

# WEEKLY ECONOMIC COMMENTARY

**IN THIS ISSUE:**

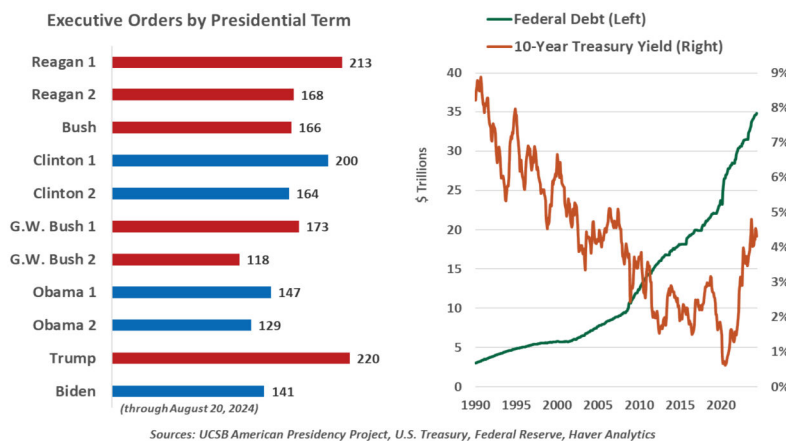
- **Overture on Election Issues**
- **A BRICS Alternative To SWIFT?**
- **Demographic Deficits**

In terms of occupational hazards, banks are a pretty safe place to work. But when we delve into politics, risks rise. Opinions are strong and tensions are high. Friendly meetings can quickly devolve into pointed questions and heated tones. Starting today and in the weeks ahead, we will live dangerously as we discuss the economic matters surrounding the U.S. election.

The 2024 campaign has already brought a few major surprises and no shortage of discussion fodder. We will leave our readers to turn to the news sources of their choice for the political play-by-play. Our commentary will focus on the economy and policies that may affect it. And from that focused perspective, the race hasn't been all that exciting; the candidates' economic policies have not garnered much front-page news.

Fundamentally, less campaign emphasis on the economy is a great omen. When presidential agendas lead with economic plans, that's a sign the nation is in a bad state. Today's circumstances are generally favorable, though consumer sentiment has been challenged: consumer debt is rising, and major purchases like housing and vehicles feel out of reach. Despite improvement, the rate of inflation remains above target, and today's prices still don't feel normal.

But the concerns of 2024 do not compare to the struggle to reopen the economy in 2020 or the free-fall surrounding the 2008 election. The lighter priority on economic policy has given the candidates leeway to evolve their stances; just this past week, Vice President Harris shifted her capital gains tax policy, and Donald Trump floated a deregulation plan.



Amid conventions and debates and advertisements and viral videos, it's easy to think the next president will set the fortunes of every household and business in the coming four years. But the president's power to control the economy is limited, and interventions are

Global Economic Research  
 50 South La Salle Street  
 Chicago, Illinois 60603  
[northerntrust.com](http://northerntrust.com)

**Carl R. Tannenbaum**  
 Chief Economist  
 312-557-8820  
[ct92@ntrs.com](mailto:ct92@ntrs.com)

**Ryan James Boyle**  
 Chief U.S. Economist  
 312-444-3843  
[rjb13@ntrs.com](mailto:rjb13@ntrs.com)

**Vaibhav Tandon**  
 Chief International Economist  
 630-276-2498  
[vt141@ntrs.com](mailto:vt141@ntrs.com)

rarely needed. In a typical year, jobs will be created, asset values will increase, prices will rise and the economy will grow. One person will not redirect the nation’s momentum.

Policy priorities will also be checked by the composition of government. Current polling places low odds on a single party controlling Congress and the White House. A president taking office under divided government will be constrained from day one, and even a sweep is unlikely to yield a 60-vote Senate supermajority. All presidents have used executive orders to make modest shifts in policy, and we foresee no change to that behavior.

