Research Intelligence

Looking Back and Ahead:
Evaluating Risks to the US Economy



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Executive Summary

In the past, the US economy has often faced the risk of recession following interest rate hikes, such as in 1989, 2000, and 2008. At present, Krungsri Research has assessed these risks by analyzing both the real economy and financial markets while also considering potential future risk factors. By comparing past events, they aim to evaluate the conditions that may lead to a US economic recession. Recent data indicates that while the US economy remains strong, signs of a slowdown are emerging, such as a weakening labor market and rising delinquency rates. Additionally, uncertainty surrounding US President Donald Trump's policies is another factor that could heighten risks to the US economy and inflation in the medium to long term

Based on an assessment that considers historical, current, and future trends, the US economy may avoid a severe recession if Donald Trump's policies do not significantly impact inflation, household living costs, business competitiveness, or production costs. Under these conditions, the US economy is likely to experience a gradual slowdown, or a "soft landing," in 2025.

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US Economic overview for 2024

Signs of economic slowdown and rising risks.

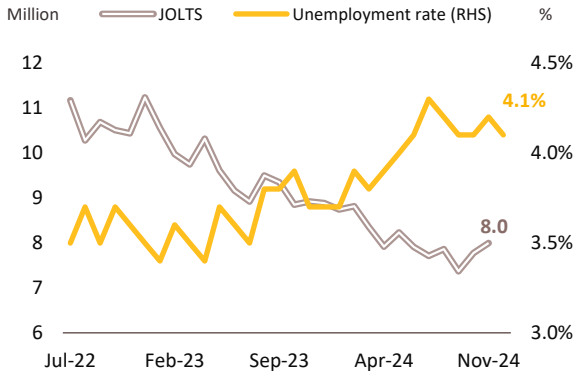
The US economy is showing increasing signs of a slowdown in 2024, and this trend is expected to continue into 2025. Key economic indicators—such as labor market figures, wages, manufacturing sector data, delinquency rates[1/], and debt refinancing trends—point to this deceleration. This situation is further exacerbated by persistently high real interest rates[2/]. The signs of economic slowdown and increasing risks are reflected in the following indicators:

Economic indicators: Signs of a gradual slowdown (Soft Landing)[3/]

The US labor market has been signaling a continuous slowdown. The unemployment rate is gradually increasing, and job openings have declined to pre-COVID-19 levels[4/], reflecting reduced hiring demand (Job openings). At the same time, slowing wage growth is impacting household purchasing power. The manufacturing sector remains in contraction, with the Purchasing Managers' Index (PMI) for manufacturing[5/] recorded at 49.3 in December (below the neutral level of 50), marking the ninth consecutive month of contraction. This is due to high interest rates, weak demand, and concerns over Donald Trump's economic and trade policies, which have led businesses to delay investments and increase inventory levels. With monetary policy remaining tight[6/], both corporate and household debt burdens are rising. Business debt refinancing is expected to surge between 2025 and 2026[7/] (Figure 3), and combined with high interest rates, this could increase business costs, potentially affecting profitability and future borrowing. Meanwhile, household debt burdens are also increasing, as reflected in rising delinquency rates—particularly in credit card and auto loans, which have reached their highest levels in over a decade.

Figure 1

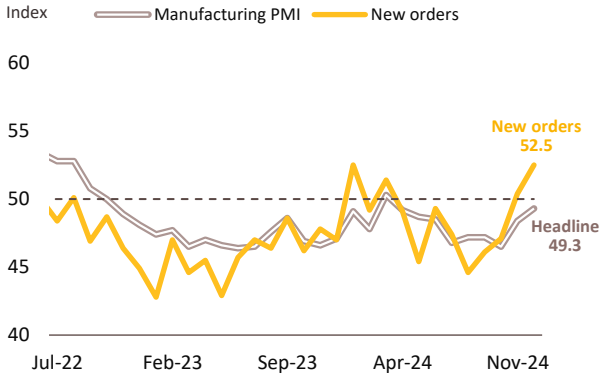
Job Openings and Unemployment Rate



Source: CEIC, Bloomberg, Krungsri Research

Figure 2

Manufacturing PMI and New Orders

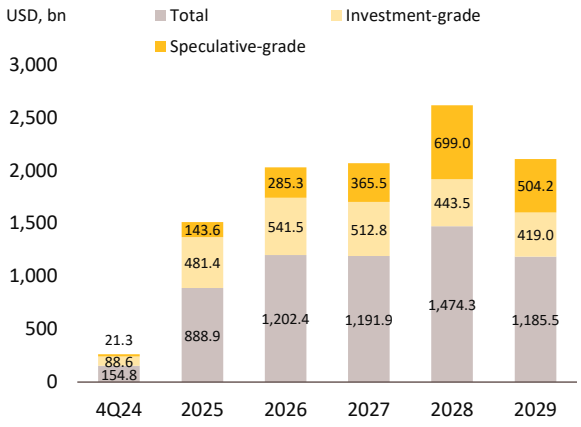


Source: CEIC, ISM, Bloomberg, Krungsri Research

1/ Delinquency rate: the percentage of loans that are past due. It indicates the quality of a lending company's or a bank's loan portfolio.
2/ Real interest rate: the lending interest rate adjusted for inflation, reflecting the real cost of funds to the borrower and the real yield to the lender.
3/ A soft-landing economy: a cyclical slowdown in economic growth that ends without a period of outright recession.
4/ Pre-COVID: the time before the COVID-19 pandemic marked by normal global activities, typically before early 2020.
5/ The manufacturing index: an economic indicator that measures the overall health and activity level of the manufacturing sector within a country. It reflects how manufacturing businesses are performing in term of production, new orders, employment, inventory levels, and supplier deliveries.
6/ Tight monetary policy: the policy in which the Federal Reserve (Fed) maintains restrictive measures to control inflation or stabilize the economy.
7/ Credit Trends: Global Refinancing: Reductions In Near-Term Maturities Continue Ahead Of Further Rate Cuts (www.spglobal.com)

Figure 3

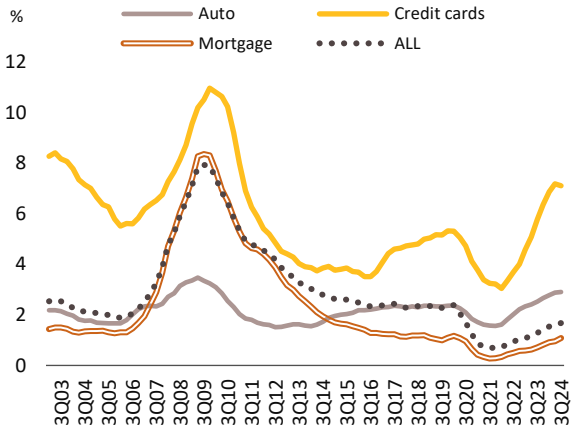
Maturing corporate debt (USD, bn)



