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The Impact of Uncertainty on Investment, Hiring, and Consumer Spending (Rindels / Abecasis / Mericle)

- Measures of policy uncertainty have far surpassed levels reached during the first Trump administration and could rise further as new policies are announced and other countries respond to US tariffs. Much of the very recent rise in uncertainty was related to President Trump's "reciprocal" tariff plan, but even with the details of the policy now in hand, considerable uncertainty about how the policy might evolve, how other countries might react, and the potential for further tariff increases remains. We estimate the effects on business investment, hiring, and consumer spending.
- On business investment, applying estimates from our prior research and academic studies to the recent increase in uncertainty implies a roughly 5pp drag on investment growth, which we've incorporated into our forecast. We now expect roughly flat business investment over the next year, and our quantile regression models imply that the probability of a decline in capex over the next year has risen to 45%. We expect much larger effects than in the first trade war because far more US companies are likely to be affected by uncertainty about US and foreign tariffs this time, and many more could be affected by uncertainty about fiscal and immigration policy.
- On hiring, uncertainty about both tariffs and government spending cuts could depress job growth. We estimate that trade policy uncertainty will exert a roughly 20k drag on monthly employment growth, that the direct effects of federal spending cuts will reduce federal government payroll growth by 25-30k jobs per month this year, and that uncertainty about federal payments will reduce hiring by about 35k in sectors that rely heavily on federal funding such as state and local government, healthcare, and education. So far through March, these potential spillover effects beyond federal employment have not shown up in the payrolls numbers.
- On consumer spending, some deceleration is inevitable as labor supply growth slows and job growth slows alongside it, and tariffs reduce real disposable income. Elevated uncertainty could impose two additional drags. First, it has contributed to the stock market drawdown, which so far implies that wealth effects on spending will go from a ¼-½pp boost last year to a ¼pp drag. Second, weaker sentiment and rising fears about job loss could boost saving rates, though our models suggest these survey-based measures have not always been

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reliable predictors in the past.

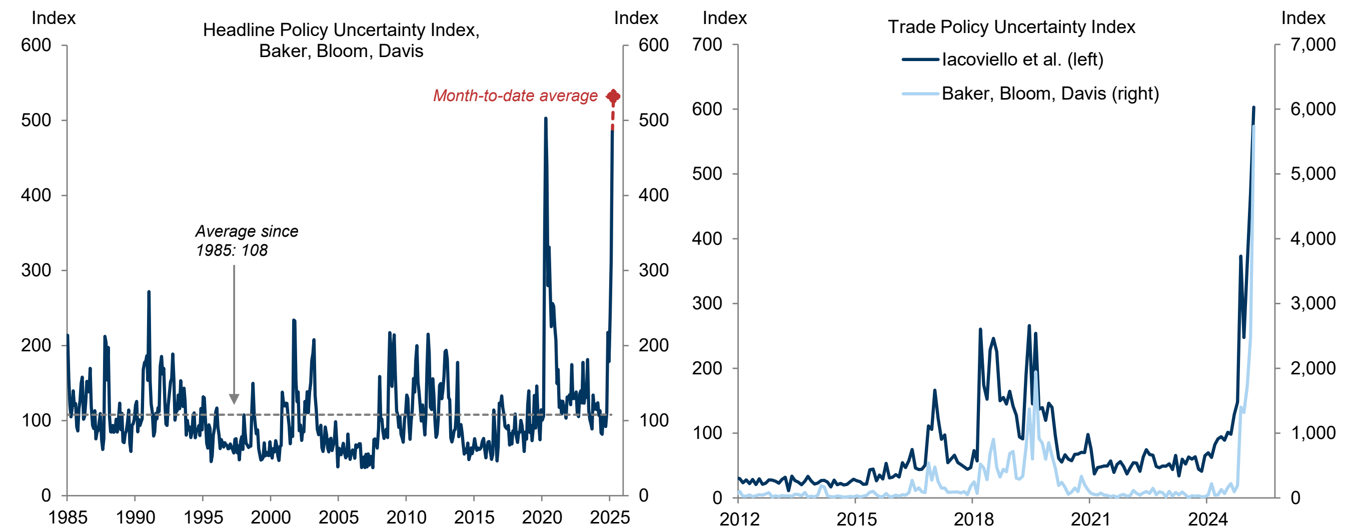
- How will we see the impact of uncertainty in the economic data? We have already seen it in survey data—in capex and employment expectations and anecdotal commentary in business surveys, and in big-ticket spending intentions in consumer surveys. In the hard data, we will look to capital goods orders and manufacturing construction put in place for the largest capex effects; payroll growth in manufacturing for the impact of trade policy uncertainty on hiring; and payroll growth in the government, education, and healthcare sectors for the impact of federal spending cuts on hiring.

- The combination of larger tariffs, greater policy uncertainty, declining business and consumer confidence, and messaging from the administration indicating greater willingness to tolerate near-term economic weakness in pursuit of its policies increase downside risk.

The Impact of Uncertainty on Investment, Hiring, and Consumer Spending

Since Inauguration Day, measures of overall policy uncertainty and of trade policy uncertainty in particular have risen sharply. Exhibit 1 shows that they have already surpassed levels reached during the first Trump administration, and they could rise further as new policies are announced and other countries respond to US tariffs. Much of the very recent rise in uncertainty was related to President Trump's "reciprocal" tariff plan, but even with the details of the policy now in hand, considerable uncertainty about how the policy might evolve, how other countries might react, and the potential for further tariff increases remains.

