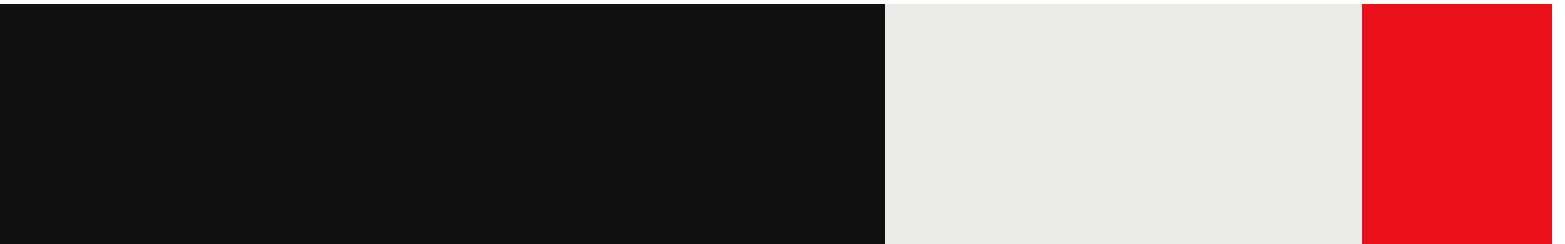


# How the outcome of the US presidential election will affect 3 critical economic factors for retail

Article



**Donald Trump and Kamala Harris offer two starkly different perspectives on how best to manage the US economy and what changes are needed to put the country on the right path.**

- **The Trump campaign** plans to make major changes that reshape global trade and immigration policies.
- **The Harris campaign** plans to keep many current policies in place while laying a foundation to address issues such as the stagnant housing market and the challenges facing young families.

Whichever candidate wins will undoubtedly have a major impact across three key economic factors that weigh on the retail industry: inflation, consumer spending, and regulation.

## 1. What happens to inflation?

After a two-and-a-half-year battle, **inflation** is moving toward the US Federal Reserve's 2% goal, setting the stage for more **rate cuts**, lower borrowing costs, and possibly the much awaited soft landing.

### If Harris wins

Harris' economic policies would have a limited effect on inflation.

**Harris wants to institute a price-gouging ban on food and groceries.** The policy mirrors those in place in 37 states, which prohibit large corporations from exploiting crises such as floods, hurricanes, or a pandemic. However, given the policy's limited scope, it is unlikely to move the needle on inflation.

### If Trump wins

**Trump's proposals risk reigniting inflation.** The majority of economists surveyed by The Wall Street Journal in July expect Trump's economic plans would lead to higher inflation than Harris' proposals.

**Prices could rise by as much as 6% to 9.3% based on three central elements of the Trump campaign:**

1. **Trump's tariff policy would be a jolt to retailers, which rely on overseas suppliers.** Grocers would feel the impact on many of the food items they sell—like coffee and avocados—as would retailers that sell apparel, consumer electronics, and a host of

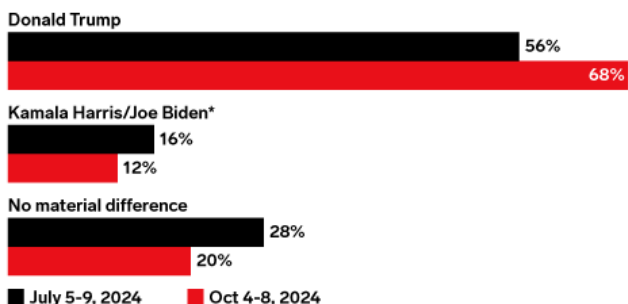
other products. The tariffs would hit retailers' top and bottom lines and those costs would be passed along to consumers: Every 1-percentage-point increase in the effective tariff rate would raise core PCE prices by 0.1 percentage point, per Goldman Sachs. The policy would also likely result in retaliatory tariffs from other countries, leading to even higher prices and potentially crippling US manufacturing exports.

**2. Mass deportation would be a negative labor supply shock to the food, services, and manufacturing sectors.** Deporting 1 million or more workers, as Trump has proposed, would raise the specter of stagflation—slower economic activity with rising inflation. Even with Fed intervention, US inflation would still rise 35 basis points above baseline in 2025 and 54 basis points in 2026, per Peterson Institute estimates.

**3. Trump also wants a more direct role in how the Fed sets interest rates.** While the Fed is an independent agency, he could lean on the Fed to keep interest rates lower than they ought to be to fuel growth, removing the one lever the Fed has to rein in inflation. [Empirical evidence](#) suggests strong central bank independence can reduce a country's inflation rate between 1 and 6 percentage points.

### Majority of Economists Expect Higher Inflation Under Trump Than Harris

% of US economists, Oct 2024



Note: n=50; Q: "Under which presidential candidate's proposed policies is inflation likely to be higher?"; \*July survey was conducted before President Biden dropped out of race  
Source: The Wall Street Journal, "Economists Say Inflation, Deficits Will Be Higher Under Trump Than Harris," Oct 14, 2024

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## 2. How will consumer spending patterns shift?

While sentiment remains below historic norms, consumers continue to spend. We expect US retail sales to rise 2.8% year over year this year and growth to remain around 3.0% through 2028.

## If Harris wins

**Harris' housing policy could have knock-on effects in the retail realm.** Elevated interest rates and limited supply made it far harder for prospective homebuyers, stymying both the housing and home improvement markets. Between 2021 and 2024, the average monthly payment for a first-time homebuyer rose roughly 86%, per the National Association of Realtors.