Source: S&P Global, Krungsri Research

Figure 4

Delinquency (90+ day) by Loan Types



Source: CEIC, Bloomberg, Krungsri Research

Technical indicators pointing to recession risks[8/]

Beside economic factors, financial market indicators also suggest that the US economy faces an increased risk of recession, including:

- **Inverted Yield Curve[9/]:** Historically, when the yield on 10-year US government bonds falls below the yield on 2-year bonds (resulting in a negative yield spread), it often precedes a recession. When the economy enters a recession, the yield spread typically returns to normal. In December 2024, the yield spread between 10-year and 2-year US government bonds was positive at 0.25%, rising from its lowest point of -1.07% in March 2023. This technical pattern suggests an increased risk of recession (Figure 5). However, there have been instances, such as in 1966, where a negative yield spread did not lead to a recession, as short-term bond yields rose due to expectations of higher interest rates rather than concerns over economic downturns—similar to the current situation.
- **Sahm Rule[10/]:** According to the Sahm Rule, an early recession warning occurs when the 3-month moving average of the U.S. unemployment rate rises at least 0.50% above its lowest point in the previous 12 months. As of December 2024, the Sahm Rule indicator for the U.S. economy stood at 0.43%, nearing the critical threshold that signals a heightened risk of recession (Figure 6).

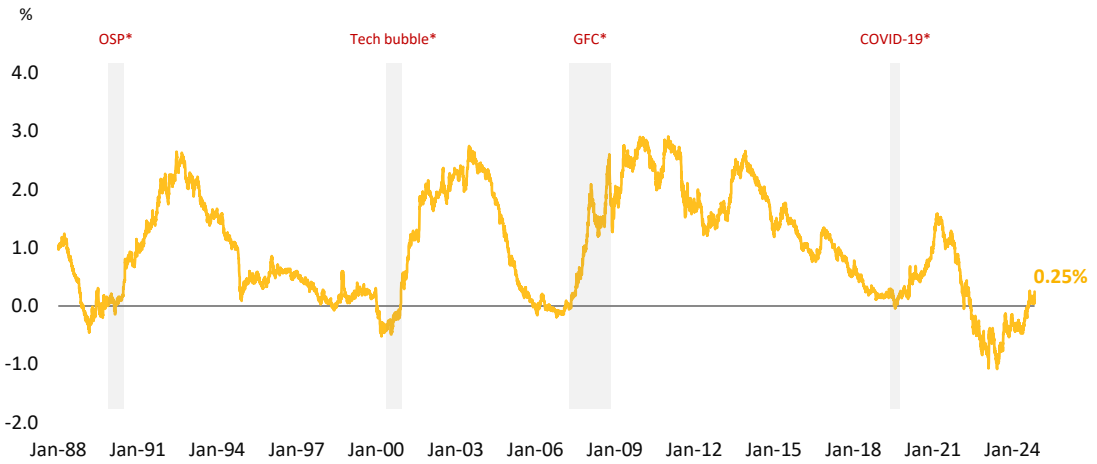
8/ Recession: a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

9/ Inverted yield curve: a situation in the bond market where short-term interest rates are higher than long-term interest rates, which is seen as a reliable predictor of slower economic growth or recession.

10/ Sahm rule: a widely-used economic indicator designed to detect the start of recession by comparing the current 3-month moving average to the lowest 3-month moving average from the prior 12-months. The figure was developed by economist Claudia Sahm.

Figure 5

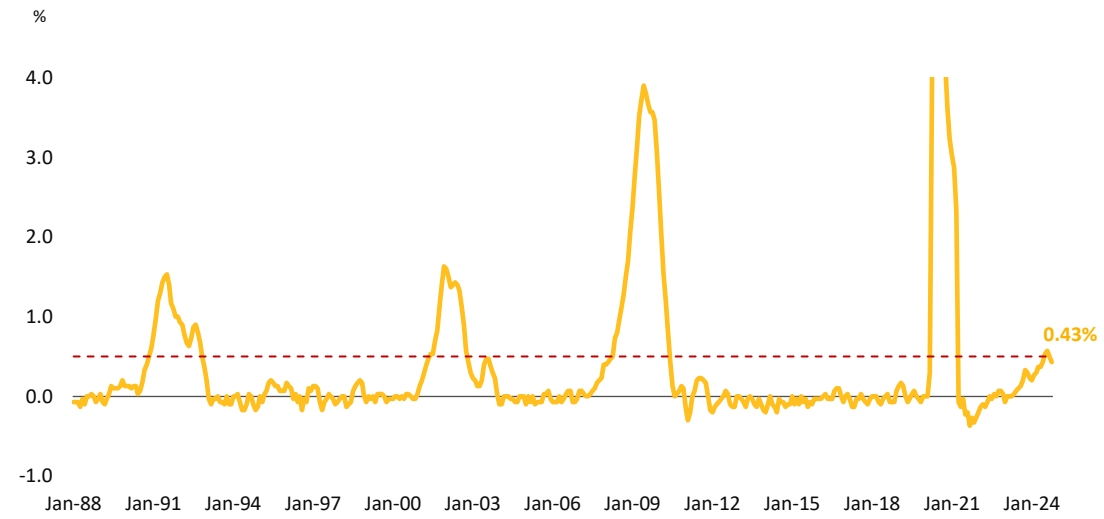
Inverted yield curve (10-2 year)



* Shaded areas indicate US recessions
Source: Federal Reserve Bank of St. Louis, Krungsri Research

Figure 6

Real-time Sahm rule recession indicator



* Source: Sahm, Claudia, Krungsri Research



Identifying recession risks from history

Timing of US economic recessions: 5-6 quarters after the first rate cut

Historically, US economic recessions have often followed the Federal Reserve (Fed)[11/] interest rate hikes. Notable crises include the Oil Price Shock (OSP) in 1989-1991[12/], the Tech Bubble Burst in 2001[13/], and the Global Financial Crisis (GFC) in 2008[14/]. Data indicates that recessions typically occur 5-6 quarters after the Fed begins cutting interest rates. During economic expansions, the Fed aggressively raises interest rates to control inflation. However, these hikes increase financial costs, reducing borrowing, spending, and overall economic activity. When inflation concerns subside, the Fed starts cutting rates to stimulate the economy. However, the negative effects of previous interest rate hikes often lead to an economic slowdown or even a contraction. It may take some time before the impact of interest rate cuts begins to positively influence the economy (Figure 7).