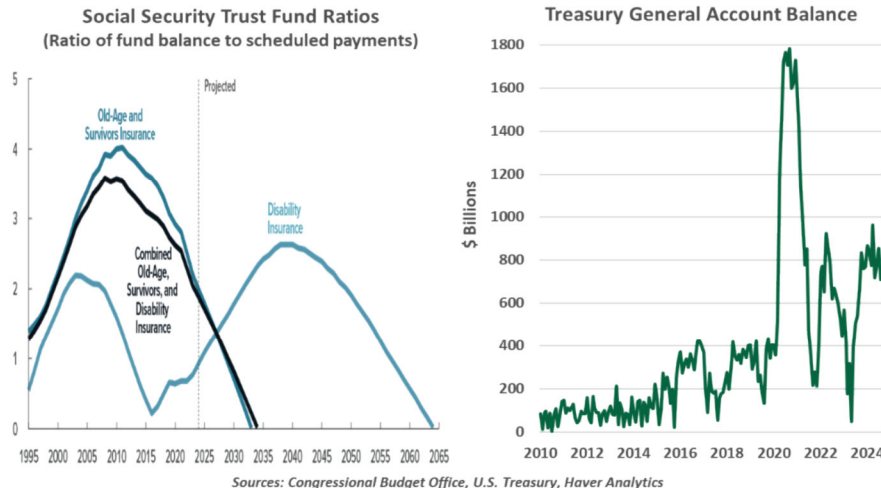
In coming weeks, we will dig into policy areas most important to the economy, like trade, industrial development, immigration, taxes, energy and regulation. We’ll focus on the macro view, acknowledging that individual sectors will face specific considerations. We pledge to base our discussion only on the candidates’ platforms, statements and prior records. We assume that the priorities of a second Trump term would be similar to his first, and a Harris presidency would be continuous with the Biden agenda.

We start our coverage today with a discussion of the background, challenges and limitations that either party will face after taking office next January.

Geopolitics are in a tense interval, and the U.S.’ role is uncertain. The Russia-Ukraine and Israel-Hamas conflicts are wearing on, with continual risk of escalation. China faces rising obstacles selling to the U.S. just as its property market undergoes a painful deleveraging. Across advanced economies, populist movements are pushing for insular, protectionist stances, diminishing global cooperation.

---

**In election years, we may overstate the president’s power over the economy.**



The national debt is high and rising. No longer a story of pandemic intervention, the Treasury has returned to its old norm of fiscal imbalance, running a structural deficit and tallying an ever-higher mound of debt. But unlike pre-pandemic times, interest rates are unlikely to fall by much; servicing the debt is growing more costly. The U.S. has enjoyed decades of privilege with no apparent market constraints on its ability to borrow. We struggle to predict when we might reach our credit limit, but it is an ever-present risk. And neither party can claim a record of fiscal restraint.

The population is aging. Like most advanced economies, residents of the U.S. are living longer, healthier lives and having fewer babies. Social support for older Americans will further strain the budget. The next president must strike a delicate balance of sustainable immigration, productivity-enhancing investment and measures to maintain vital old-age support programs.

President Trump's signature fiscal legislation, the Tax Cuts and Jobs Act (TCJA) of 2017, included several features which will expire next year. Absent any intervention, most tax rates will revert to their pre-TCJA levels in 2026. No elected leader will welcome a change that will feel like a tax hike to most voters. Early discussions will focus on the extent to which TCJA is extended.

An important date looms even ahead of the inauguration. The national debt ceiling has been suspended until January 2, 2025. The ceiling will return to force on that date, binding at whatever level of debt is then outstanding. The Treasury General Account is flush (currently over \$700 billion). Payment prioritization and quarterly tax payments will keep the nation afloat into the summer, but then the negative consequences will loom large. The combination of scheduled tax increases and the risk of a shutdown and default will make fiscal legislation urgent and complex.

Especially in an election year, it is hard not to apply a political lens to every bit of news. We try our best to stay above the fray. In our upcoming series, we intend to help our readers prepare for any outcome. Our own preparations will include packing a clean shirt in case any tomatoes are thrown in our direction.

## Brick By BRICS

The popular idiom, "Rome wasn't built in a day" signifies that great achievements do not take shape overnight. "Rome wasn't burned in a day," a play off the original phrase, connotes that it takes a long time to destroy something substantial. Both expressions can be applied to the dominance of the U.S. dollar (USD) as more countries go off in search of other options.

