

US midterm elections: Unfulfilled promises

The state of the US economy and democracy

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Abstract

Two years after US President Donald Trump's re-election, the US midterm elections on November 3, 2026 offer the first nationwide referendum on his second term. This report assesses whether the administration has kept its economic promises and whether the elections can or will change the direction of US economic and foreign policy.

This report focus on three fundamental pillars of President Trump's economic policy: a loose fiscal policy reducing tax burdens, a trade policy which includes unilateral tariffs, and the effort to revitalize domestic manufacturing and support investment in artificial intelligence (AI). An analysis of the actual economic development since President Trump took office in January 2025 shows a mixed picture of success and highlights the fragility of the current US growth model. While GDP growth remains robust and investment is increasing substantially, the labor market adds fewer jobs than under the previous US administration and inflation has been well above the US Federal Reserve's (Fed) target of two percent, which adds to the ongoing affordability crisis in the US. The US-Israeli war against Iran adds to the high government debt and increases interest rates further, forcing lenders to question the sustainability of the US government's outstanding debt of 40 trillion US dollars. While investment in AI is indeed dynamic and drives overall GDP growth, its outsized importance in the US economy contributes to fragility which might backfire through wealth concentration and financial market volatility.

One of the central aims of the Trump administration has been to reduce the US goods trade deficit by introducing a wide range of US import tariffs. However, since there are dominant macroeconomic factors driving the US goods trade deficit, the tariffs have not led to a sustained reduction so far. In August 2026 the monthly total US goods trade deficit amounted to 130 billion US dollars, which is higher than in the same month two years ago. But the composition of the total goods trade deficit changed, as US tariffs vary by country or region as well as by product groups. In August 2026, the EU only accounted for 7 percent of the total US trade deficit, whereas it made up 20 percent in August 2024. This is less because of a significant reduction in US imports from the EU, but more because the US exports more goods, especially energy products, to the EU. China's share also reduced to 14 percent from 29 percent two years ago. Instead, Mexico and Vietnam now each account for 20 percent of the total US' goods trade deficit. The absolute value of the US's goods trade deficit with Germany remained relatively stable throughout the first two years of Trump's second term in office.

Decreasing the US' goods trade deficit is part of a bigger project of the current US administration to bring back manufacturing to the US. In this vein, foreign direct investment (FDI) flows to the US should be increased. Analyzing total FDI flows to the US using data from the US Bureau of Economic Analysis, this strategy has not been successful so far: FDI inflow amounted to 248 billion US dollars in 2025, which is a reduction of 8.2 percent to the previous year and 18 percent when compared to the average over the period 2015-2024. Concentrating on FDI flows from the EU to the US only, there was a slight increase of 1.4 percent in 2025 compared 2024, but a decrease of 12 percent compared to the average value over the previous ten years. The trend of investment inflows from German companies to the US is unclear: While the US data indicates an increase of 40 percent in 2025, data from the German Bundesbank German records a decrease of 21 percent. Turning to worldwide manufacturing FDI flows to the US, there is a slight increase of 3.3 percent to 114 billion US dollars in 2025 compared to 2024, but in comparison to the average value for 2015-2024 this is still a decrease of around 20 percent. This negative trend also holds for EU manufacturing FDI flows to the US.

The 2026 midterm elections are unlikely to reset US policy. Democrats are favored to win the House of Representatives, and the Senate is a toss-up; any new majority will be very slim and far from the two-thirds needed to override a presidential veto, meaning the US president will retain great influence over the legislative agenda. Most congressional seats are safe for one party, and polarization has significantly reduced cross-party cooperation. This makes it unlikely for an oppositional Congress to successfully pass any legislation which revokes or limits presidential tariff powers—which rest on laws Congress passed decades ago—or exert greater control over foreign policy. Moreover, formerly independent regulators are now formally under presidential control, with the Fed being the only exception. A Democratic-led House or Senate could investigate the administration and exert greater influence over budget negotiations, but it could not likely override a presidential veto to reverse tariff or foreign policy.

German and European stakeholders should therefore expect current US trade policy, including tariffs, to continue at least until January 2029, together with persistent uncertainty in US economic policy. A real policy shift becomes possible only after the 2028 presidential elections, but the structural drivers of volatile US policy—and congressional weakness—will continue.

1 Introduction

On November 3, 2026, Americans elect a new House of Representatives and about one third of the Senate. The midterm elections are the first nationwide vote on US President Donald Trump's second term in office, two years after his re-election in 2024. President Trump took office with a clear economic agenda. He promised to lower the cost of living, to reduce the US goods trade deficit, support business by lowering taxes and to rebuild the US manufacturing base with the help of foreign direct investment (FDI). As in his first campaign, he also promised to bring the US federal deficit under control through growth and trade deals.

Two years later, the cost of living dominates the electoral landscape. Rising inflation, driven in large part due to heightened energy costs from the US-Israeli war against Iran, has pressured American households at a time of near-record wealth inequality, unstable bond markets, and questions about artificial intelligence's (AI) impact on the job market. 84 percent of registered voters, including 88 percent of those who support Democrats and 82 percent of those who back Republicans, say the economy and cost of living are their top concerns going into the 2026 midterm elections. At the same time, President Trump's job approval ratings have declined: only 30 percent of Americans approve of the president's performance, while 68 percent disapprove. Moreover, only 35 percent of Americans have confidence in the president's handling of the economy (Kiley et al., 2026). While the president is not directly on the ballot this election, his and his Republican Party's economic agenda are largely being assessed by voters.