Figure 7

Key economic figures during past crisis

Oil Price Shock

First rate cut — Recession

	Q1/1988	Q2/1988	Q3/1988	Q4/1988	Q1/1989	Q2/1989	Q3/1989	Q4/1989	Q1/1990	Q2/1990	Q3/1990	Q4/1990	Q1/1991	Q2/1991	Q3/1991	Q4/1991	Q1/1992
	-5Q	-4Q	-3Q	-2Q	-1Q	Q0*	+1Q	+2Q	+3Q	+4Q	+5Q	+6Q	+7Q	+8Q	+9Q	+10Q	+11Q
Policy rate (%)	6.83	7.43	8.12	8.68	9.75	9.56	9.06	8.25	8.25	8.25	8.00	7.00	6.00	6.74	5.60	4.90	4.70
Retail Sales (y/y)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Unemployment (%)	5.70	5.47	5.47	5.33	5.20	5.23	5.23	5.37	5.30	5.33	5.70	6.13	6.60	6.83	6.87	7.10	7.37
Core CPI (y/y)	4.33	4.37	4.44	4.52	4.70	4.54	4.44	4.35	4.67	4.83	5.36	5.23	5.49	5.08	4.64	4.44	3.88
GDP growth (y/y)	4.24	4.48	4.19	3.8	4.32	3.75	3.91	2.74	2.82	2.41	1.73	0.6	-0.95	-0.54	-0.10	1.17	2.86
GDP growth (q/q)	2.1	5.4	2.4	5.4	4.1	3.1	3	0.8	4.4	1.5	0.3	-3.6	-1.9	3.10	1.90	1.80	4.80

Global Financial Crisis

Start cutting interest rate 5 quarters before recession

First rate cut — Recession

	Q4/2005	Q1/2006	Q2/2006	Q3/2006	Q4/2006	Q1/2007	Q2/2007	Q3/2007	Q4/2007	Q1/2008	Q2/2008	Q3/2008	Q4/2008	Q1/2009	Q2/2009	Q3/2009	Q4/2009
	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	Q0*	+1Q	+2Q	+3Q	+4Q	+5Q	+6Q	+7Q	+8Q	+9Q
Policy rate (%)	4.09	4.75	5.25	5.25	5.25	5.25	5.25	4.75	4.25	2.25	2.00	2.00	0.25	0.16	0.22	0.07	0.05
Retail Sales (y/y)	5.28	7.24	5.81	4.17	3.52	3.18	3.19	2.78	4.35	3.24	1.66	0.25	-8.78	-11.45	-10.77	-8.15	0.81
Unemployment (%)	4.97	4.73	4.63	4.63	4.43	4.50	4.50	4.67	4.80	5.00	5.33	6.00	6.87	8.27	9.30	9.63	9.93
Core CPI (y/y)	2.12	2.09	2.46	2.82	2.64	2.61	2.27	2.16	2.31	2.36	2.33	2.51	1.99	1.74	1.82	1.49	1.74
GDP growth (y/y)	4.83	4.23	5.24	3.97	2.9	2.2	0.99	0.49	0.17	1.33	1.32	2.14	1.99	-3.28	-4.00	-3.14	0.08
GDP growth (q/q)	2.2	5.5	1	0.6	3.5	1.2	2.5	2.3	2.5	-1.7	2.4	-2.1	-8.5	-5.40	-0.50	1.30	3.90

Tech Bubble Burst

Start cutting interest rate 2 quarters before contraction

First rate cut — Contraction — Contraction

	Q3/1998	Q4/1998	Q1/1999	Q2/1999	Q3/1999	Q4/1999	Q1/2000	Q2/2000	Q3/2000	Q4/2000	Q1/2001	Q2/2001	Q3/2001	Q4/2001	Q1/2002	Q2/2002	Q3/2002
	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	Q0*	+1Q	+2Q	+3Q	+4Q	+5Q	+6Q	+7Q	+8Q
Policy rate (%)	6.14	4.07	4.98	5.12	5.51	3.99	6.17	6.86	6.60	5.41	5.29	3.95	2.75	1.52	1.74	1.73	1.85
Retail Sales (y/y)	3.42	5.82	7.83	6.94	9.52	8.47	10.72	7.18	5.53	3.28	1.62	3.55	1.40	4.38	1.92	1.77	4.80
Unemployment (%)	4.53	4.43	4.30	4.27	4.23	4.07	4.03	3.93	4.00	3.90	4.23	4.40	4.83	5.50	5.70	5.83	5.73
Core CPI (y/y)	2.40	2.34	2.19	2.10	2.00	2.02	2.20	2.42	2.56	2.56	2.67	2.62	2.68	2.72	2.53	2.44	2.27
GDP growth (y/y)	4.10	4.88	4.82	4.73	4.80	4.83	4.23	5.24	3.97	2.9	2.2	0.99	0.49	0.17	1.33	1.32	2.14
GDP growth (q/q)	5.30	6.70	3.20	3.30	5.10	6.7	1.5	7.5	0.4	2.4	-1.3	2.5	-1.6	1.1	3.4	2.5	1.6

(*) Note: Q0 = The first Interest rate cut

Source: CEIC, Bloomberg, Krungsri Research

11/ The Federal Reserve (Fed): the central bank of the United States. Its core responsibilities include setting interest rates, managing the money supply, and regulating financial markets.

12/ The Oil Price Shock (OPS): Oil prices spiked due to geopolitical tensions, particularly the Gulf War. This disrupted global oil supplies and contributed to a US recession in 1990.

13/ The Tech Bubble Burst: a rapid rise in US technology stock equity valuations fueled by investments in Internet-based companies in the late 1990s, followed by the bubble burst between 2001 and 2002 with equities entering a bear market that caused several Internet companies to go bust.

14/ The Global Financial Crisis (GFC): the US economic downturn from December 2007 to June 2009, and the ensuing global recession in 2009, which's triggered by the bursting of US housing bubble and financial system's excessive risk-taking.

Challenges for the Fed in cutting interest rates amid risks of economic slowdown

Comparing key US economic indicators—such as retail sales, unemployment rate, GDP growth, non-farm payroll employment, and the Purchasing Managers' Index (PMI)[15/] - between the present and past recessions suggests that economic slowdown is likely to follow the first rate cut. This reflects the "lag effect" of prolonged high interest rates, which could continue to weigh on economic activity for multiple quarters.

The severity of the slowdown remains uncertain. In a worst-case scenario, the US economy could enter a recession—a period of prolonged and severe economic contraction. Alternatively, it may experience only a mild contraction, where growth slows down but does not reach the level of a full recession. The outcome will depend on various factors, such as the strength of economic fundamentals and the effectiveness of monetary policies in mitigating the impact of the slowdown.

