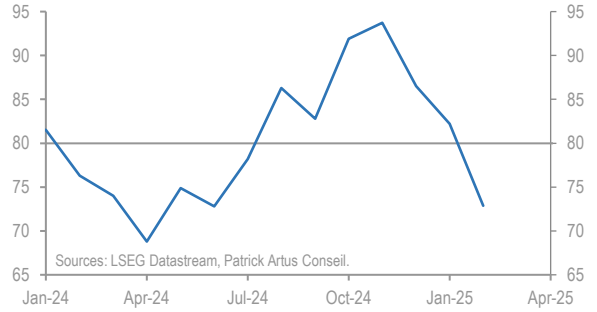


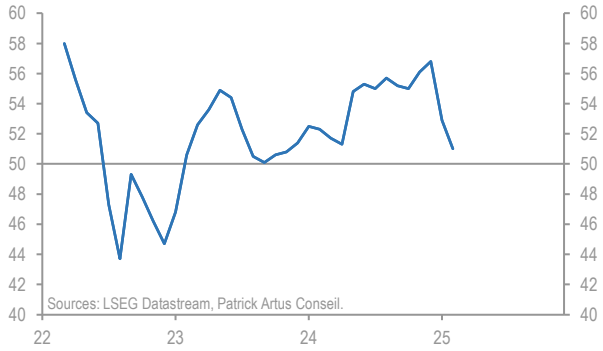
Chart 3B
Unites States: Consumer confidence index - Expectations index (Conference Board, 1985 = 100)



Growth slows sharply

Growth in the United States reached an annual average of 2.8% in 2024. **We can expect growth to slow sharply from the first quarter of 2025**, with the decline in household confidence and the fall in the services PMI (**Chart 4**), not to mention the boycott of US products in some countries.

Chart 4
United States: PMI services (index)



The decline in domestic demand will be amplified by **the pull-back in stock market indices**, which will be particularly obvious for technology stocks (**Charts 5A/B**).

Chart 5A
United States: Stock market indices (01.01.2010 = 100)

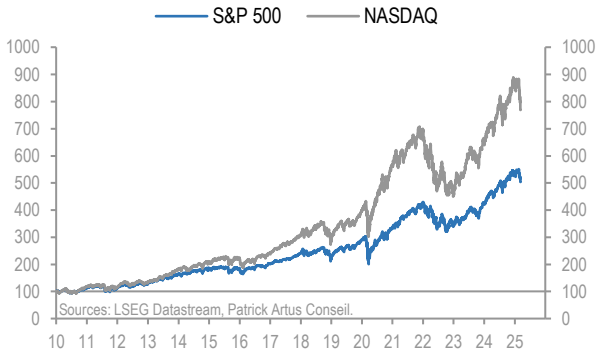
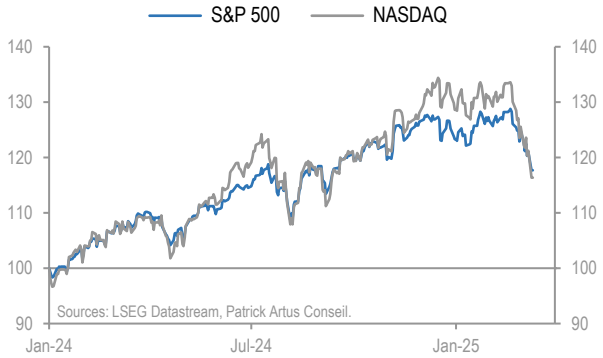
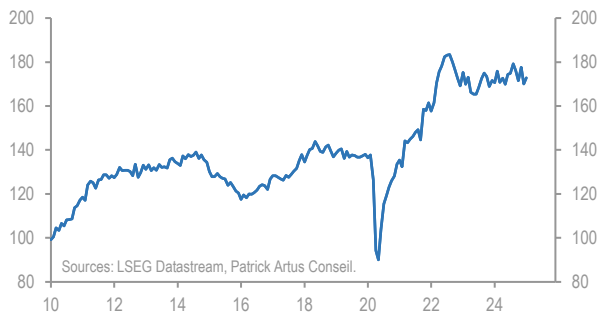


Chart 5B
United States: Stock market indices (01.01.2024 = 100)



Moreover, as most countries have chosen to respond to the tariffs on their exports to the United States by imposing tariffs on their imports from the United States, we can expect **a slowdown in exports from the United States** (**Chart 6**).

Chart 6
United States: Exports of goods
(monthly, USD bn)



Summary: towards stagflation in the United States

Donald Trump's economic policy will therefore boost inflation and slow US growth. We are therefore heading towards stagflation, which we know is the most difficult situation for central banks to manage.

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