The midterm elections, and the mandate they deliver, matter beyond just the US and carry significance for German and European stakeholders. The vote decides whether and how far Congress, potentially led by the opposition Democratic Party, will check or restrain a president who has used his powers reshape transatlantic economic and geopolitical relations. The vote also signals more broadly the interest and willingness of the American electorate to sustain the president's transformational disruption and economic agenda. Exploring the potential consequences of this vote, however, will require confronting some of the longer-term trends in the US electoral system and distribution of power.

This report asks two questions: Has the administration delivered on its economic promises? And, can or will the 2026 midterm elections change the course of US economic and foreign policy? Chapter 2 assesses the state of the US economy, from GDP growth and AI-driven investment to public debt, the trade balance, and flows of FDI to the US. It explores the fragility of the current US growth model, how high debt levels and rising bond yields pose serious concerns to sustainable development, and why President Trump's policies may not be effective in achieving their desired goals. Chapter 3 examines the state of the US democracy. It shows why the US Congress rarely produces large majorities, how polarization has narrowed the room for compromise, and where a new congressional majority could and could not constrain the US president. Chapter 4 summarizes the findings and their relevance for German and European stakeholders.

2 State of the US economy

The economic agenda of the US administration can be categorized into three main pillars: (1) fiscal policy, (2) trade policy, and (3) revitalization of domestic manufacturing and investment in AI. When US President Trump took office in January 2025, he emphasized that, in terms of fiscal policy, he would extend tax relief provided by the Tax Cuts and Jobs Act (TCJA). The TCJA reduced the top individual income tax rate to 37 percent, expanded deductions, and lowered the corporate income tax rate from 35 percent to 21 percent. These tax cuts were made permanent by the president's signature One Big Beautiful Bill Act (OBBBA) of 2025 which was signed into law on Independence Day 2025. Otherwise, the tax reductions would have expired by the end of 2025. The OBBBA also introduced new measures such as making overtime hours and tips tax-free up to certain annual thresholds. In terms of trade policy, the US administration introduced trade tariffs on numerous trading partners on the so-called Liberation Day on April 2, 2025. This policy is certainly the most controversial and prominent economic undertaking of the Trump administration. The administration promised tariffs on imported goods would help American businesses, narrow the trade and state deficit, boost American manufacturing and encourage consumers to buy domestic goods. Finally, the government tries to encourage investment in manufacturing, as well as data centers and similar infrastructure to facilitate the development of AI. The following sections delve deeper into some of the most important economic developments since the start of President Trump's second term to assess the state of the US economy before the midterm elections.

2.1 Growth model in the US

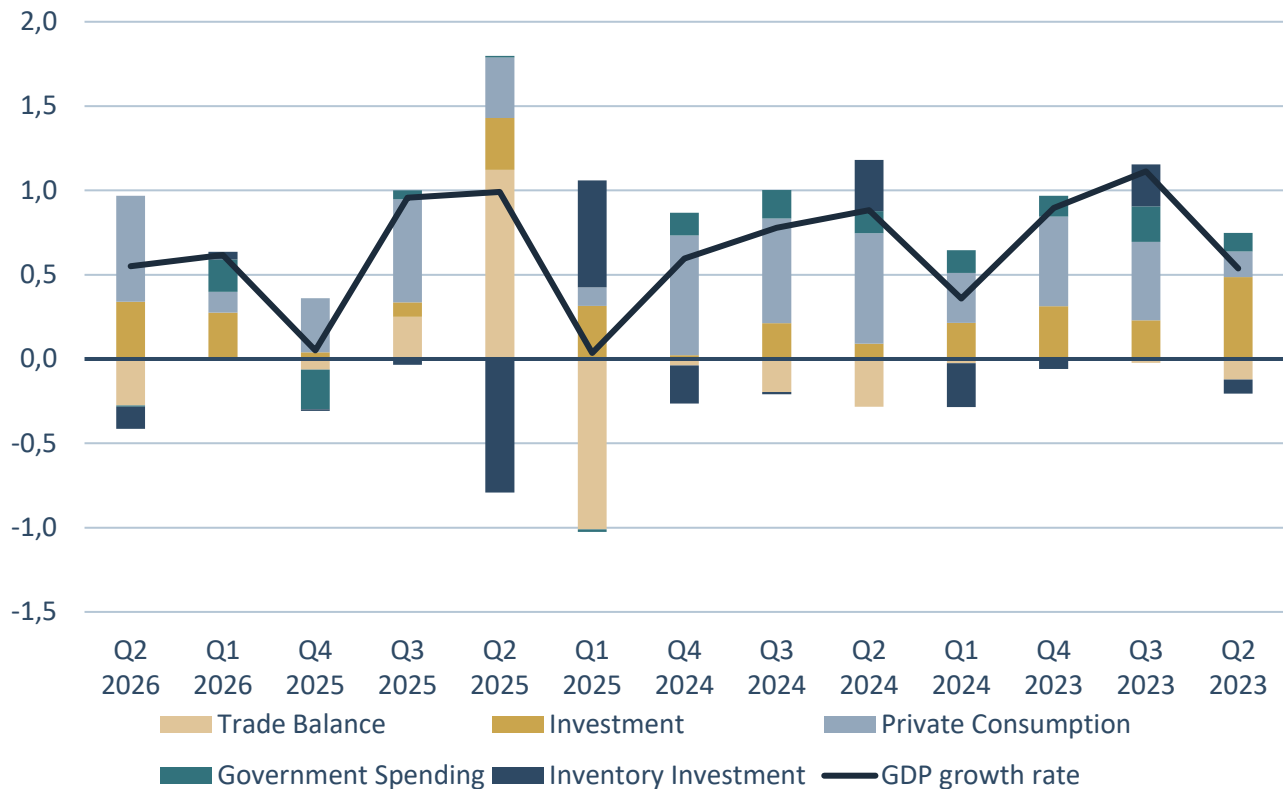
Figure 2-1 shows the quarterly US growth rates between Q1 2024 and Q2 2026. It also indicates the growth contributions (in percentage points) by different domestic and external sources, such as private consumption or the trade balance. Economic growth has been quite robust, with the American economy growing 3 percent in 2024 and 2.3 percent in 2025. Real GDP growth slowed down by the end of 2025 but picked up pace again with 0.6 percent quarterly growth in the first two quarters of 2026. Growth drivers are predominantly private consumption (gray column) and total investment (dark yellow column). Both have made growth contributions over the last six quarters, showing the importance of the domestic private sector in the US growth model. However, the column "investment" also includes public investment. Public expenditure on investment has increased moderately, by roughly 2 percent, since the end of 2024. The trade balance is more volatile, positively influencing GDP growth in some quarters while being a drag on GDP growth in others (see also Section 2.4). Related to that is the change in inventory investment, which dragged down the economic growth performance in Q1 2025 and Q2 2026. In Q2 2025 the impact of US importers frontloading in anticipation of new and higher trade tariffs is clearly visible. The government shutdown at the end of 2025 caused political uncertainty (see Section 3.3) to rise again and led to further delays in the release of relevant economic data. The longest shutdown in history lasted a total of six weeks and, according to White House estimates, may have resulted in a lower growth rate in the third and fourth quarters of 2025.

