

Would Trump Reignite Inflation?

One theory making the rounds is that if President Trump gets back into office, inflation is going to surge. The idea is that if he returns, Trump will raise tariffs, reduce immigration, and jawbone the Federal Reserve to cut interest rates too much, all of which could push inflation higher, maybe even to where it was a couple of years ago when it peaked at 9.1%.

We are certainly not optimistic about the path of inflation in the decade ahead. The Consumer Price Index (CPI) went up at only a 1.8% annual rate in the ten years prior to COVID and we think it'll be closer to 3.0% per year in the decade ahead. However, we think that'll likely be the case regardless of the election results later this year. At the same time, we don't expect anything like the COVID surge in inflation in the next few years.

Take the tariff argument, for example. Yes, tariffs would raise prices for the items being tariffed. But unless the Fed loosens monetary policy in response, the extra money consumers would have to spend on imported items would have to come from money they'd otherwise use to buy other items, putting downward pressure on prices for those other items and not changing overall inflation. Remember, Trump raised tariffs during his first term in office and yet inflation was subdued until the Fed ignited it during COVID.

The same goes for immigration, which was slower in the Trump Administration than it had been under President Obama, without causing a spike in inflation. By contrast, immigration has soared under President Biden while the CPI has averaged

5.6% per year. If immigration was some sort of magic that kept inflation low, why wasn't inflation much higher during Trump and why hasn't it been lower under President Biden?

We think this is ultimately because it's monetary policy that determines inflation, not tariffs or immigration. Which brings us to the last argument suggesting Trump will bring back high inflation, that he will put political loyalists in charge of the Fed who will loosen policy much more than economic conditions suggest, leading to a spurt in inflation.

It is true that Trump would have the chance to put loyalists at the Fed, but the terms of Fed policymakers turn over gradually. Also, every nominee would need confirmation by the Senate. None of these people, not the nominee or nominators, would want to be blamed for causing a surge in inflation.

We are guessing Trump would appoint either Kevin Warsh or Kevin Hassett as Fed chairman to succeed Jerome Powell, neither of whom would want to go down in history as the second coming of the failed Arthur Burns of the 1970s. Moreover, many of the votes on monetary policy come from regional bank presidents not appointed directly by the president. The Fed is full of checks and balances, and part of a new Fed regime's task will be to fix the inflationary tilt of policy since 2008.

Again, we are not saying inflation won't be a problem in the years ahead; it likely will be. But it's likely to be a problem no matter who wins this November.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-14 / 7:30 am	PPI – Apr	+0.3%	+0.3%		+0.2%
7:30 am	“Core” PPI – Apr	+0.2%	+0.3%		+0.2%
5-15 / 7:30 am	CPI – Apr	+0.4%	+0.4%		+0.4%
7:30 am	“Core” CPI – Apr	+0.3%	+0.3%		+0.4%
7:30 am	Retail Sales – Apr	+0.4%	+0.5%		+0.7%
7:30 am	Retail Sales Ex-Auto – Apr	+0.2%	+0.3%		+1.1%
7:30 am	Empire State Mfg Survey – May	-10.0	-14.5		-14.3
9:00 am	Business Inventories – Mar	-0.1%	-0.1%		+0.4%
5-16 / 7:30 am	Initial Claims – May 11	220K	220K		231
7:30 am	Housing Starts – Apr	1.421 Mil	1.440 Mil		1.321 Mil
7:30 am	Philly Fed Survey – May	8.0	-1.3		15.5
7:30 am	Import Prices – Apr	+0.3%	+0.4%		+0.4%
7:30 am	Export Prices – Apr	+0.2%	+0.4%		+0.3%
8:15 am	Industrial Production – Apr	+0.1%	0.0%		+0.4%
8:15 am	Capacity Utilization – Apr	78.4%	78.3%		78.4%