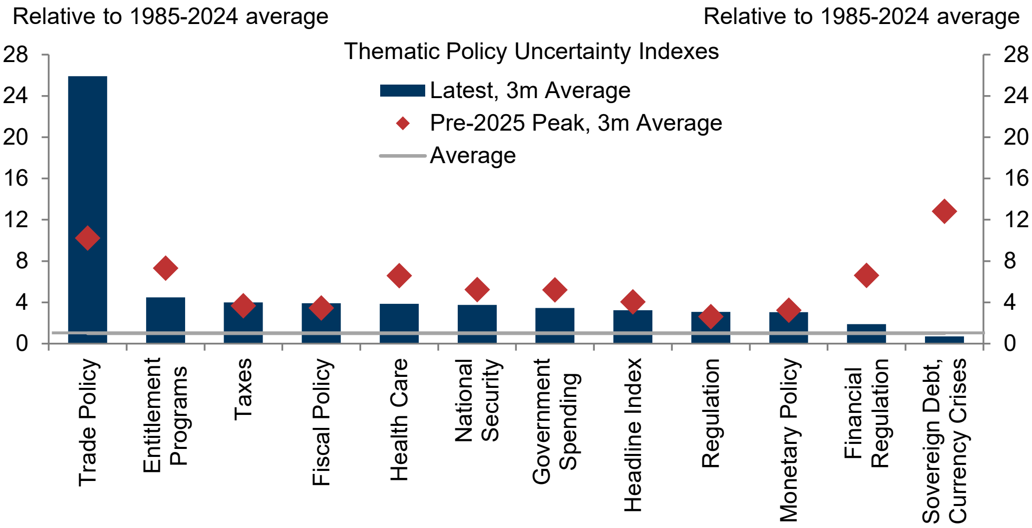
Exhibit 1: Measures of Overall Economic Policy Uncertainty and Trade Policy Uncertainty in Particular Have Increased Notably in Recent Months, Surpassing the 2018-2019 Trade War Peaks



Source: Goldman Sachs Global Investment Research, PolicyUncertainty.com, Matteo Iacoviello

While uncertainty about trade policy is the most extreme, most thematic policy uncertainty subindices are above average (Exhibit 2), which suggests that many US businesses will be affected even if they are not engaged in international trade.

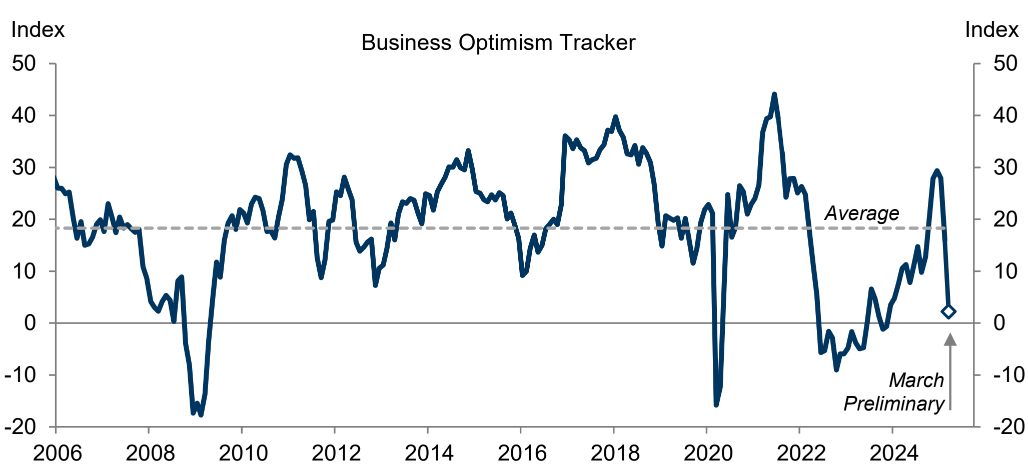
Exhibit 2: Thematic Policy Uncertainty Sub-Indices Are Above Average



Source: Goldman Sachs Global Investment Research, PolicyUncertainty.com

Indeed, elevated policy uncertainty and the threat of tariffs already appear to be weighing on confidence among investors, businesses, and consumers. Our business optimism tracker, a composite of 13 surveys that ask business leaders about their confidence in the economic outlook over the next 6-12 months, declined sharply through March, even before the reciprocal tariff announcement (Exhibit 3).

Exhibit 3: Our Composite Measure of Overall Business Confidence Has Fallen Sharply Since the Election



Note: Composite of the 6-months ahead business conditions components of the Dallas, Kansas City, New York, Richmond, and Philadelphia Fed business surveys, the 12-months outlook for the US economy component of the Chicago Fed Survey of Economic Conditions, the "optimism about the economy" and "optimism about own company" components of the Duke University, Richmond Fed, and Atlanta Fed CFO Survey, the Conference Board measure of CEO confidence, the Business Insider CEO Economic Outlook Survey diffusion index, and the NFIB "expect the economy to improve" diffusion index. Our preliminary estimate for March is based on surveys released thus far.

Source: Goldman Sachs Global Investment Research, Federal Reserve, NFIB, Duke, The Conference Board, Business Roundtable

The Impact on Business Investment

Elevated uncertainty can cause firms or individuals to postpone irreversible investments.