According to the World Economic Outlook, real GDP growth is projected at 2.3 percent in 2026 and 2027 (IMF, 2026). Economic activity is supported by robust private consumption, fiscal policy and continued technology-related business investment. Given the country's net energy exporter status, the direct economic impact of the Iran war is limited, although the effects on the government budget are visible. Financial conditions remain largely accommodative despite the more restrictive stance of monetary policy due to increasing inflation rates. The extension of tax cuts as well as the more generous depreciation allowances for small and

medium-sized enterprises through the OBBBA will have a supportive effect during this year and next and are likely to provide a positive boost to private investment.

Figure 2-1: Growth development in the US since 2023

Real GDP growth in percent (quarterly) and growth contributions in percentage points



Source: Organization for Economic Co-operation and Development

A lot of the public conversation about the American economy in recent years has been shaped by the notion of a K-shaped economy (Armstrong, 2026; DeMaria et al., 2026). This concept is a well-cited explanation of the strong economic recovery after the pandemic, which allegedly concealed a deep rift of wealth inequality. The top arm of the K—usually depicted as the richest 10 percent of earners—is prospering through an increase of the net worth of financial assets and therefore continues to consume while the bottom half of the income distribution is burdened by high inflation rates. Hoham and Yang (2025), for instance, find that the top 20 percent have been responsible for 57 percent of overall consumption on average over the last five years. According to the authors, the Bureau of Labor Statistics finds that the top 10 percent are responsible for roughly 20 percent of consumption, and the top 20 percent of earners are responsible for 35 percent. However, they also find that the share of consumption by top earners has been stable since 2004. DeMaria et al. (2026) also note that although consumption exhibits a K-shape, income growth does not. After the pandemic, incomes were rising for all high-, middle- and low-income groups, supported by positive transfers to low-income households.

In macroeconomic terms, the K-shape theory is rather an unverified hypothesis that explains why GDP growth in the US remained resilient despite tariff shocks and a weak labor market, with the presumption being that the upper arm of the K (grown through AI investments, financial asset rallies, and tax cuts from

the OBBBA) offsets the lower arm of the K (households which cannot consume due to the affordability crisis). The K-shape theory does, however, indicate the fragility and imbalance of the current economic growth model. If consumption from the upper arm collapses, e.g. through the burst of an AI bubble leading to a larger stock market correction, an important driver of growth disappears and the robust economic growth seen so far might end. Whereas the notion of a K-shaped economy has been more a reflection of preconceptions, it points to the longstanding issue of wealth concentration. According to the US Federal Reserve's (Fed) Distributional Financial Accounts, wealth concentration is at a record high with the top one percent holding more than a third of wealth (Federal Reserve, 2026). In comparison, that share was only 22 percent at the beginning of the 1990s.