The BRICS intergovernmental organization (named after its founding members Brazil, Russia, India, China and South Africa) was formed in 2009 to challenge the political and economic influence of wealthier western nations. Combined, BRICS countries account for over 40% of the world's population and more than 25% of the global economy.

Since its inception, the bloc has grown in size and ambition. At present, the BRICS are seeking to establish an alternative to the prevailing international payment system, the Society for Worldwide Interbank Financial Telecommunications (SWIFT). The BRICS Pay initiative aims to better integrate currencies for trade and facilitate cross-border transactions among its members.

BRICS Pay has adopted ambitious objectives in the areas of financial inclusion and efficiency. Proponents say that the initiative will make trade between the BRICS nations seamless and allow transactions in real time through the use of a blockchain-based system. Currency settlement within the BRICS bloc will give members the flexibility of using a specific currency amassed in one country to trade with another.

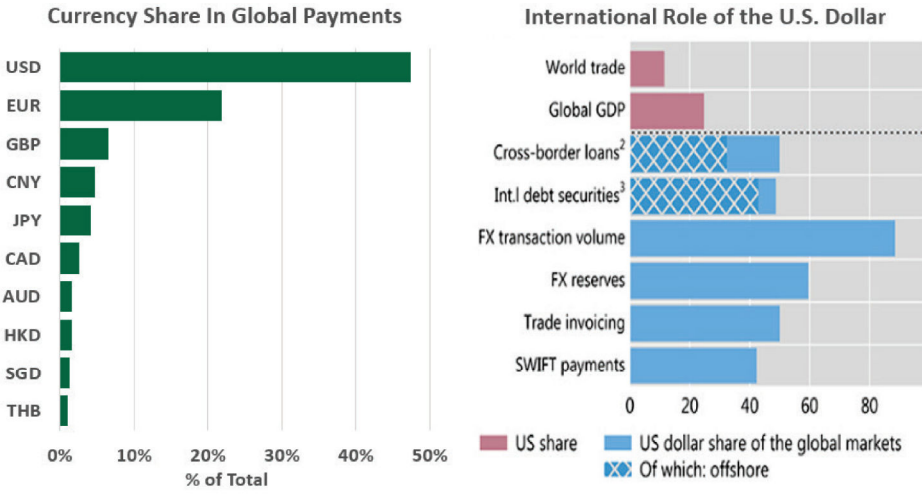
Reports suggest that more than 50 countries from across Asia, Africa, South America and Eastern Europe have expressed interest in joining the initiative ahead of its potential launch at this year's BRICS summit in October. With a growing number of cross-border payment arrangements already being settled in local currencies on a bilateral basis, BRICS Pay will likely lead to further fragmentation of the global payment system.

The dollar remains the principal currency of international commerce. At least 85% of trading in the spot, forward and swap markets features the USD in one leg of the transaction. Nearly 60% of foreign exchange reserves maintained by central banks are held in dollars. About half of all international debt securities and cross-border loans issued in the offshore funding markets are denominated in USD.

---

**The next president will face a difficult financial outlook.**

If the system lives up to its hype, BRICS Pay could replace SWIFT for its member nations. This will have important ramifications for international relations. By facilitating commerce in a greater array of currencies, it will reduce dependence on the U.S. dollar and make sanctions less effective. Lower demand would dampen the value of the greenback over time. For all of these reasons, the initiative risks provoking tensions between Western countries and their close trade partners.



**The international dominance of the dollar is not really at risk.**

Sources: SWIFT, BIS

But while the BRICS Pay system may facilitate commerce among its member states, these nations are too geographically dispersed and politically disconnected to divorce themselves entirely from the prevailing infrastructure. Shifting away from the greenback will not only involve significant transition costs, but will also require managing exchange rate volatility on multiple fronts. China is deeply integrated into global trade and has accumulated trillions of dollars in reserves. These relationships would be difficult to untangle.

The implementation of BRICS Pay is also likely to face legal, regulatory and technological roadblocks. Every member nation has its own set of financial regulations and requirements. Countries like India and Russia already have payments systems like the Unified Payment Interface and the Mir system. Integration and interoperability with existing systems will require complex standardization efforts.