Academic research and our own analysis confirm that increases in economic policy uncertainty can weigh on investment (Exhibit 4). During the last trade war, we found that economic policy uncertainty had a statistically significant but minimal effect on GDP.

Exhibit 4 summarizes a range of studies of the impact of policy uncertainty on investment, including our own work based on both aggregate and company-level data. On average, the studies that use overall policy uncertainty imply that a 10pt increase is associated with a decline in business investment growth of roughly 0.3pp, while the studies that use the trade policy uncertainty index find smaller effects.

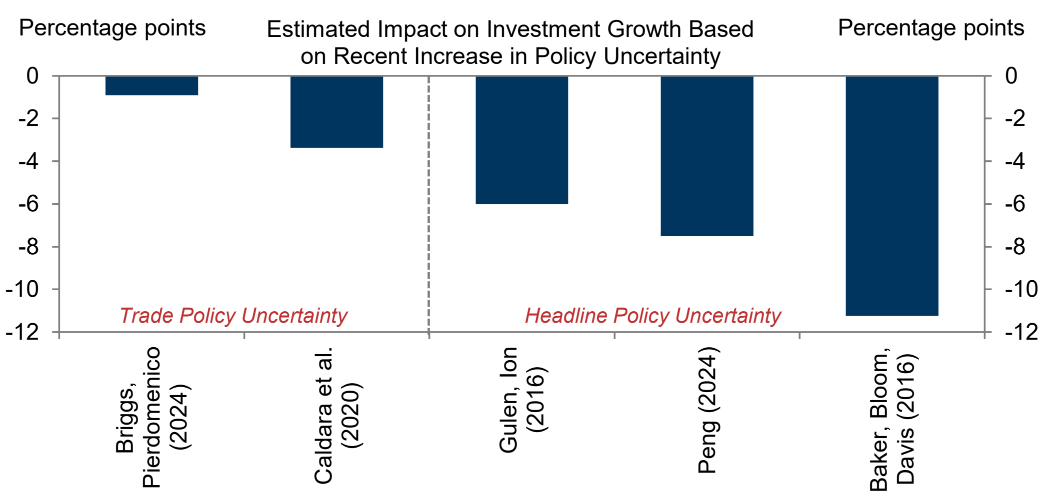
Exhibit 4: Our Prior Research and Academic Studies Show That Elevated Policy Uncertainty Weighs on Business Investment Growth

Effect of Policy Uncertainty on Investment			
Authors	Publication	Type of Policy Uncertainty	Results
Briggs, Pierdomenico (2024)	Goldman Sachs Global Investment Research	Trade Policy Uncertainty	A rise in trade policy uncertainty to levels observed in the 2018-2019 trade war would lower business investment growth by 0.3-0.5pp.
Peng (2024)	Goldman Sachs Global Investment Research	Headline Policy Uncertainty	A 10pt increase in policy uncertainty index leads to 0.2pp decline in business investment growth.
Caldara, Iacoviello, Molligo, Prestipino, Raffo (2020)	Journal of Monetary Economics	Trade Policy Uncertainty	A 2 standard deviation shock to the Iacoviello et al. trade policy uncertainty index implies a 1-2% decline in private investment for 1 year.
Gulen, Ion (2016)	Review of Financial Economics	Headline Policy Uncertainty	A 10pt increase in the BBD policy uncertainty index leads to a 0.16pp decline in the investment rate (capex/total assets).
Baker, Bloom, Davis (2016)	Quarterly Journal of Economics	Headline Policy Uncertainty	A 10pt increase in the BBD policy uncertainty index leads to a 0.3pp decline in the investment rate.

Source: Goldman Sachs Global Investment Research

The recent increases in economic and trade policy uncertainty have exceeded those of the last trade war. Applying the estimates summarized in Exhibit 4 to the recent rise in overall policy uncertainty implies a roughly 5pp drag on investment growth, based on the average of these estimates (Exhibit 5). We have incorporated this drag into our forecast and now expect roughly flat business investment on average over the next four quarters.

Exhibit 5: Applying These Estimates to the Recent Rise in Policy Uncertainty Indexes Implies a Roughly 5pp Drag on Investment Growth



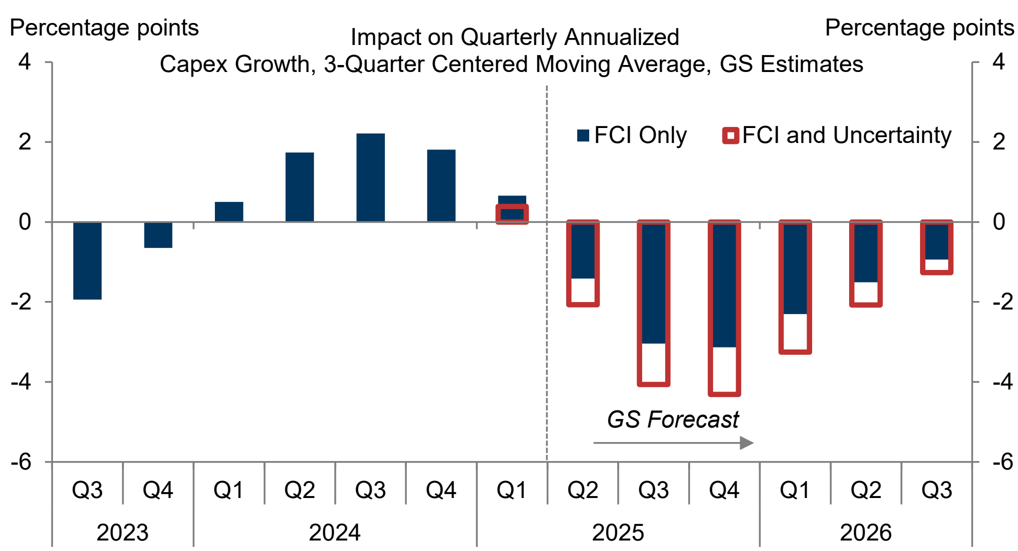
Source: Goldman Sachs Global Investment Research