AI-driven investment: between a growth miracle and a financial bubble

A well-cited study by economists Furman and Seamans (2019) on the role of AI in the economy shows that AI-related economic activity has increased, that its potential benefits are on productivity growth, and that evidence of the impact on labor is mixed. In the first half of 2025, according to one of the authors—Harvard economist Furman—investment in information processing equipment and software was responsible for 92 percent of GDP growth (Armstrong, 2025).

Figure 2-2 shows a widening gap between residential and non-residential investment. Whereas the former is roughly five percent below the end of 2024, the latter has increased by more than ten percent during the same period. Higher investment in manufacturing was one of the promises made by Trump during his campaigns, including in both his 2016 and 2024 campaigns. However, the actual data shows a strong decline in manufacturing investment in structures (see also Section 2.5). Investment is more than 30 percent lower than at the end of 2024. However, this series relates to building structures. There is no single time series for investing in manufacturing equipment. Looking at investment in industrial equipment which includes other sectors (e.g. mining) than manufacturing, this aggregate went up by roughly 8 percent since Q4 2024. Taking both developments together the decline in Figure 2-2 is not as steep.

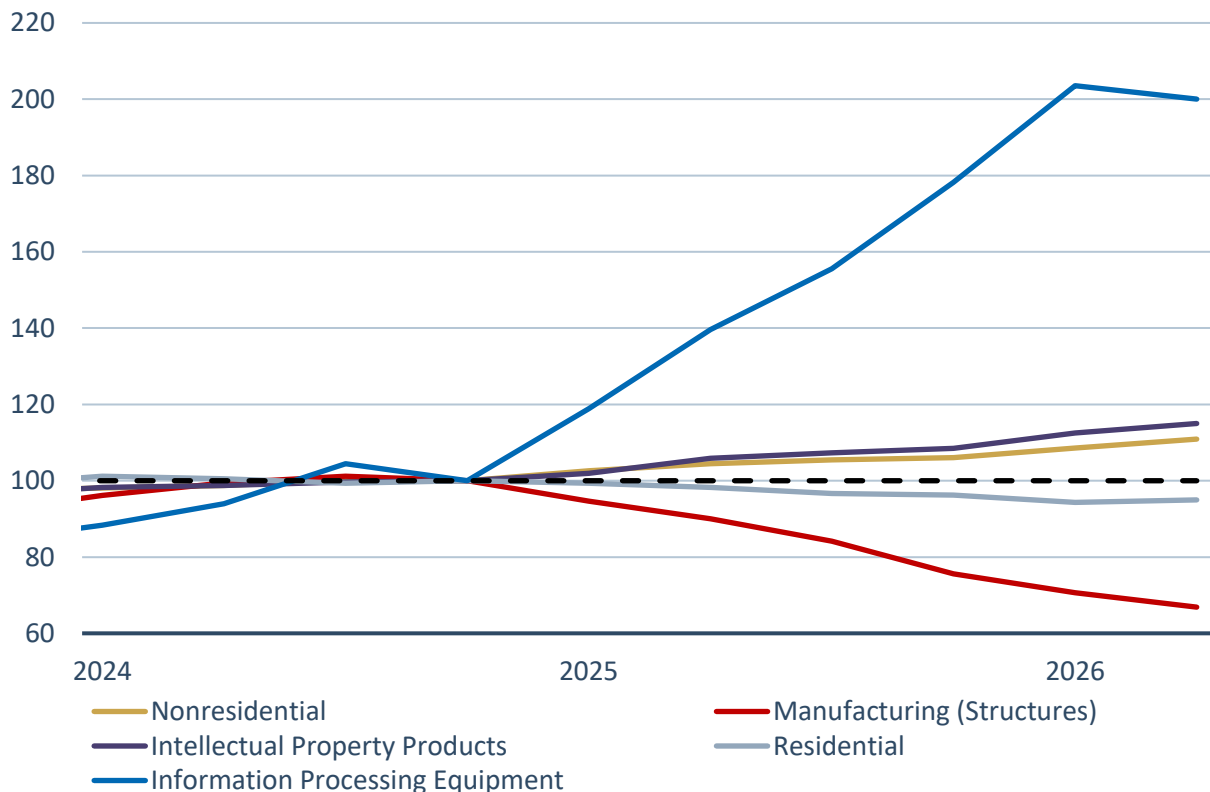
The US Bureau of Economic Analysis (BEA) does not provide a time series only related to AI investment. However, there are complementary aggregates that capture most of the AI capital expenditures. One of them covers software expenditure and is shown in Figure 2-2 as an index of private fixed investment in intellectual property products. Investment in that area has jumped by more than 14 percent since the end of 2024. In absolute terms, companies invested 751 billion dollars in 2025 after 686 billion dollars in the previous year. At the current annualized rate, investment might end up well above 800 billion US dollars this year, showing the extraordinary dynamism in this sector. The other series provided by the BEA covers the hardware part (e.g. building physical infrastructure such as data centers), which is illustrated by the blue line in the figure below and depicted on the right axis. Investment in that area has skyrocketed since the beginning of 2025. In absolute terms, companies invested almost 150 billion US dollars in 2024 and 180 billion in 2025. At the current pace, firms are likely to invest more than 400 billion US dollars this year.

