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# Chief Economist's Corner: Economic forecasts caught in a minefield of tariffs and Trump-induced chaos

**Marketing communication**

Helge J. Pedersen

Economic forecasts are currently flooding the market. One thing they have in common is that they are caught in a minefield of tariffs and Trump-induced chaos – and that they may well be sharply revised in the autumn.

Late May and early June traditionally mark the peak season for economic forecasts. These projections aim to provide a solid basis for decision-making among households and businesses and help set the future direction for economic policy.

However, forecasting a consistent forward-looking scenario has rarely been more challenging than it is now. The main cause is the considerable uncertainty caused by the US administration's unpredictable approach to trade policy. This applies especially to the tariff policy, which continues to be characterised by ad hoc decisions and lack of predictability.

Even now, with summer just around the corner, there is great uncertainty about which tariffs the Trump administration will impose on exports to the US. The tariffs announced on 2 April – symbolically dubbed "Liberation Day" – were later temporarily reduced to 10% for a 90-day period for most countries, with China as a notable exception. Officially with the aim to facilitate bilateral negotiations on "fairer" trade agreements.

However, this temporary reduction, by its very nature, has created much uncertainty, which is already leaving its mark on economic activity leading to businesses delaying investments and households being more cautious with their spending. In other words, the economic picture resembles a situation where the foot is slowly being taken off the accelerator – risking lower growth than would otherwise be expected.

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Negotiations with the EU and China, in particular, look set to be both prolonged and complex. Evidence of this was Donald Trump's announcement on 23 May via "Truth Social" about a punitive tariff of 50% on European goods from 1 June due to dissatisfaction with the negotiation process. However, following a discussion with Ursula von der Leyen over the weekend, the deadline for an agreement was changed back to the original one in July.

Then followed the show when a US federal trade court ruled that Trump exceeded authority under emergency powers act for imposing tariffs on other countries. A ruling which was overturned the next day by an appeals court. Trump followed up with a doubling of tariffs on steel and aluminum from 25% to 50%.

That is why much hinges on what happens after 8 July when the negotiation period ends. The most likely scenario is that the US will by then have concluded agreements with many countries – the UK is already in place – but not all. An extension of the 90-day deadline seems realistic, especially if it is considered politically opportune or necessary to curb the adverse effects on the US economy.

Consequently, many forecasters are currently working with an assumption of an average US tariff rate of about 15% going forward – a steep increase from the level of around 2% before April. This will undoubtedly dampen global trade, but is unlikely to trigger an actual global recession. In fact, several analyses indicate that the US itself risks being hit the hardest in relative terms – through higher inflation, lower growth and a weakened global reputation.

At the same time, the current geopolitical and economic landscape is opening up new opportunities – particularly in Europe. Despite vulnerability to external shocks, Europe is entering a new economic phase where fiscal policy plays a more significant role. The European Commission's plans to create fiscal headroom of up to EUR 800 billion – especially for defence-related investments – and Germany's announced departure from the so-called "debt brake", which made it possible to set up a new infrastructure fund worth EUR 500 billion, signal a clear shift towards a more active economic course.

Moreover, expectations of further monetary easing from the ECB, driven by low inflation and contained growth expectations, as well as the prospect of a ceasefire – or perhaps even a peace agreement – between Russia and Ukraine, could also act as a significant lever for the European economy. The reconstruction needs in Ukraine are estimated to amount to about EUR 500 billion – investments which will largely benefit European companies. Lasting peace could also boost consumer confidence, which remains low in several European countries following the energy crisis and Russia's invasion of Ukraine in 2022.

In Denmark and the Nordic region, the situation is more nuanced. The global uncertainty is palpable, but the region is well cushioned. Solid public finances, strong current account balances and high adaptability make the Nordic countries relatively strong. Exposure to the US is also limited – exports to the US market make up only a modest part of the overall economy – but a punitive tariff of 50% would certainly be felt here as well.

The conclusion is that the economic outlook is currently rather murky, and the forecasts published in these weeks must therefore be read with considerable reservations. After the summer, we will likely have a clearer picture of the trade policy framework – and thus be more able to assess in which direction the global economy is moving. Until then, we must keep a close eye on developments and prepare for further adjustments as reality is unfolding.

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Helge J. Pedersen
Group Chief Economist
helge.pedersen@nordea.com
+4555471532

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Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

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