In the last trade war, we argued that the effects of policy uncertainty and financial conditions on economic activity probably overlap. To account for the impact of both channels on capex without double-counting them, we estimate a vector autoregression (VAR) model of capex based on changes in our financial conditions index (FCI) and in the economic policy uncertainty index from Baker, Bloom, and Davis. We trace out the impact of the model-implied shocks to the FCI and uncertainty on capex, in a similar spirit to our FCI impulse to GDP growth.

In our baseline estimates, we assume that policy uncertainty rises to the level we have seen so far. We assume that the FCI tightens further from its current level, reflecting our expectation of further tariff increases in the coming weeks. We estimate the FCI's sensitivity to further tariff increases based on moves around this year's tariff announcements.

Taken together, our model suggests that higher policy uncertainty and tighter financial conditions will likely exert a 4pp drag on quarterly annualized capex growth, as shown in Exhibit 6. Our decomposition suggests that tighter financial conditions account for about three fourths of the drag, with higher uncertainty accounting for the other fourth.

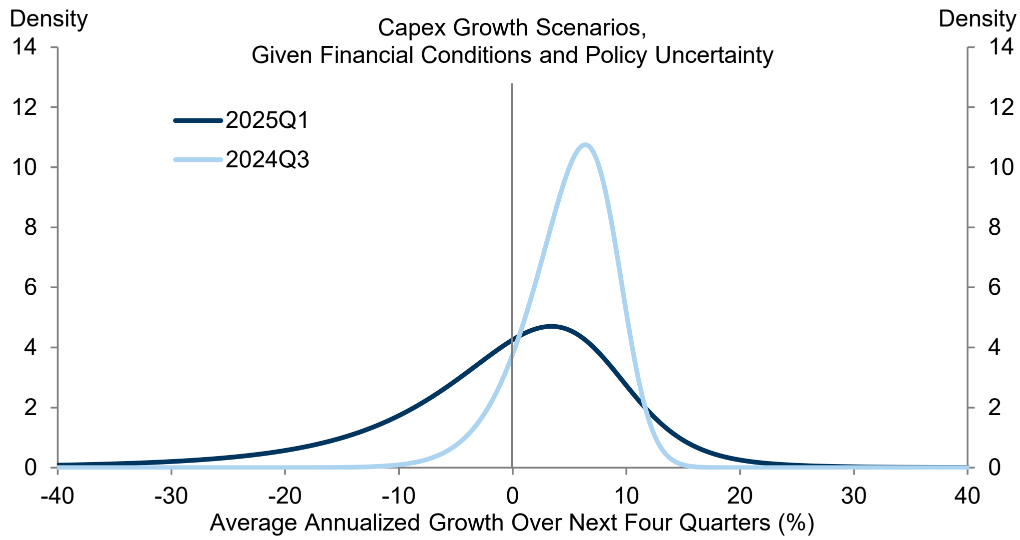
Exhibit 6: We Expect Tighter Financial Conditions and Higher Uncertainty to Weigh on Capex Growth This Year, With Financial Conditions Making Up About Three Fourths of the Overall Effect



Source: Goldman Sachs Global Investment Research

In previous work, we have shown that tighter financial conditions imply both slower GDP growth in the baseline but also more downside tail risk. A similar principle applies to policy uncertainty. To quantify how higher policy uncertainty changes the balance of risks for the capex outlook, we use quantile regressions of capex growth four quarters ahead on financial conditions, policy uncertainty, the unemployment rate, and lagged capex growth. We find that higher policy uncertainty and tighter financial conditions have both lowered the average expectation for capex growth over the next year and increased the probability of negative growth from 15% in 2024Q3 to 45% now.

Exhibit 7: Higher Uncertainty Has Raised the Odds of Significantly Slower Capex Growth Over the Next Year