A potential stock market bubble has been repeatedly discussed in the media, e.g. because of the highly volatile stock valuations of the major tech companies (Herbert, 2025). For instance, chipmaker Nvidia lost almost 600 billion US dollars in market value at the end of January 2025 following the announcement by China's DeepSeek that it had developed an AI model at significantly lower cost. These sharp market reactions reveal that expectations rely heavily on future profits. A macro shock in which the stock valuations of several major

tech giants were to fall could trigger corresponding disruptions, reducing high corporate investment as well as significantly dampening private consumption. If business expectations of AI-driven profitability and productivity gains prove overly optimistic, investment in AI-related infrastructure and technology could slow (IMF, 2026).

Figure 2-2: Investment dynamics in the US

Different investment categories, index Q4 2024 = 100



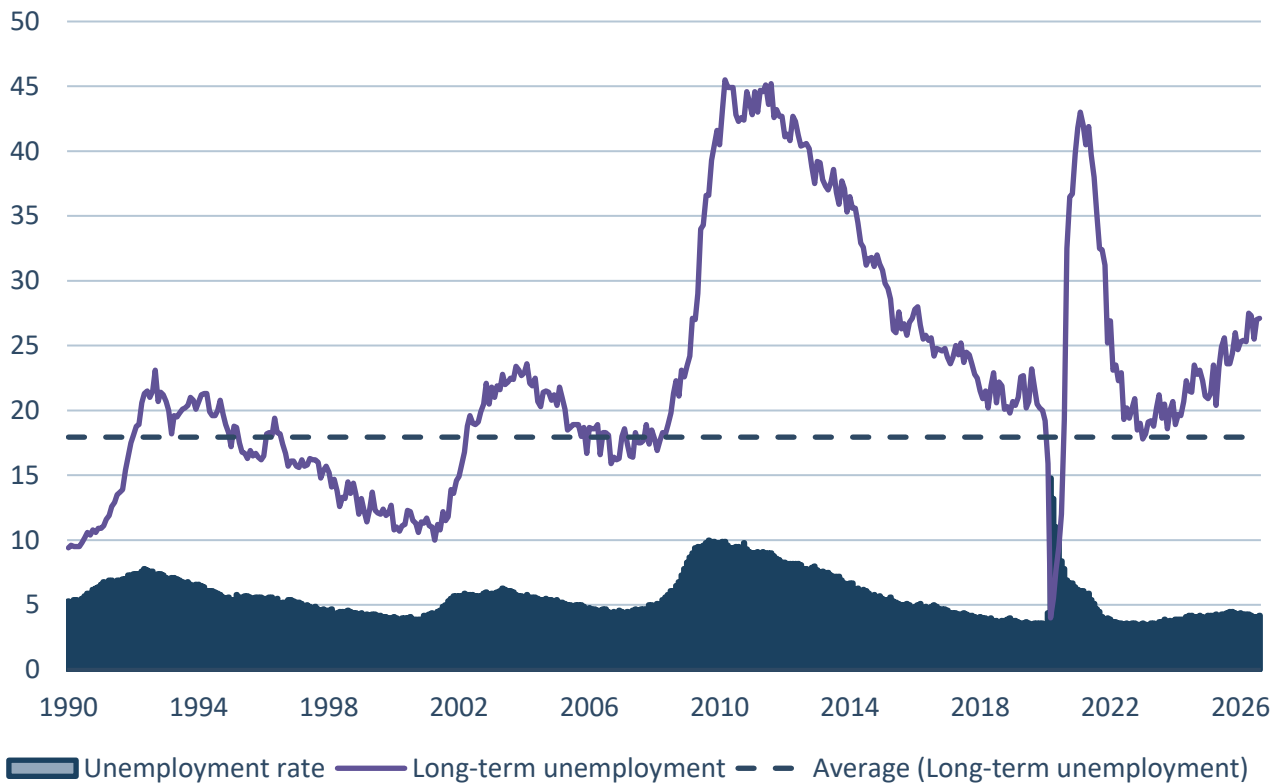
Sources: US Bureau of Economic Analysis; own calculations

2.2 Jobless growth and affordability crisis

The labor market in the US has fared quite well during the last five years (see Figure 2-3). Since the beginning of President Trump's second term, unemployment has been stable with the unemployment rate hovering around four percent. It has picked up slightly since 2023, when it averaged 3.6 percent. In September 2026, the unemployment rate was 4.2 percent. However, the aggregate numbers hide some fragilities. As can be seen in Figure 2-3, the long-term unemployment rate has increased since 2023 when it stood at the long-term average of roughly 18 percent. In September 2026 this value stands at 27 percent. The labor force participation rate (not illustrated here) went down from 62.6 percent in January 2025 to 61.8 percent in September 2026.

Figure 2-3: Labor market in the US over the last three decades

Unemployment rate and long-term unemployment in percent (monthly), 01/1990 until 09/2026



Note: Long-term unemployment refers to persons being unemployed for 27 weeks or more.

Sources: US Bureau of Economic Analysis; own calculations

The US labor market is not just an indicator for the state of the US economy, it is also an important determinant of monetary policy, e.g. for changes in the Fed's policy rate. In particular, the Fed looks at another indicator which relates to the number of new jobs being created in each month. Under the President Joe Biden's administration, the job market was much more dynamic, adding around 200,000 jobs a month in 2023, with the annual total being more than 2.5 million new jobs added to the economy. In 2024, the total was around 2 million. That number has come down significantly. In 2025, the monthly average was around 10,000 new jobs with an annual total of roughly 120,000 new jobs. So far, in 2026, the pace of adding new jobs has picked up again, to an average of almost 70,000 new jobs per month.

