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One year of Trumponomics

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In the U.S. economy, not all that glitters is gold

It's been a little over a year since Donald Trump moved back into the White House for the second time. In his inaugural address, the returning U.S. president poured out a cornucopia of promises: “The golden age of America begins right now. From this day forward, our country will flourish and be respected again around the world.” Time to take a closer look: after a year of restrictive trade policy, tax cuts, and drastic cuts in many federal agencies, how do the supposedly “blooming landscapes” of the U.S. economy actually look?

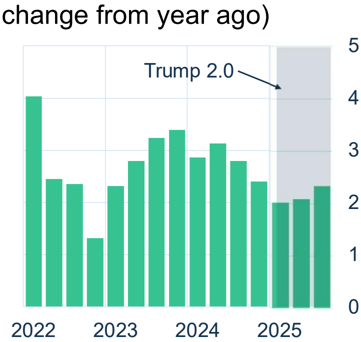
The U.S. economy still looks robust

For now, the U.S. economy held up well in 2025. In the third quarter it grew at an annualized rate of 2.3% – more dynamic than at the time Trump took office in the first quarter (2.0%, see Fig. 1). And the available data suggest a solid outcome for the fourth quarter as well. Just over 2% is admittedly less than the average growth rate under Joe Biden (3.2%), but from the European side of the Atlantic there is little room for smugness. Germans are already relieved that, thanks to expansionary fiscal policy, their economy is showing any vital signs at all.

Last month, I argued in this column that the protectionism of the U.S. administration is likely to dampen America's growth momentum sooner or later – more likely later – even if that process is unfolding more slowly than many economists expected. Brexit Britain offers an instructive example. Apocalyptic forecasts for its economy initially seemed not to be borne out. Yet, according to recent studies, Britain's economy now appears to be 6% to 8% smaller than it would have been without Brexit. A closer inspection does indeed reveal a number of hidden vulnerabilities.

The U.S. economy proves resilient

Fig. 1: USA GDP growth (% change from year ago)



Source: U.S. Bureau of Economic Analysis (BEA), LBBW Research

A look under the hood reveals some scratches

More than two thirds of aggregate demand in the U.S. comes from private consumption. It is therefore hardly encouraging that consumer confidence in January fell even below its level during the pandemic (see Fig. 2). Fears of job losses are one driver, as is the much-discussed cost of living crisis affecting many less wealthy Americans. Over the year, the unemployment rate has risen from 4.0% to 4.4%. That is not alarmingly high, but it still is the highest reading since the pandemic.

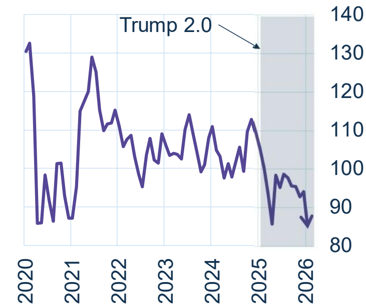
The reason consumption has nonetheless continued to contribute to growth is chiefly the spending appetite of the wealthiest Americans, who are disproportionately benefiting from the stock market rally and Trump's tax cuts. If our forecast proves correct and equity markets move largely sideways in 2026, this cylinder of growth is also likely to fire less strongly. At the same time, according to surveys by the University of Michigan, Americans expect an average inflation rate of 3.3% over the next five years. That is significantly below the 4.4% expectation recorded right after Trump's "Liberation Day", but still uncomfortably far from the Fed's 2% inflation target. Which is why the future Fed chair is unlikely to fulfil Trump's wish for radical rate cuts.

A central promise of Trumponomics is the renaissance of U.S. manufacturing: "America will be a manufacturing nation once again", he said in his inauguration speech. That is not going particularly well. Since April, employment in manufacturing has declined slightly every single month (see Fig. 3). And instead of the hoped-for surge in foreign direct investment, it has slumped amid economic policy uncertainty. Since Trump took office, German companies have cut their investment in the U.S. by almost half compared with the same period a year earlier. The same is true for U.S. companies outside the booming AI sector. In industries beyond the high-tech cluster, investment growth was negative in every quarter last year. Reliance on AI hopes now dominates not only equity markets, but the real economy as well. In the meantime, bankruptcies have climbed to the highest level since 2016.

Things are going well for Donald Trump

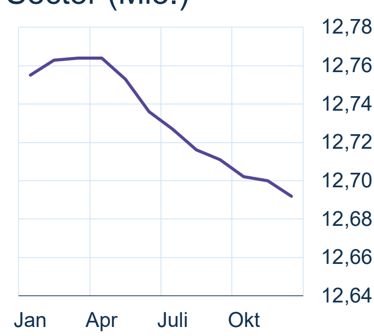
There is, in other words, a whole bouquet of indicators suggesting that the U.S. economy could be heading for a few potholes. Trump can, however, claim one unambiguous success: private finances have improved markedly. His own private finances, that is. According to estimates by Forbes, Trump's net worth has risen from USD 2.3bn in 2024 to USD 6.5bn by the end of January 2026, driven mainly by crypto trades, the issuance of memecoins and the sale of MAGA merchandise. And Amazon reportedly paid the first lady at least USD 28m for an advertisement – I mean documentary – about herself. Seen from this angle, Trump and his family can already celebrate the most successful presidency of all time. Let me extend my heartfelt congratulations.

Fig. 2:
Consumer Confidence



Source: Conference Board, Bloomberg, LBBW Research

Fig. 3: Employment in the U.S. Manufacturing Sector (Mio.)



Source: Bureau of Labor Statistics (BLS), LBBW Research

Trump turns the presidency into pure gold

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