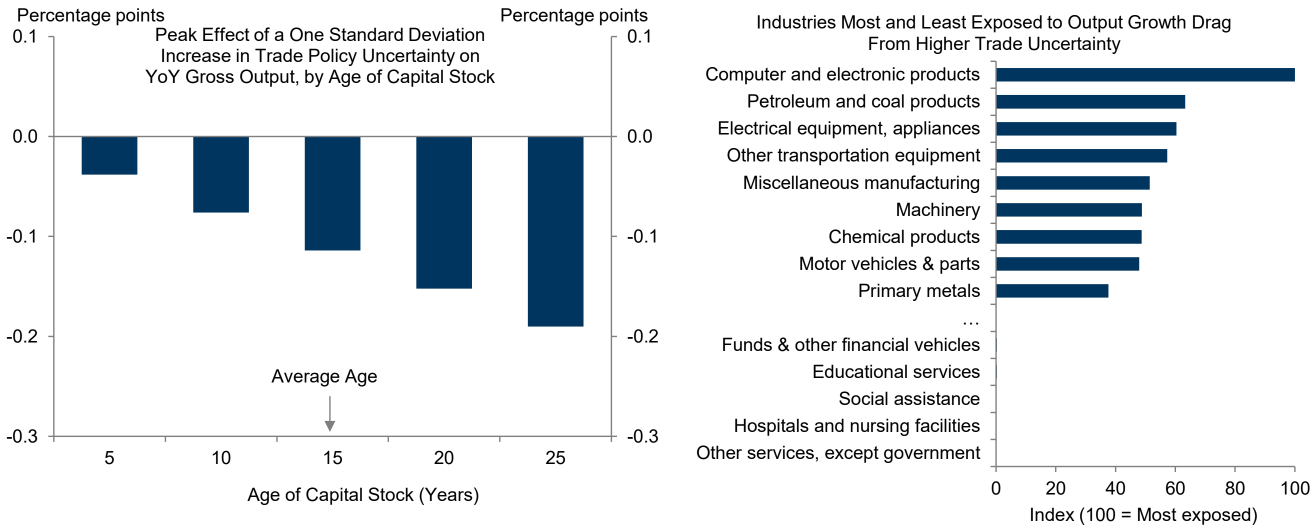
Source: Goldman Sachs Global Investment Research

The growth impact is likely to be especially large in industries that are highly exposed to trade and where capital investments are long-lived. To test this idea, we regress industry-level gross output growth on the interaction of trade policy uncertainty with each industry's capital intensity and the average age of its capital stock.[1] Our results suggest that the hit to output growth is significantly larger in industries where the average age of the capital stock tends to be higher, as we show on the left side of Exhibit 8.

On the right side of Exhibit 8, we show the industries most exposed to a capex drag from trade uncertainty shocks. Unsurprisingly, the capital-intensive manufacturing sector is the most exposed to these shocks. The computer and electronic industries are particularly exposed because they are both capital- and export-intensive, and industries like appliances, machinery, and chemical products manufacturing are exposed because their capital stock is longer-lived on average.

[1] In the absence of industry-level business fixed investment data at a greater-than-annual frequency, we use gross output growth as our dependent variable. Our results are similar if we subtract industry labor costs (proxied by employee compensation growth times each industry's labor share) from output growth.

Exhibit 8: Uncertainty Disproportionately Weighs on Output Growth in Industries That Have to Make Long-Lived Investments



Source: Goldman Sachs Global Investment Research

The Impact on Hiring

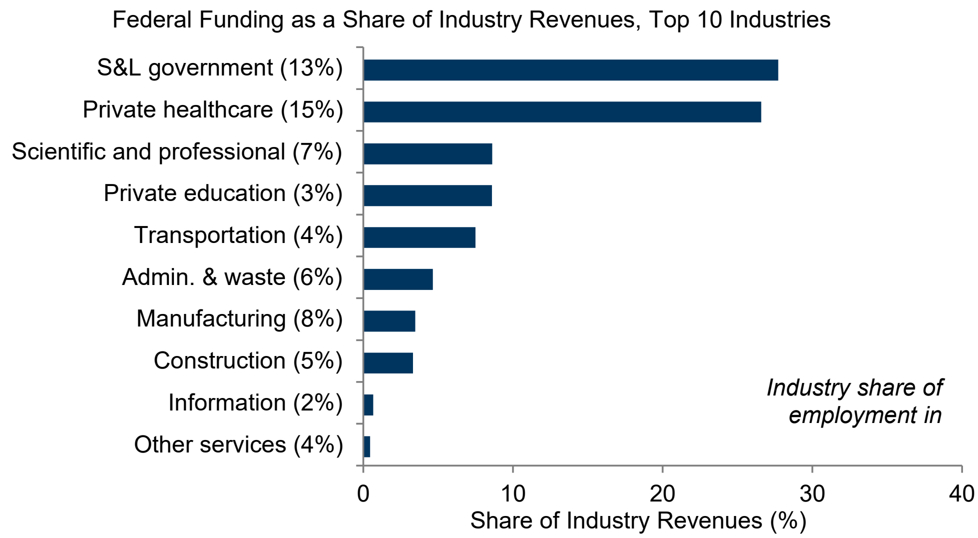
On hiring, uncertainty about both tariffs and spending cuts could depress job growth.

In recent work, our global economics team found that higher trade policy uncertainty indeed results in a modest drag on overall employment, with the bulk of the effect concentrated in the manufacturing sector. Their estimates suggest a roughly 20k drag on monthly manufacturing employment growth from trade policy uncertainty.

We also expect federal spending cuts to weigh on federal government payroll growth by about 25-30k jobs/month over the course of the year.

Beyond the federal government, higher uncertainty about federal payments is also likely to weigh on hiring in private-sector industries that rely on federal funding and on state and local government payroll growth. As shown in Exhibit 9, the state and local government, healthcare, and education sectors—which have accounted for a large share of overall job growth in recent years—are likely to be particularly affected by federal spending cuts. We estimate that uncertainty about federal payments will reduce hiring by about 35k in sectors that rely heavily on federal funding such as state and local government, healthcare, and education, though we did not see any obvious signs of this in the February or March payrolls data.