Overall, the US economy currently creates far fewer jobs under President Trump than his predecessor. Unemployment has nonetheless remained stable because of two countervailing forces. First, net migration has fallen. Second, there is demographic change with the population aging and the workforce shrinking. Both lead to a reduction of the working-age population which keeps unemployment stable.

Inflation remains high and well above target

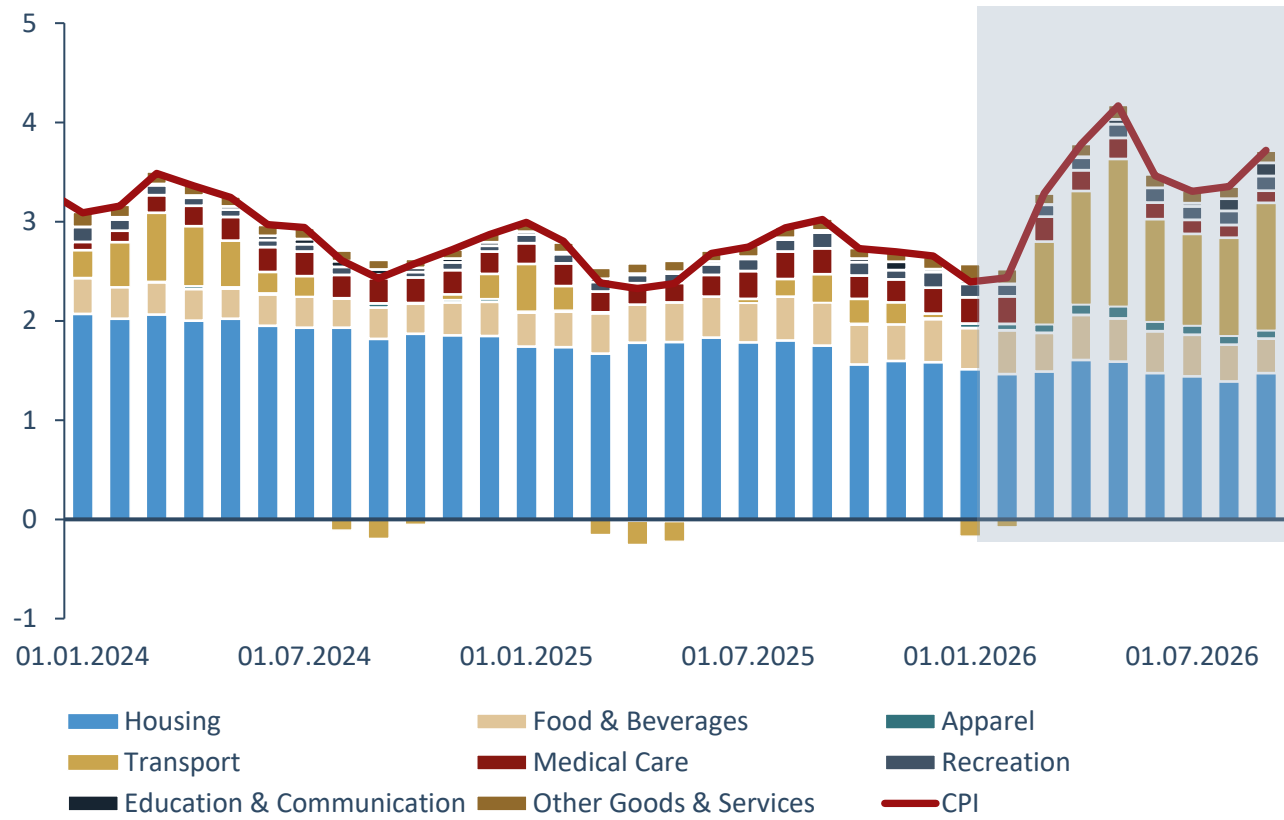
Inflation has been above the Fed's two percent target for more than five years. During his 2024 campaign, President Trump blamed his predecessor, President Biden, for allowing high inflation. When he took office, President Trump promised to lower the cost of living. A central topic of the 2026 US midterm elections is thus the question of "affordability," which includes fuel prices such as gasoline and diesel. Democrats accuse the administration of failing to bring down inflation and, even worse, of pushing up prices through the US-Israeli war against Iran and the import tariffs.

Figure 2-4 shows the inflation rate as the red line and the contributions to inflation in columns. The shaded area highlights the period after the start of the Iran War. As Figure 2-4 shows, inflation has remained elevated with levels of more than three percent during most months between January 2024 and September 2026. The two most important drivers are housing and food prices. On average, housing (which includes rent but also energy costs such as heating) contributed more than 1.7 percentage points to overall inflation. The inflation rate had fallen almost to the two percent target at the beginning of 2026 but then doubled by the summer of this year.