Figure 8

Retail sales

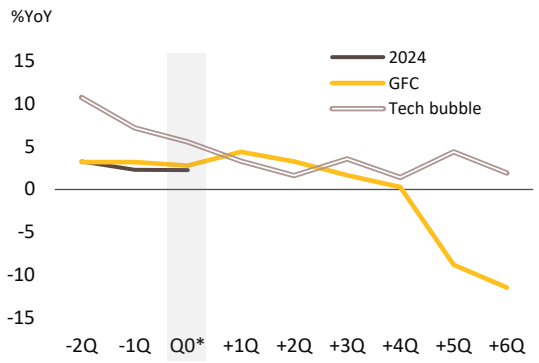


Figure 9

Unemployment rate

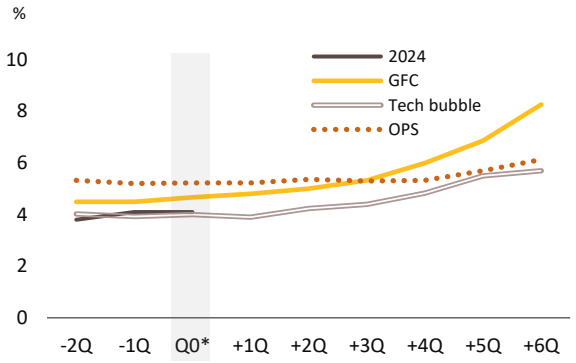


Figure 10

US GDP growth

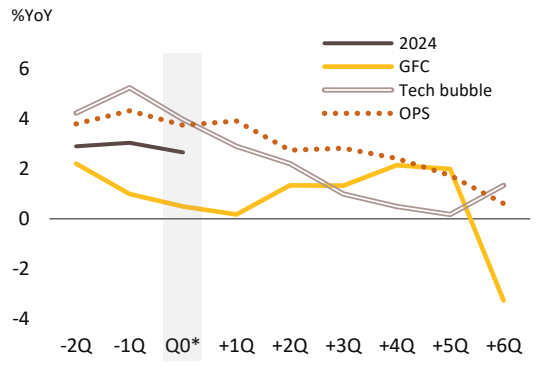
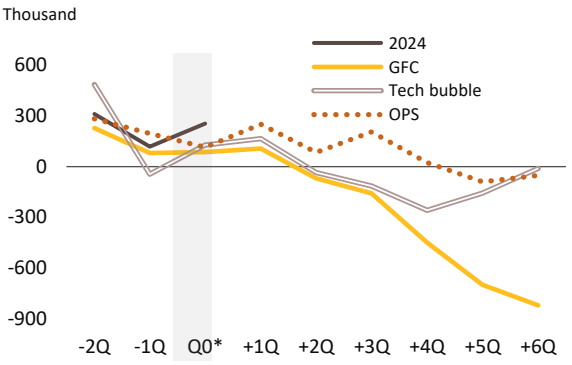


Figure 11

Non-farm payrolls



(*) Note: Q0 = First rate cut

Source: CEIC, Bloomberg, Krungsri Research

15/ The Purchasing Managers' Index (PMI): an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. The indicator is compiled and released monthly by the Institute for Supply Management (ISM), a nonprofit supply management organization.

Figure 12

Manufacturing PMI

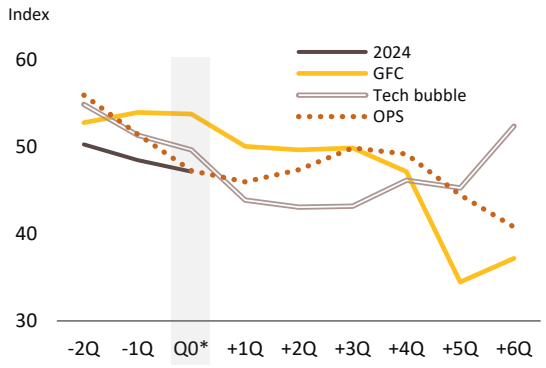
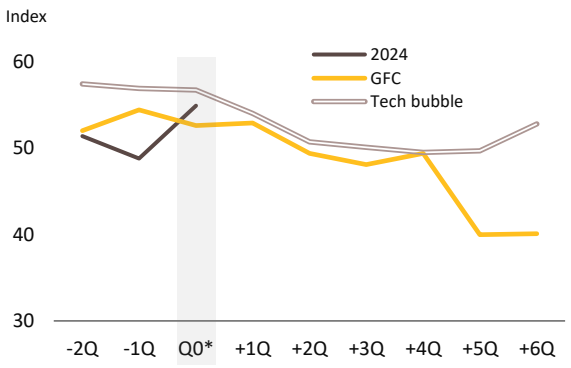


Figure 13

Service PMI



(*) Note: Q0 = First rate cut

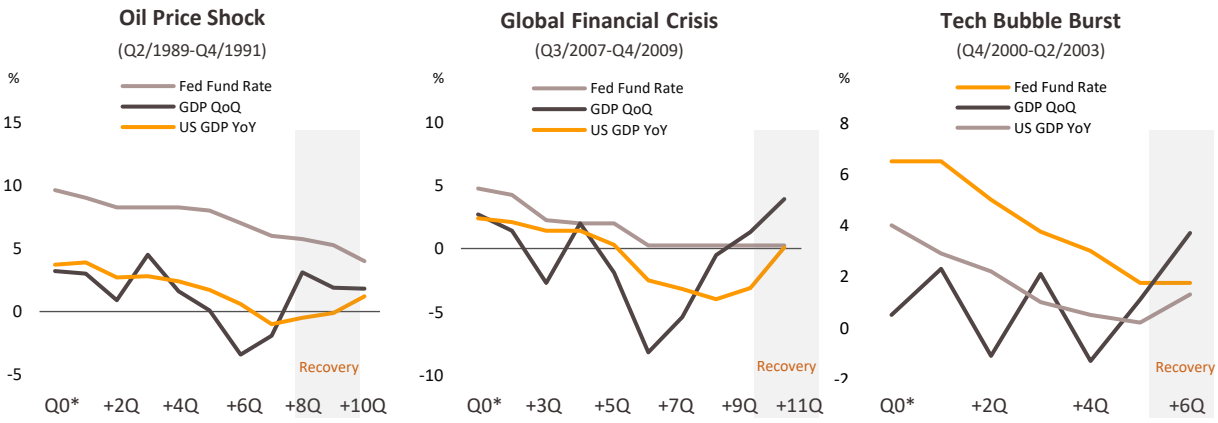
Source: CEIC, Bloomberg, Krungsri Research

The pace of recovery following a rate cut varies based on economic conditions, political factors, policy responses, and the root cause of the crisis.