Exhibit 9: The State and Local Government, Healthcare, and Education Sectors Are Most Exposed to Federal Spending Cuts

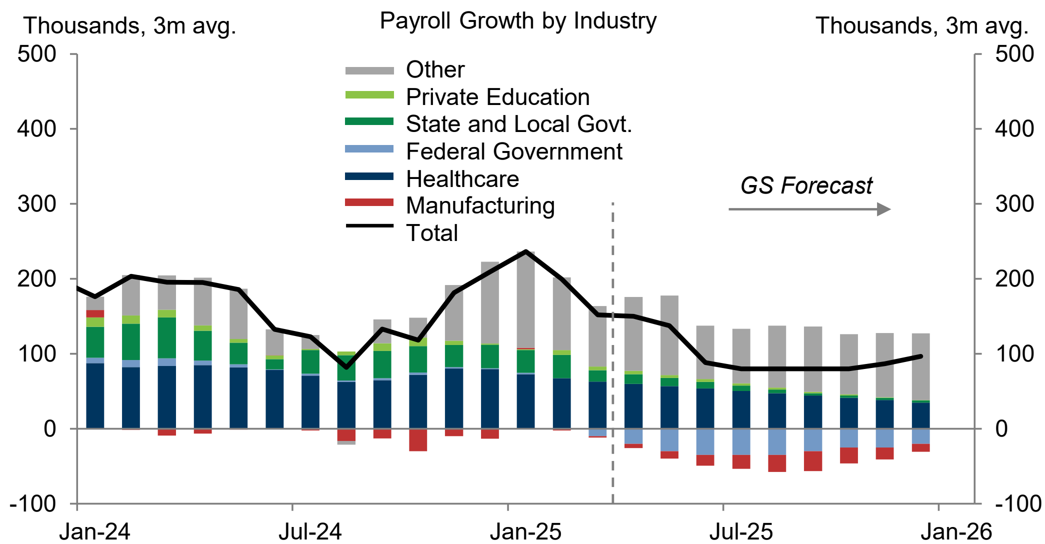


Source: Goldman Sachs Global Investment Research

The S&L government, healthcare, and education sectors were already set to slow hiring even before uncertainty about federal funding started to rise. These sectors became understaffed during the pandemic and have since been engaging in catch-up hiring, which will eventually end. Taken together, our estimates of the drag from policy uncertainty and the fading boost from catch-up hiring suggests that monthly payroll growth in these three sectors will slow by about 60k jobs by end-2025.

In Exhibit 10, we combine our estimates of the impact of trade policy uncertainty, federal government employment cuts, broader uncertainty over possible federal spending cuts, and the fading boost from catch-up hiring into a forecast for overall payroll growth. Taken together, we expect job growth to slow to about 100k jobs/month by the end of 2025.

Exhibit 10: We Expect Job Growth to Slow to About 100k/Month by End-2025, Reflecting Drags From Waning Catch-up Hiring in Education and Healthcare, Federal Funding Cuts, and Tariffs



Source: Goldman Sachs Global Investment Research, US Bureau of Labor Statistics

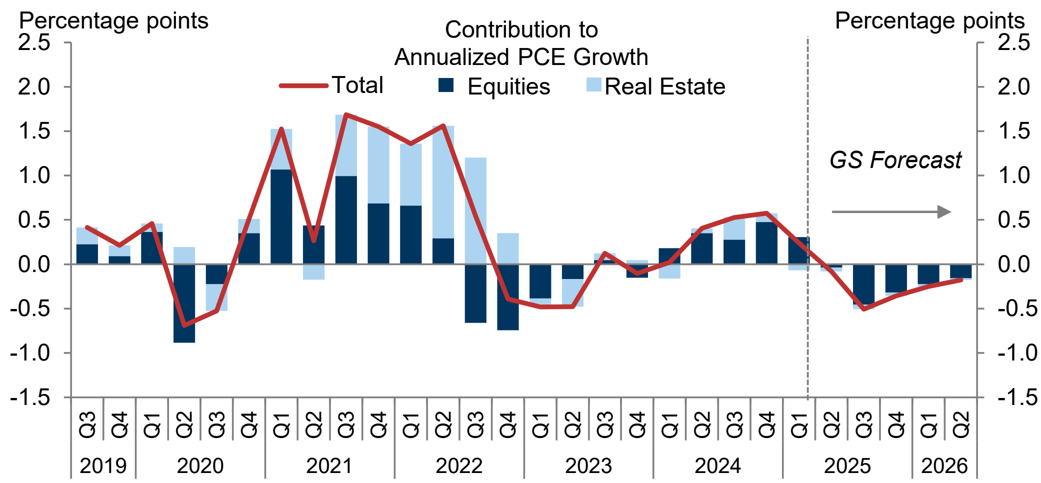
The speed and magnitude of the hiring slowdown in the sectors mentioned above will be important for the unemployment rate. We expect tighter immigration policy to generate a meaningful slowdown in labor supply growth this year, and if labor demand in these sectors slows gradually, the combination of healthy labor demand in other sectors and slower labor supply growth would likely keep the unemployment rate from rising noticeably. In contrast, a more abrupt freeze to hiring in these areas could push the unemployment rate up more.

The Impact on Consumer Spending

Some deceleration in consumer spending this year is inevitable as labor supply growth slows and uncertainty reduces labor demand growth, both of which will cause job and labor income growth to slow, and the tax-like effect of tariffs reduces real disposable income.

Elevated uncertainty could impose two additional drags. First, it has contributed to the recent stock market drawdown. In Exhibit 11, our updated estimates suggest that the wealth effect on consumption is likely go from a ¼-½pp boost last year to a ¼pp drag.