A large contribution came from transportation, which covers private transport including motor fuel and is therefore related to the impact of the energy crisis caused by the war in Iran. Even though the US is a net exporter of energy, it is still affected by the development in world market prices for oil and gas, partly because its refineries rely on imports of heavier crude oil. Another driving factor of inflation, which is only indirectly depicted in Figure 2-4, includes the price effects of the import tariffs the Trump Administration introduced in spring 2025. Research has indicated that the US trade tariffs drive up prices primarily for American consumers and domestic firms (Cavallo et al., 2026). Contrary to the US administration's naïve hope that tariffs would pressure foreign exporters to lower their prices, this research finds that mostly US firms and consumers end up paying the bill.

Figure 2-4: Inflation largely driven by housing and transportation

Consumer price index (in percent), and contributions to inflation (in percentage points)



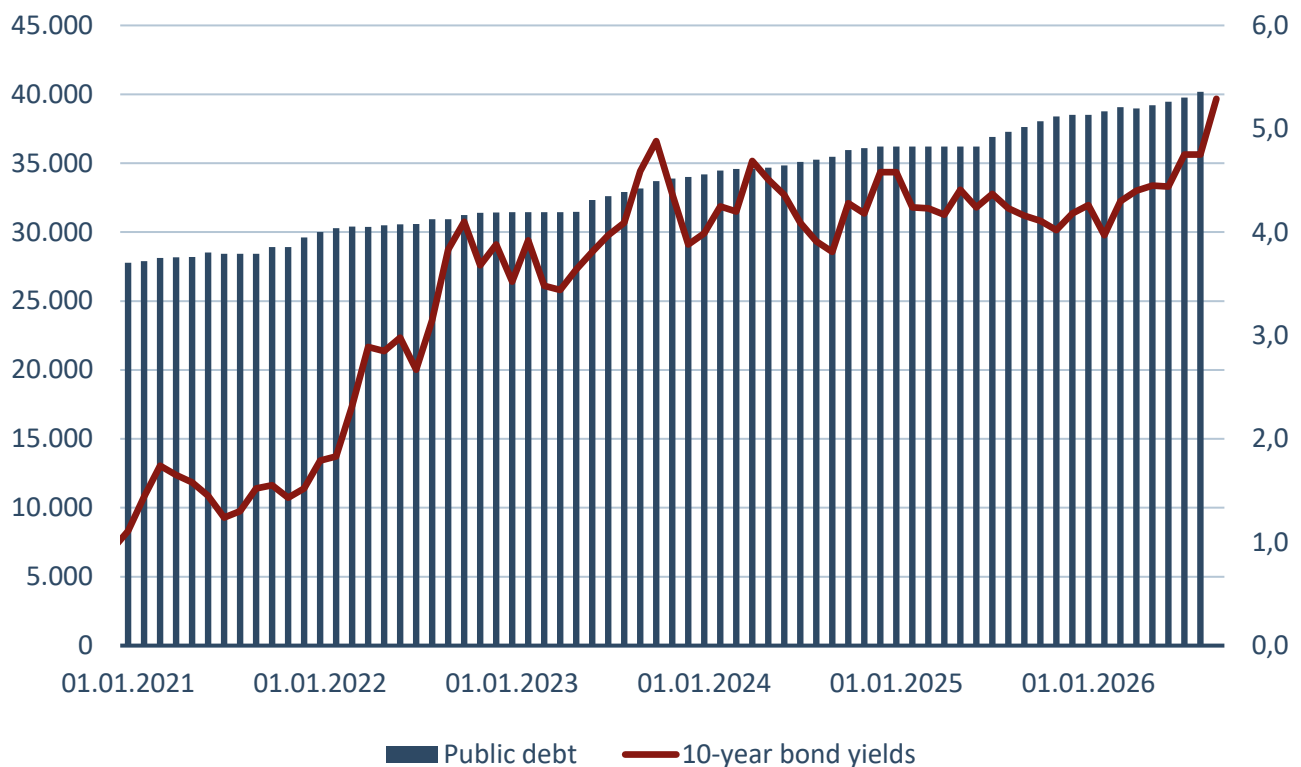
Sources: US Bureau of Labor Statistics; own illustration

2.3 The 40 trillion dollar problem

The debt-to-GDP ratio increased from 107 percent at the beginning of 2020 to 123 percent this year. Although President Trump promised during his 2016 campaign that he would eliminate the huge deficit through economic growth and trade agreements, the opposite has happened since then. While US government debt is a long-standing issue, the pace of the debt accumulation in the context of rising interest rates is new.

Figure 2-5: High debt burden and increasing bond yields in the US

Public debt in trillions, USD (left axis), and 10-year Treasury bond yields, in percent (right axis)