Historical data from past economic crises—1989-1991, 2000-2001, and 2007-2009—indicates that after the first interest rate cut, the US economy typically took at least 6-10 quarters to return to positive year-on-year growth (Figure 14). Lower interest rates helped ease financial pressure on businesses and households, boosting consumer confidence, investment, and overall economic growth. However, the recovery timeline varies depending on specific economic conditions and the root causes of each downturn. For instance, the 2008 Global Financial Crisis (GFC), which originated in the US housing market and led to widespread damage across the global financial system, required 11 quarters—or nearly three years—before the economy returned to annual growth. In contrast, the 2000 Tech Bubble Burst had a more limited impact, allowing for a quicker recovery. Therefore, if the current US economic slowdown is not severe or broadly disruptive, the Federal Reserve's interest rate cuts could support economic recovery without pushing the economy into a full recession.

Figure 14

US growth performance after the first rate cut



(*) Note: Q0 = First rate cut

Source: CEIC, Bloomberg, Krungsri Research



Assessing US economic risks from key economic, financial, and policy factors

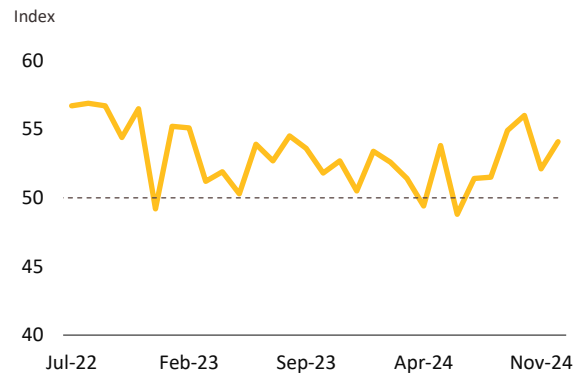
Although the risks to the US economy have increased, economic, financial, and policy data still support a gradual slowdown (Soft Landing), indicating a low probability of a recession.

Real economy: Continued expansion despite a slowdown trend

- **Service sector activity remains strong:** In December 2024, the Services PMI continued expanding for the sixth consecutive month, reaching 54.1, supported by employment growth (Figure 15). Since the service sector accounts for more than two-thirds of US GDP, this reflects overall economic expansion.
- **Housing market gradually improving:** While housing market indicators[16/] declined in October 2024, the primary cause was the temporary disruption from Hurricane Milton, which affected economic activity in the southern region. Going forward, falling mortgage rates are expected to support a housing market recovery in 2025.

Figure 15

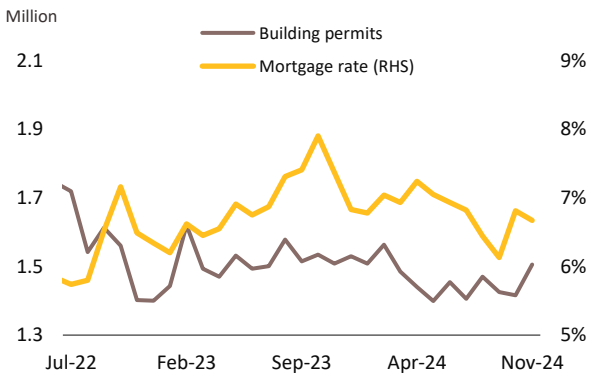
Service PMI



Source: CEIC, Bloomberg, Krungsri Research

Figure 16

Building permits and 30-years mortgage rate



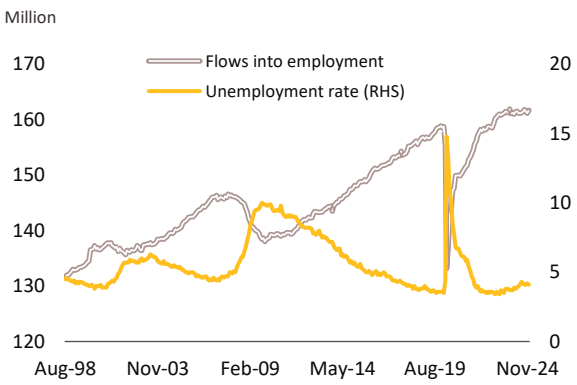
Source: CEIC, Bloomberg, Krungsri Research

16/ US housing market indicators include new home sales, the house price index, housing starts, and building permits. These metrics reflect trends in demand, supply, pricing, and overall economic conditions

- **Labor market remains stable despite slowing growth:** Recent labor market data do not indicate an economic recession, as reflected by (i) a slow increase in the unemployment rate, with labor force growth outpacing employment growth (Figure 17), contrasting past recessions where labor force participation usually declined along with employment; and (ii) the number of permanent layoffs remaining low, indicating a stable labor market (Figure 18).

Figure 17

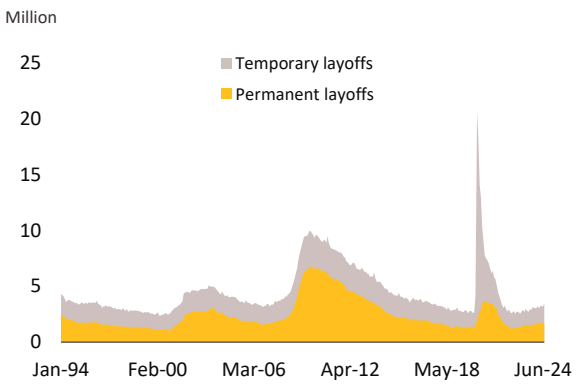
Labour force and Unemployment rate



Source: CEIC, Bloomberg, Krungsri Research

Figure 18

Job layoffs



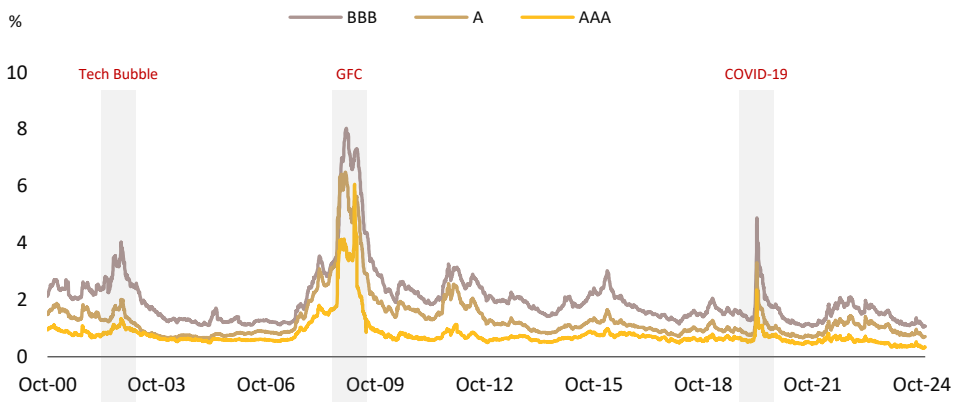
Source: CEIC, Bloomberg, Krungsri Research

Credit market: Low private sector risk.