Exhibit 11: The Recent Stock Market Underperformance Will Likely Turn the Wealth Boost to Consumption Into a Drag

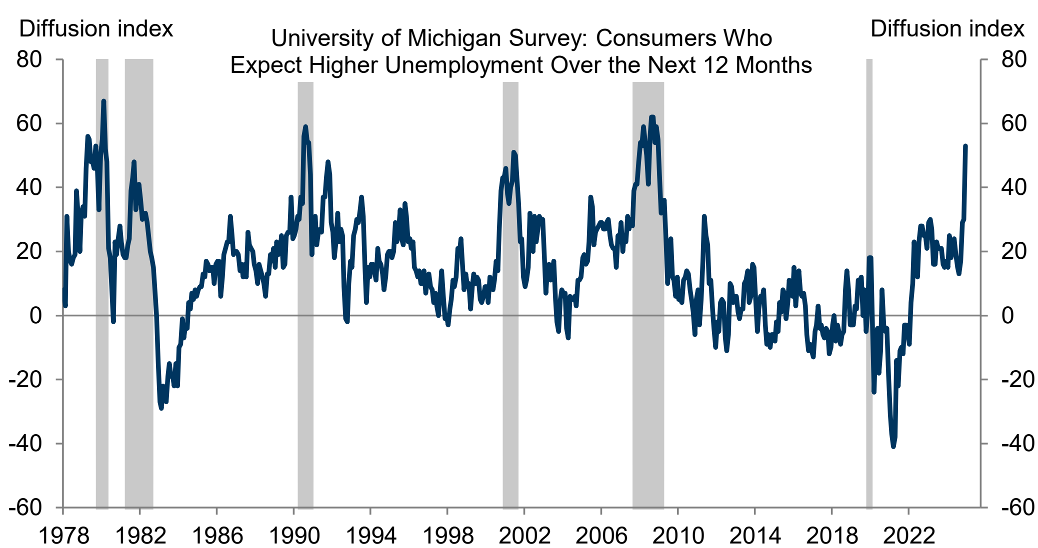


Note: Assumes equity prices remain at their April 4, 2025 level and Case-Shiller house prices remain at their January 2025 level.

Source: Goldman Sachs Global Investment Research

Second, weaker sentiment and rising fears about job loss or other hard times ahead could also boost saving rates and lower spending. Exhibit 12 shows that the share of consumers who expect higher unemployment over the next year in the Michigan survey recently hit its post-financial crisis high, as did the share who think they might lose their job in the next few years. Our consumption model suggests that the effects of these survey-based measures have been modest in magnitude and statistically insignificant in the past, though the channel is intuitively compelling.

Exhibit 12: Consumers Expect Higher Unemployment Over the Next Year



Source: Goldman Sachs Global Investment Research, University of Michigan

Monitoring the Effects of Policy Uncertainty

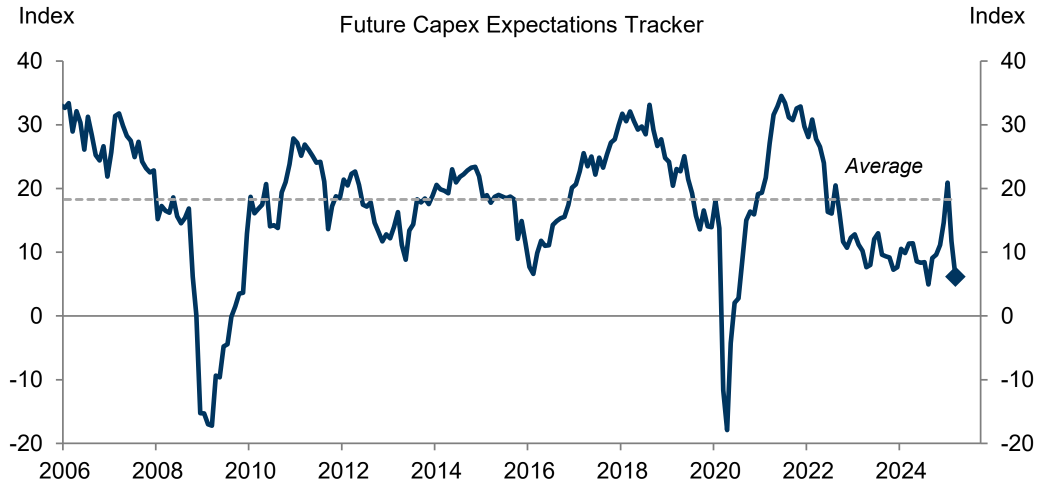
Looking ahead, consumer and business surveys and management commentary have already started to provide early indications of the effects of policy uncertainty ahead of the effects materializing in the hard data. We provide a roadmap for monitoring the effects of uncertainty going forward.

On business investment, business surveys will continue to provide the timeliest readings of the impact on uncertainty on capex. Our future capex expectations tracker shown in Exhibit 13 has been predictive of capex growth historically, though it proved somewhat misleading during the 2022-2023 period when soft data consistently underperformed hard data. The tracker increased by 13 points between President Trump's election and inauguration but has since declined and now stands at a level slightly below the average since 2022. That being said, 75% of surveyed GS equity analysts in our GSAI did not expect firms to delay or cancel investment as a result of tariffs, and the remaining analysts (25%) expected firms to *delay* but not *cancel* investment on the back of elevated policy uncertainty.