The BRICS nations are trying to lay the foundation for de-dollarization. But it will take a lot of bricks (pun intended) to build an alternative payment system. Don't dump your dollars just yet.

**Help Wanted**

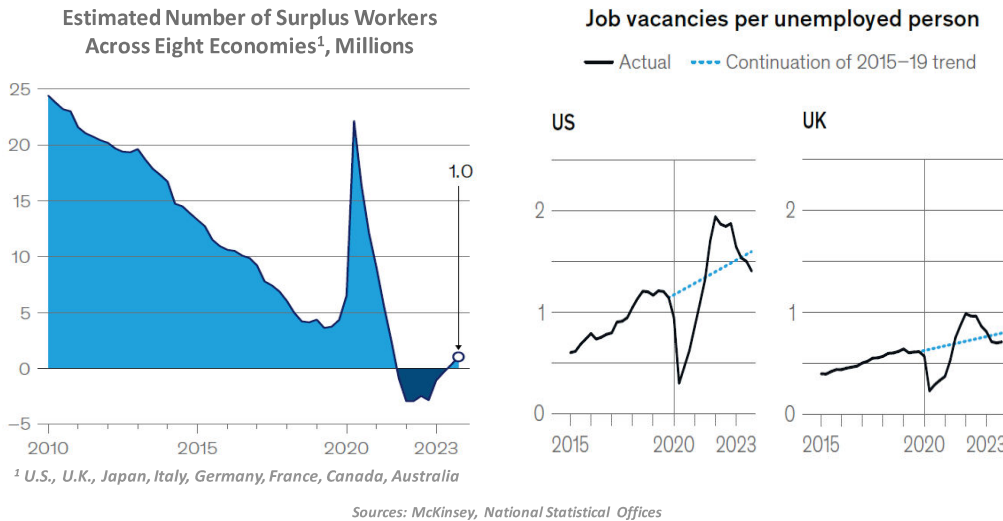
All eyes this past week were on the U.S. jobs report, which came out on Friday morning. The numbers were improved from the prior month, comforting those who have been concerned about rising unemployment. As Federal Reserve Chairman Jay Powell said during his address to last month's Jackson Hole conference, "We do not seek or welcome further cooling in labor market conditions." The most recent readings should allow the Fed to lower rates gradually, not suddenly.

Viewed over time, however, many large economies are facing the challenge of worker deficits, not surpluses. Conditions during the pandemic were extreme, but secular excesses of labor demand over supply have been building for the past fifteen years.

Recent work from the McKinsey Global Institute clearly illustrates this progression. The 2008 Global Financial Crisis left many out of work, and the slow recovery from that episode kept ratios of

job openings to job seekers very low. But starting in 2015, labor market capacity began declining. The pandemic years created a rude interruption, but the long-term trend has been re-established.

In several large countries, job openings are still well in excess of available workers. McKinsey finds that skills mismatches do not explain much of the gap; job vacancy rates are highest in occupations that are at the lower end of the wage scale, and should therefore be within the reach of most of those seeking work.



**Demographic trends are leading to growing labor shortages in many countries.**

Demographic trends are driving these long-term developments. At the end of this decade, more than one quarter of the population across the eight countries studied by McKinsey will be over the age of 65. The United Nations estimates that one in four people globally live in a country whose population has peaked.

Immigration can compensate for domestic talent deficits. Newcomers can accept many open roles without requiring training, instantly boosting labor supply. But sentiment towards immigration has turned negative in many places. Italy, where the native-born population has been shrinking for a long time, has been especially active in restricting entry.

The current cyclical focus on unemployment is important, but the longer-running trend toward larger labor deficits is a far bigger economic issue.

[northerntrust.com](https://www.northerntrust.com)



@NT\_CTannenbaum

Information is not intended to be and should not be construed as an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Under no circumstances should you rely upon this information as a substitute for obtaining specific legal or tax advice from your own professional legal or tax advisors. Information is subject to change based on market or other conditions and is not intended to influence your investment decisions.

© 2024 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the U.S. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For legal and regulatory information about individual market offices, visit [northerntrust.com/terms-and-conditions](https://www.northerntrust.com/terms-and-conditions).