

Economist outlines expectations for US presidential election, 'unsustainable' consumer spending

Bernie Baumohl says Trump victory would be short-term positive, long-term negative for businesses, including hotels

**By Sean McCracken
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LA JOLLA, California — Economist Bernard Baumohl believes there are positives and negatives for the economy from either result in the U.S. presidential election, but a victory by former president Donald Trump would see mostly short-term benefits for hoteliers.

Speaking at the fall meeting of the Hospitality Asset Managers Association, Baumohl, who is chief economist for the Economic Outlook Group, said Trump's proposed economic policy — built largely around corporate tax cuts — would provide an immediate tailwind to the economy but would explode deficit spending in a much larger way than the policies of Vice President Kamala Harris.

Trump's policy proposals are also likely to increase consumer costs due to high tariffs, he said, and those plans are more likely to become reality because tariffs are not subject to congressional approval in the same way tax cuts are

"We expect that the unemployment rate will actually be lower under President Trump in the first two years — 2025 and 2026 — and the reason for that is the economy is going to be stronger," Baumohl said.

"There's going to be more demand for labor, and we already know what President Trump's immigration policy is going to be. He's going to significantly close off that border. It's going to be a minuscule amount of immigration coming in to the country at a time when the labor market is already quite tight, and this is going to lead to the lower levels of unemployment under the Trump administration. Now, that reverses a little bit toward the back two years — toward '27 and '28 — and the reason for that is we expect inflation will be considerably higher in the Trump administration."

Baumohl said his firm bases each of its election projections on scenarios where one party wins the presidency and both houses of Congress.

While long-term deficit spending is a major problem for a second Trump presidency, Baumohl said that's not the only potential economic headwind. He also believes businesses should be concerned about a second Trump administration exerting more control over the Federal Reserve and eroding the central bank's long-held independence.

"President Trump has said, and his advisers are certainly on board with this, that the president and the White House wants to have a greater say in setting interest rate policy," he said. "That is a seismic change that is going to affect, I think, the global economy."

Speaking of the Fed, Baumohl welcomed the recent 50-basis-point interest rate cut but said it came much too late based on his outlook on the economy.

"They should've done it earlier," he said. "Frankly, in the summer I projected they would have cut 25 basis points. They didn't, and I think now they somewhat regret it. That's why they doubled up to 50 basis points, but even 50 basis points is not enough. There's still an excessive amount of Fed tightening taking place."

Baumohl said there are some significant short-term economic headwinds for consumers, which would obviously affect hotel demand. In particular, he said current levels of consumer spending are "kind of unsustainable."

"My concern is the increase in real spending has been increasing at a faster rate than the increase in real take-home pay," he said. "At some point, consumers are going to have to scale back. It's one of the reasons household debt is now at record levels."

Households are carrying more than \$17 trillion in collective credit card debt at the same time credit card interest rates are near a 30-year high.

"People are already maxed out on their credit cards, and they want to continue to spend," Baumohl said. "So what do they do? They're digging deeper and deeper into their savings. The savings rate now is at the second lowest that we have seen in 16 years, and the toll it's taken on households is becoming clearer and clearer."

He added the economy also faces peril if labor strikes continue to affect East and Gulf Coast ports in the U.S.

Baumohl outlined a series of possible geopolitical headwinds, including:

- **Political and social unrest tied to the U.S. presidential election. "The economy could react badly if things really get out of hand," he said.**
- **High interest rates and risk premiums to foreign investors if the U.S. economy is deemed more risky and the national debt continues to expand.**
- **The potential of nuclear weapons used in the ongoing war between Russia and Ukraine.**
- **Expanded war in the Middle East.**
- **Increased tensions between China and India.**
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- **And what Baumohl says is a 90% probability of a "catastrophic" global cybersecurity event within the next two years, as projected by the World Economic Forum.**

"That means it could affect power outages in the United States and other major countries, transportation systems, water systems. It's really quite significant."

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