We also look to management commentary in earnings calls for clues on how companies are responding to policy uncertainty. In 2024Q4, we found that companies with greater tariff exposure revised up their 2025 capex forecasts by 3pp less than the average company, and that companies exposed to foreign retaliatory tariffs revised their capex forecasts down.

In the hard data, manufacturing structures investment from the construction spending report and capital goods orders in the durable goods report will be the timeliest indicators of capex growth for the manufacturing sector, which we showed in Exhibit 8 will likely be most affected by uncertainty.

Exhibit 13: After Increasing Notably Following the Election and Inauguration, Businesses' Future Capex Expectations Have Declined to a Level Slightly Below the 2022-2024 Average



Note: Composite of 6-months ahead capital expenditures components of the Dallas, Kansas City, Richmond, and Philadelphia Fed business surveys, the 12-months ahead capital spending expectations component of the Chicago Fed Survey of Economic Conditions, the NFIB "planning capital expenditures next 3-6 months" diffusion index, and the 6-months ahead capital expenditures diffusion index of the Business Roundtable CEO Economic Outlook Survey.Our preliminary estimate for March is based on surveys released thus far.

Source: Goldman Sachs Global Investment Research, Federal Reserve, NFIB, Business Roundtable

On hiring, timely indicators of potential effects of uncertainty include the Atlanta Fed's future employment growth uncertainty measure (Exhibit 14), the future employment expectations components of Fed surveys, and management commentary about hiring intentions. Providing a similar signal to the Atlanta Fed's measure thus far, 58% of surveyed analysts in our GSAI did not expect firms in their industry to reduce hiring as a result of tariffs, federal spending cuts, or uncertainty about those policies.

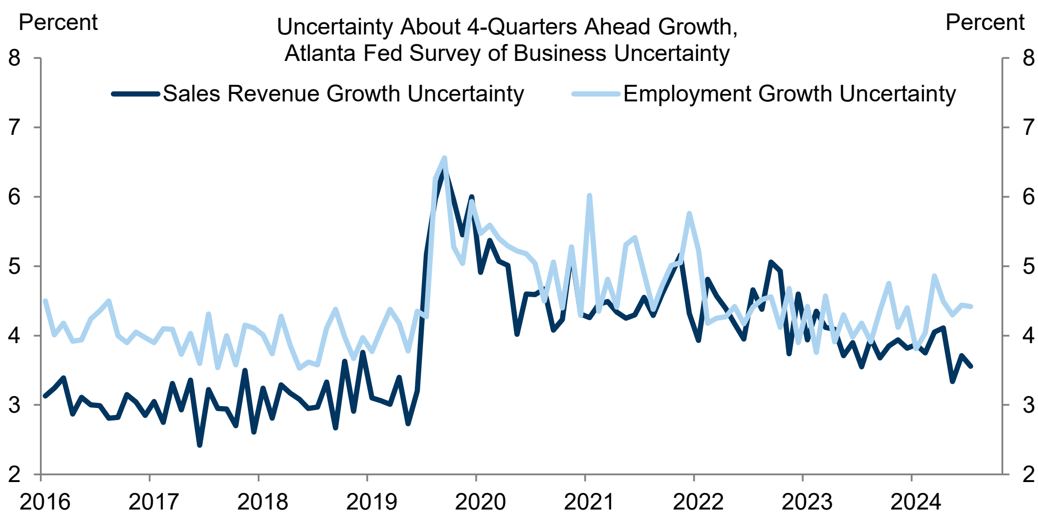
The payrolls data will allow us to track the impact of tariffs and uncertainty about federal spending at a more granular level. We expect the drag from trade policy uncertainty to appear disproportionately in the fabricated metals, chemicals, and petroleum manufacturing sectors, which our earlier analysis showed are most exposed to input cost increases from tariffs.

We expect to see drags from federal government spending cuts and uncertainty about potential cuts in the federal and state and local government, education, and healthcare sectors. Absent these effects, we would have expected the end of catch-up hiring to lead to a slowdown in the pace of job creation in these sectors from about 100k/month now to about 70k/month by the end of the year. As a result, we will be looking for a slowdown in excess of the 30k we would attribute to the end of catch-up hiring as evidence of incremental drags from spending cuts.

Thus far, government policy changes and associated uncertainty appear to have had only a modest impact on payroll growth, though the available data were collected prior to the spike in trade policy uncertainty and this week's large tariff announcements. Federal government employment has declined by 15k over the last two months while spillovers to state & local government, healthcare, and education hiring appear limited so far;

payroll growth in industries with a high share of immigrant labor was solid in March, suggesting limited impact from the crackdown on immigrants without work permits; and manufacturing employment increased in March.

Exhibit 14: Despite High Policy Uncertainty, Reported Uncertainty About Revenue and Employment Growth Has Increased Only Modestly



Source: Goldman Sachs Global Investment Research, Federal Reserve

On consumer spending, the Conference Board's measures of consumer big-ticket spending intentions, which are modestly predictive of durable goods consumption outside of recessions, and the University of Michigan's measure of consumer fears of layoff risk will provide an early indication of potential effects of uncertainty. More timely alternative measures of hard spending data such as Adobe's online spending data, Second Measure's brick-and-mortar sales data, and Redbook's department store panel, which are predictive of core retail sales, will provide early guidance on the path for official hard spending data, where auto, home, and retail sales are likely to show the effects of uncertainty on consumer spending first.

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Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Ronnie Walker, Manuel Abecasis, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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