Credit spreads[17/]: According to ICE BofA data, the yield spread between investment-grade corporate bonds[18/] and US Treasury bonds has fallen to its lowest level in over three years. This remains far from levels observed during severe recessions, such as the 2008 Global Financial Crisis or the early COVID-19 pandemic in 2020 (Figure 19).

Figure 19

US credit spreads



Source: ICE, Krungsri Research

17/ Credit spread: the difference between the yield (return) of two different debt instruments with the same maturity but different credit ratings. A wider credit spread indicates higher perceived default risk, prompting investors to demand higher yields as compensation. Conversely, a narrower credit spread reflects greater confidence in the issuer's creditworthiness, leading investors to accept lower yields.

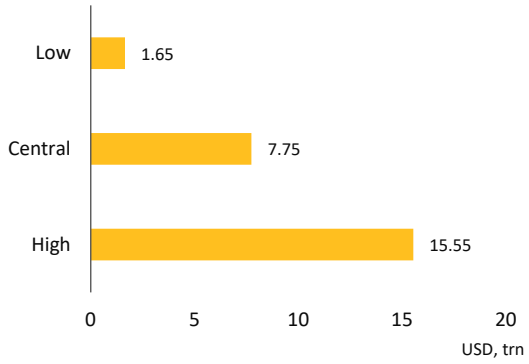
18/ US investment grade corporate bond: bonds with lower default risk and higher credit ratings, such as Baa (Moody's) or BBB and above (S&P and Fitch), are typically issued at lower yields compared to less creditworthy bonds.

Monetary and fiscal policies supporting economic growth

- **Easing inflationary pressures:** Lower inflation allows the Federal Reserve (Fed) to begin cutting interest rates, easing financial conditions and mitigating negative economic impacts.
- **Post-election fiscal stimulus:** According to the Committee for a Responsible Federal Budget (CRFB), Trump's proposed tax cuts and spending plans could increase US public debt by approximately $1.65 trillion to $15.55 trillion over the next decade (Figure 20). While a higher fiscal deficit poses long-term risks, it may support economic growth and reduce the near-term recession risk.

Figure 20

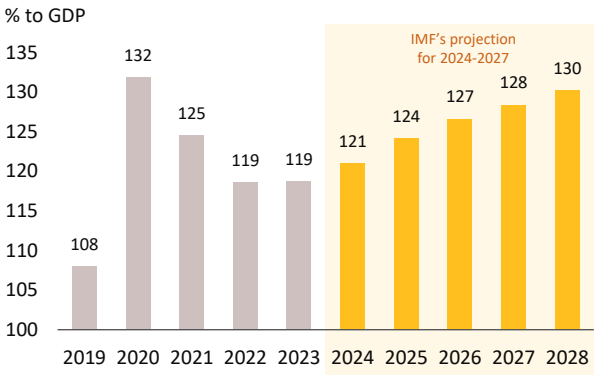
Fiscal impact of the Trump campaign plans (2025-2035)



Source: CRFB

Figure 21

US gross debt to GDP



Source: IMF, Krungsri Research

Comparing current economic risks to past crises.

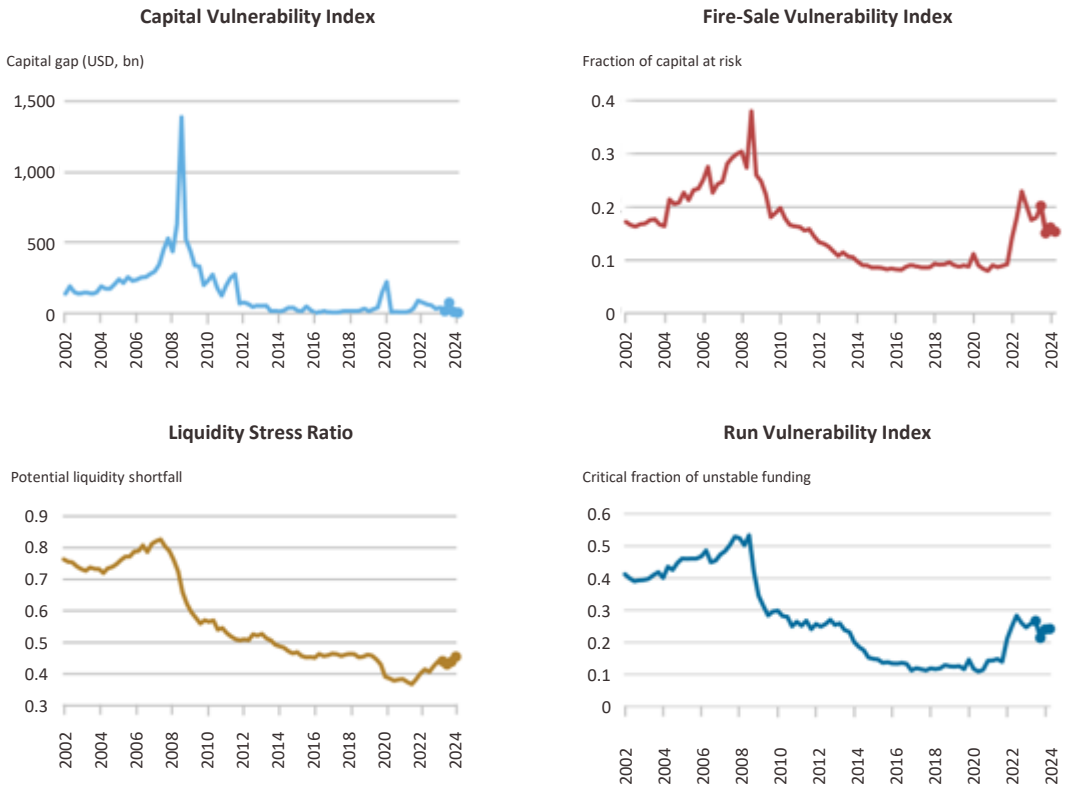
Compared to previous economic crises—such as the Oil Price Shock (1989-1990), Black Monday (1987), the Tech Bubble Burst (2000), and the Global Financial Crisis (2008)—current conditions suggest a lower likelihood of a recession due to the following factors:

- **GDP Growth Expected to Slow but Not Contract:** In January 2025, the International Monetary Fund (IMF) projected that US GDP growth would slow to 2.7% in 2025 from 2.8% in 2024. However, strong services, declining inflation, and lower interest rates support a gradual economic slowdown (Soft Landing) rather than a sharp and prolonged recession.
- **Systemic risk remains low:** Following the banking failures in 2023, conditions have improved since Q2 2024. The New York Federal Reserve's key indicators[19/]—including the Capital Vulnerability Index, Fire-Sale Vulnerability Index, Liquidity Stress Ratio, and Run Vulnerability Index—show that banking system vulnerabilities have declined from their March 2023 peak (Figure 22). Stronger bank capital positions are a key factor.