Harris has called for increasing both supply and demand by building 3 million new housing units over four years and offering first-time homebuyers \$25,000 in down payment assistance. The policy, in concert with the Fed's expected interest rate cuts, could help unfreeze the stagnant housing market. In turn, that could lift a wide array of retailers and brands—including home improvement, furniture, and consumer electronics sellers—that struggle when fewer consumers move.

**Her campaign also plans to restore the American Rescue Plan's popular child tax credit expansion**—which increased the credit up to \$3,600 per child from \$2,000—and add a new child tax credit of up to \$6,000 for middle- and lower-income families for children in their first year of life.

- The policy would put more money in young families' pockets, leading to a small uptick in demand.
- Her other policies largely maintain the status quo, which should encourage steady consumer spending.

## If Trump wins

Sentiment among Republicans would rapidly rise. There's a strong correlation between impressions of the economy and partisan leanings. Just as the 2020 election and the issuance of stimulus checks under the American Rescue Plan led Democrats' sentiment to tick up, a similar situation will likely unfold among Republicans—especially if the Fed continues to cut interest rates. That should drive those consumers to loosen their purse strings, at least in the short term.

A Trump victory, and continued interest rate cuts, could also make businesses feel more confident about the economy, leading to more hiring and investment. That would be a welcome shift for a labor market that saw layoffs increase and job openings fall in September to the lowest level since early 2021.

But over time, rising prices would cause nominal retail sales to rise even as real sales decline. We can look back just to 2022—when supply-chain shocks caused inflation to spike. Rising prices led retail sales to grow 8.0% even as basket sizes shrank, and discretionary spending dipped. (Sporting goods sales, for example, fell 2.0%.)

The situation shifted consumer shopping habits in ways that still linger. Consumers traded down to private labels and shifted spend to less expensive retailers such as Aldi, Walmart, and Temu. However, many of the retailers that benefited from the last surge of inflation may struggle to keep prices low if they’re facing steep tariffs.

Trump’s plan to deport millions would dampen consumer demand.

- Undocumented workers contribute to local demand for groceries, apparel, cars, and other goods, as well as services such as restaurants.
- The impact would be felt most acutely in areas with high concentrations of undocumented immigrants such as California and Texas.
- The overall impact on US GDP is expected to range between -0.1% and -0.4% next year, per the [Brookings Institute](#).

**Affordability Is a Challenge for First-Time Homebuyers—Harris' Plan Could Change That**  
*affordability metrics for US first-time homebuyers, 2021-Q2 2024*

	Effective interest rate	Monthly payment	First-time buyer index	Composite index
2021	3.3%	\$1,190	97.6	148.2
2022	5.7%	\$1,735	71.9	108.8
2023	7.1%	\$2,032	65.1	98.2
Q2 2023	6.8%	\$2,011	65.4	98.7
Q3 2023	7.4%	\$2,146	62.0	93.6
Q4 2023	7.6%	\$2,118	63.6	95.9
Q1 2024*	7.1%	\$1,997	68.5	103.3
Q2 2024**	7.3%	\$2,218	62.5	94.3

Note: effective interest rate includes private mortgage insurance; an index value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home; an index above 100 signifies a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment; composite index includes homebuyers overall; \*indicates revised data; \*\*indicates preliminary data  
Source: National Association of Realtors (NAR), "First-Time Homebuyer Quarterly Affordability Index," Aug 13, 2024

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### 3. How will regulatory priorities change?

**Antitrust has support on either side of the aisle.** Both Sen. Bernie Sanders and vice presidential candidate J.D. Vance are vocal supporters of FTC Chair Lina Khan. But the latitude that the FTC and DOJ have to investigate cases would likely differ under Trump and Harris.

### **If Harris wins**

**Both the FTC and DOJ would likely continue to challenge companies' merger plans, business practices, and pricing power.**

- In addition to a proposed [ban on price gouging](#), the Vice President said she would heighten scrutiny of mergers like Kroger-Albertsons and [Mars-Kellanova](#) that could result in higher grocery prices.
- Harris also backed a bill that would prevent landlords from using algorithmic pricing to raise rents—an issue the DOJ is currently litigating that could have implications for other companies relying on algorithms to set prices.
- Companies like [Amazon](#) would also likely face continued scrutiny.

**Electric vehicle (EV) adoption would continue its upward trajectory under Harris.**

- Under Harris, the government would maintain its support for the sale and manufacture of EVs through tax credits and other incentives for both consumers and carmakers.
- That policy has resulted in slow but steady share gains: EVs made up 8.9% of US car sales in Q3, per Kelley Blue Book—the highest level on record.

### **If Trump wins**

**Trump's administration would likely apply a softer touch to antitrust enforcement, although it is possible that Vance could push for a tougher approach.**

- Trump was more aggressive on antitrust as president than other Republicans—and has hit out at companies like Google and Amazon.
- But his largely pro-business agenda would likely result in a less combative FTC.

**The EV industry could stagnate—or even decline—under Trump.** A Trump administration would likely try to get Congress to eliminate those tax credits for EV purchases, which could

have a significant impact on adoption given that EVs are, for the time being, more expensive than gas cars.

- That could cause car manufacturers to rethink their EV investments. Some, like Ford, Volvo, and General Motors, are already pulling back due to a combination of softer-than-expected demand, uncertainty over tariffs, and a withdrawal of consumer incentives in some markets. That retrenchment could gain momentum should Trump win reelection.
- On the other hand, Elon Musk's role as one of Trump's biggest boosters—and a potential role for him in a Trump administration—could soften the former president's stance on EVs.