19/ Measuring US Banking System Vulnerability: (i) Capital Vulnerability Index: Assesses banks' projected capital adequacy following a severe macroeconomic shock; (ii) Fire-Sale Vulnerability Index: Evaluates banks' exposure to systemic asset fire sales, measuring spillover losses relative to Tier 1 capital; (iii) Liquidity Stress Ratio: Analyzes potential liquidity shortfalls under stress, considering mismatches between liability-side outflows and asset-side inflows; (iv) Run Vulnerability Index: Measures a bank's susceptibility to funding runs, focusing on the critical amount of unstable funding required to prevent insolvency in stress scenarios.

Figure 22

Measuring US Banking System Vulnerability



Source: Authors' calculations, based on FR Y-9C reports

Considering continued positive economic growth, a resilient banking system, and a sharp stock market recovery following its sharp drop in early August 2024, the risk of a US recession remains low.

Figure 23

Comparison with Past Financial Market Turmoil

Crisis/Event	Policy Response	Duration of stock market's recovery	Impact on the Real Economy	Explanation and Insights
Black Monday October 1987 **(No economic contraction)**	The Fed injected liquidity into the market	1 year 7 months	Wealth and confidence declined	Overvaluation of stocks, combined with automated trading systems, triggered a rapid sell-off. Investors lost confidence in financial markets, leading to widespread stock sales and a sharp market decline. However, the economy did not enter a recession, as the Federal Reserve intervened to prevent the crisis from spreading.
Oil Price Shock 1990 **(Economic recession)**	The Fed maintained high interest rates to curb inflation and released oil from the Strategic Petroleum Reserve (SPR) to stabilize global energy prices	7 months	Rising energy costs increased production and transportation expenses, leading to inflation. Businesses reduced investment and hiring, triggering an economic recession.	The First Gulf War (August 1990) pushed oil prices above $40 per barrel within months, increasing global production and transportation costs. Concerns over economic impacts led investors to shift from risky assets to safe-haven assets, causing a sharp stock market decline. The US economy entered a recession in Q3 1990 but began recovering in 1991 after the Gulf War ended and oil prices stabilized.
Tech Bubble Burst 2001 **(Economic contraction but no recession)**	The Fed cut interest rates and intervened selectively	6 year 8 months	Wealth and confidence declined, leading to reduced investment in technology	Overvaluation of tech stocks and disappointing earnings eroded investor confidence, triggering a severe sell-off. Tech firms reduced hiring and downsized, while investors slowed stock investments. The US stock market remained weak for years, and the economy contracted in 2001, though it did not fall into a full recession.
Global Financial Crisis 2008-2009 **(Economic recession)**	The government intervened to support failing financial institutions, with coordinated international efforts mitigating crisis severity.	5 years	A wave of mortgage defaults, bank fails, persistent unemployment, and severe economic recession	The subprime mortgage market crash, coupled with inadequate regulation, led to widespread loan defaults and a sharp decline in asset prices. This crisis inflicted significant damage on the financial system and the global economy, causing the US to enter a recession in Q4 2007, which lasted until mid-2009.
Mini-Black Monday August 2024 **(No economic contraction)**	The Fed signaled potential rate cuts. The BOJ hinted at slowing interest rate hikes	17 days	Short-term confidence declined	Concerns over the unwinding of Yen Carry Trades[20/], US recession risks, and geopolitical tensions led to a sharp stock market decline. However, the US economy remained strong, supported by a stable labor market, resilient service sector, and sustained consumer spending, preventing a recession.

Source: Bloomberg, Krungsri Research

20/ Yen Carry Trades Unwind 2.0: In August 2024, the Bank of Japan (BOJ) unexpectedly raised interest rates from 0.1% to 0.25% due to inflation concerns, signaling potential further hikes. This move sparked investor unease about Japan's monetary policy and triggered the unwinding of yen carry trades. With higher interest rates in Japan, investors are likely to sell off high-yield assets globally and buy back yen, which is no longer a cheap funding source. This shift has reshaped the global market, leading to yen appreciation against other currencies and a sharp decline in financial asset prices.



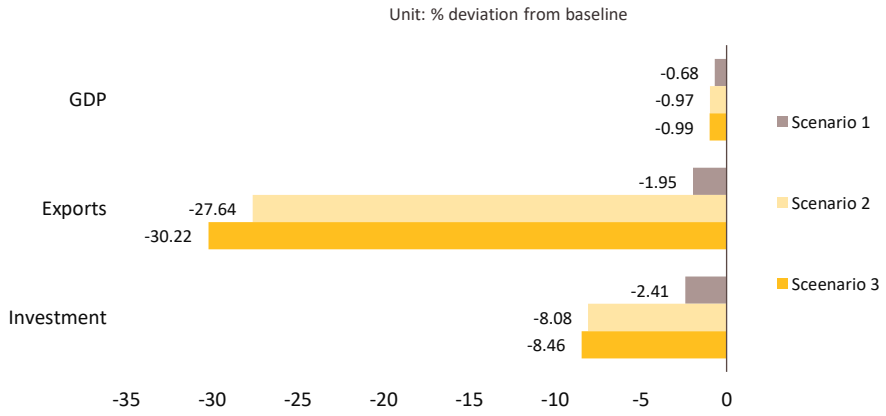
Key risks to the US economy from policy uncertainty

Although the likelihood of a US recession has decreased, policy uncertainty—especially regarding the economic and trade policies of Donald Trump, who has been re-elected as president—could increase risks in the medium to long term. Key risks include:

Bubble risk: Trump's policies, such as tax cuts, deregulation of environmental policies, and support for digital assets, could heighten the risk of asset price bubbles. This poses a threat to the stability of financial markets and the US banking system. Rising asset prices could contribute to inflationary pressures, making it harder for the Federal Reserve (Fed) to achieve its 2% inflation target. Instead, market volatility may increase, and sharp declines in asset prices could weaken household wealth (the Wealth Effect), leading to reduced consumer spending and increasing the risk of a future recession.

Figure 24

Impact of Trump's Tariff Policy on US GDP, Exports, and Investment



Source: BLS, GTAP, ITC, Bloomberg, Krungsri Research

Figure 25

Impact of Trump's Policy on US Growth and Inflation

Trump's policies	Growth trend	Inflation trend	Risks
Reduce tax rates	Higher	Higher	Bubble/fiscal risks
Reduce regulations	Higher	Higher	Bubble/stability risks
Reduce immigrants	Lower	Higher	Labor shortage
Increase tariffs	Lower	Higher	Stagflation risk
Increase fossil fuels	Uncertain	Lower	Environmental risk
Increase digital assets	Higher	Higher	Bubble risk

Source: BLS, GTAP, ITC, Bloomberg, Krungsri Research

Fiscal stability risk: Trump's plans for tax cuts and economic stimulus spending would significantly increase US public debt[21/]. The International Monetary Fund (IMF) forecasts that the US debt-to-GDP ratio will rise from 121% in 2024 to 130% in 2028, posing a risk to long-term fiscal stability and potentially affecting economic growth.

Escalating trade tensions: Significant trade tensions could harm US manufacturing and labor markets while pushing inflation higher. This could pressure consumer spending and investment, forcing the Fed to keep interest rates elevated longer than expected, increasing market volatility and economic risks.

Box 1

Trump's trade policies could unfold in three possible scenarios, depending on the severity of tariffs and the retaliatory measures from trading partners:

Scenario 1: The US imposes a 60% tariff on all Chinese imports. This would negatively impact the U.S., Chinese, and global economies. While, ASEAN economies might see slight benefits from increased exports and foreign investment.

Scenario 2: The US imposes a 60% tariff on all Chinese imports and a 20% tariff on imports from all other countries (including Thailand). The economic impact would be more severe, with the US suffering greater consequences than China. While, ASEAN economies would see reduced export gains, making GDP benefits nearly negligible, despite increased investment relocation.

Scenario 3: Scenario 2 + China retaliates by imposing a 60% tariff on all US imports. This would result in even greater economic damage for both the US and China. While, ASEAN economies would face similar impacts as Scenario 2, with lower export opportunities despite investment relocation.

According to a study by Krungsri Research[22/], in Scenario 3, where the US imposes global tariffs and China retaliates with similar measures, the US GDP would decline by -0.99% from the baseline, exports would drop by -30.22%, and investment would decrease by -8.46% in the long term.

Source: Reuters, The White House, Krungsri Research

21/ The US public debt ceiling is set as a fixed amount or a maximum limit authorized by law for government borrowing (debt outstanding limit), currently at $36.17 trillion. This differs from some countries, including Thailand, where the debt limit is set as a percentage of GDP.

22/ Global 2025: Steady growth, but rising uncertainty is a major threat (Krungsri Research: Economic Outlook 2025)

Figure 26

Trump's tariffs policy - Scenarios

Scenario	Economic impact
US imposes 60% tariffs on all Chinese goods	The cost of importing goods from China may increase, leading to higher prices for consumer goods and certain raw materials. This could reduce demand in the U.S. and imports from China, impacting the economic growth of both countries as well as the global economy. According to a study by Krungsri Research, in Scenario 1, US GDP and exports would decline by -0.68% and -1.95% from the baseline, respectively, while global GDP would fall by -0.17%. However, ASEAN exports in certain categories may benefit from the substitution effect and production relocation. ASEAN GDP and exports are expected to increase by +0.04% and +2.02% from the baseline, respectively.
US imposes 60% tariffs on imports from China and 20% on imports from other countries	A significant rise in import prices across multiple regions could increase costs for consumers and businesses worldwide, weakening exports and economic growth in key economies such as the US and China. Our study finds that in Scenario 2, US GDP and exports would decline by -0.97% and -27.64% from the baseline, respectively, while global GDP would fall by -2.03%. Although ASEAN may benefit from production relocation, declining global demand could significantly impact ASEAN exports and increase trade tensions with multiple countries. In this scenario, ASEAN exports are projected to decline by -1.31% from the baseline.
US imposes 60% tariffs on imports from China and 20% on imports from other countries; **China retaliates with 60% tariff on all US goods**	If the trade war intensifies significantly, US exports will be impacted more severely than in Scenarios 1 and 2, while China's exports will also decline, though to a lesser extent than the U.S. In Scenario 3, US GDP and exports are projected to decrease by -0.99% and -30.22% from the baseline, respectively, while global GDP is expected to decline by -0.28%. ASEAN would experience a similar impact to Scenario 2. While benefiting from production relocation from China, this would only partially offset the negative effects of reduced demand in the US, China, and globally. In Scenario 3, ASEAN exports are expected to decline by -0.76% from the baseline.

Source: Reuters, The White House, Krungsri Research



Krungsri Research View

The US economy is expected to slow down gradually (Soft Landing), but uncertainty surrounding economic and trade policies will remain a key risk factor.

Although growth in the services sector, declining inflation, and lower interest rates will help support overall economic expansion, Krungsri Research forecasts that US economic growth will slow from 2.8% in 2024 to 2.7% in 2025. This slowdown is attributed to a weakening labor market, continued contraction in the manufacturing sector, and a significant increase in loan defaults due to persistently high real interest rates, which negatively impact borrowing costs. **Additionally, a surge in corporate debt refinancing in 2025-2026, combined with heightened uncertainty over economic and trade policies under Donald Trump's administration—such as aggressive tariff hikes and deportation of illegal immigrants—could further increase downside risks to the US economy in the near future.**

Krungsri Research adopts a Soft-Landing scenario as the base case for assessing the overall economic outlook. Under this scenario, real economic growth is expected to continue, supported by the expanding services sector, gradual improvement in the housing market, and steady private consumption. Moreover, **corporate bond yield spreads remain low compared to past economic crises, and systemic risks are also contained due to the strengthened capital positions of banks.**

Although the risk of a US recession has clearly declined, uncertainty surrounding Donald Trump's economic and trade policies could increase risks in the coming years. Potential risks include: Asset price bubbles resulting from major tax cuts, deregulation of environmental policies, and support for digital assets; rising trade tensions, which could weaken manufacturing activity and slow the labor market; higher inflation, which may force the Fed to keep interest rates elevated for longer than expected, potentially undermining financial market stability and increasing downside risks to the overall economy. **Given policy uncertainty, slowing economic growth, and declining inflation, the Fed is expected to cut interest rates further in 2025, but at a slower pace than in 2024. However, if Trump's policies are fully implemented, the Fed may delay rate cuts and adopt a more cautious approach.** It is also crucial to closely monitor Trump's actual policy actions, as he may not impose aggressive import tariff hikes as previously stated. Instead, Krungsri Research expects that Trump will target specific product categories rather than imposing broad-based tariff increases, in an effort to mitigate adverse effects on the US economy.

In conclusion, while the likelihood of a US recession in 2025 remains relatively low and global trade conditions may not be as severe as some analysts have feared, a slowdown in the US economy appears inevitable. Moreover, uncertainty surrounding Trump's policies will remain a key risk factor, potentially leading to heightened volatility in both the US and global economies over the medium to long term.

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