Sources: US Department of Treasury; own calculations

In absolute terms, government debt recently exceeded 40 trillion US dollars for the first time, leading economists to warn of a looming debt crisis (see Figure 2-5). In 2026, despite a growing economy, the federal budget deficit is still six percent of GDP. While expansionary fiscal policy can contribute to GDP growth, including through crowding in private investment or enhancing public infrastructure and thus improving potential output, it is important to explore what is driving the accumulation of government debt. During President Trump's second term, there have been three main driving factors of the accelerated debt increase: the US-Israeli war against Iran, the new tariffs, and the tax cuts from the OBBBA in 2025. The war in Iran burdens the US budget in two ways: indirectly, by causing an unprecedented energy crisis, raising the cost of fossil fuels, and disrupting global financial markets, as well as directly, through the cost of the war. In a congressional briefing in March 2026, the Trump administration estimated that the first six days of the war on Iran had cost the United States at least 11.3 billion US dollars. Meanwhile, in February, the Supreme Court struck down tariffs the US president had imposed under the International Emergency Economic Powers Act (IEEPA). As a first step, the government had to reimburse companies for 160 billion US dollars—money that had

already been budgeted. Finally, according to the Congressional Budget Office (2026), the OBBBA will add 4.7 trillion US dollars to the national debt by 2035, even after considering its dynamic effect on the economy. In this context, the fiscal drain of higher interest rates will outweigh the impact of stronger economic growth. Even excluding interest costs, the federal government spends more money than it collects, creating a structural problem in the budget, known as a primary budget deficit, which currently stands at 2.7 percent.

Bond markets in turmoil

Since the beginning of the Iran war in February 2026, bond markets have been in turmoil. Due to increasing energy costs and elevated inflation, monetary policy is starting to change its stance, becoming more restrictive again. The federal funds rate was raised by 0.25 percentage points, to a target range between 3.75 and four percent. This is part of a global trend, with the European Central Bank having raised the policy rate twice to 2.5 percent and the policy rate of the Bank of England standing at 3.75 percent. In September 2026 the 10-year Treasury bond yield increased to a historic high of more than 5 percent (see Figure 2-5). From an economic perspective, this complicates the outlook for the US. Rising yields increase financing costs for business loans as well as household mortgages, while high levels of government debt imply that a growing portion of budgets must be allocated to debt service.

There are additional factors driving the historically high bond yields. In the US, it is not just the high debt burden that concerns markets. Foreign investors have increasingly become reluctant to finance the American debt by buying US debt securities, known as Treasuries. Foreign demand for US bonds has been declining for years. International investors now hold only about 30 percent of Treasury bonds. In 2015, that figure was roughly 50 percent. China has nearly halved its portfolio to less than 600 billion US dollars during that period. Japan is currently the biggest international lender to the US, holding more than 1 trillion US dollars in Treasury bonds. Growing unease about the independence of the US central bank has also prompted a repricing of US debt. President Trump repeatedly attacked former Fed Chair Jerome Powell personally before Powell's term officially ended in May 2026, causing turmoil in financial markets.

Two interventions by the US Treasury Secretary Scott Bessent illustrate how much the refinancing of US government debt has come under pressure. The US intervened in currency markets at the end of July 2026, selling euros from its international reserves and buying Japanese yen to prop up Japan's currency. The coordinated effort marked the first time the US had staged a currency intervention to prevent a further fall in the value of the yen since the Asian financial crisis in 1998. It came weeks after the yen hit a 40-year low, at which 1 US dollar bought more than 160 yen. However, markets interpreted this US-led intervention to be more about US Treasury bonds than the yen itself, in-part because Japan had recently considered selling off part of its portfolio of Treasuries to support its currency. This would have driven up Treasury yields even further. The second intervention took place directly in American bond markets. US Treasury Secretary Bessent has recently been buying back long-term government bonds to replace them with short-term securities which implies that the government secures more favorable financing terms in the short term, albeit at the cost of greater risk when interest rates are volatile. Rising interest rates, as now observed almost daily in the bond markets, then have a much bigger impact on the budget. During 2026, annual interest costs surpassed 1 trillion US dollars for the first time making it one of the largest budget items, ahead even of national defense expenditure.

2.4 US trade balance

One of the central aims of the Trump administration has been to reduce the US goods trade deficit (The White House, 2025). In this vein, it introduced various import tariffs for individual sectors and countries, as well as globally. The US administration also negotiated several trade deals with partners to implement US imports tariffs, such as the Turnberry deal with the EU (Sultan/Gros/Rotondi, 2026). In 2024, the total monthly US goods trade deficit was between 75 and 120 billion US dollars according to data from the United States International Trade Commission (see Figure 2-6, at the top). However, with Trump's inauguration in January 2025, the total US trade deficit increased further to over 150 billion US dollars. This is likely due to frontloading of imports by US buyers in anticipation of the tariffs. Since the so-called "Liberation Day" in April 2025 and the introduction of global tariffs, the US trade deficit decreased in the following months back to around or slightly below the levels in 2024. Over the period under review, the monthly US trade deficit reached its minimum in February 2026 at around 58 billion US dollars. But with the Supreme Court ruling on February 22, 2026, that the IEEPA tariffs were unlawful, the trade deficit again increased noticeably to over 130 billion US dollars in August 2026 (the latest data available at the time of the analysis). So far, the US administration has thus not managed to sustainably reduce the total US goods trade deficit. It is not surprising that tariffs have had little or no effect on the goods trade deficit so far, since, in the context of the balance of payments, the deficit is primarily determined by macroeconomic factors (Obst/Sultan/Matthes, 2024; Matthes/Sultan, 2026). Specifically, high net capital inflows into the US produce a current account deficit. Since the US runs a surplus in trade in services, trade in goods must show a significant deficit. Tariffs can do little to change this. If tariffs vary by trading partner, they primarily lead to a shift in trade between those partners as well as to diversion effects. This is exactly what happened as the more detailed analysis of the bilateral US trade deficit with selected partners shows in the following.

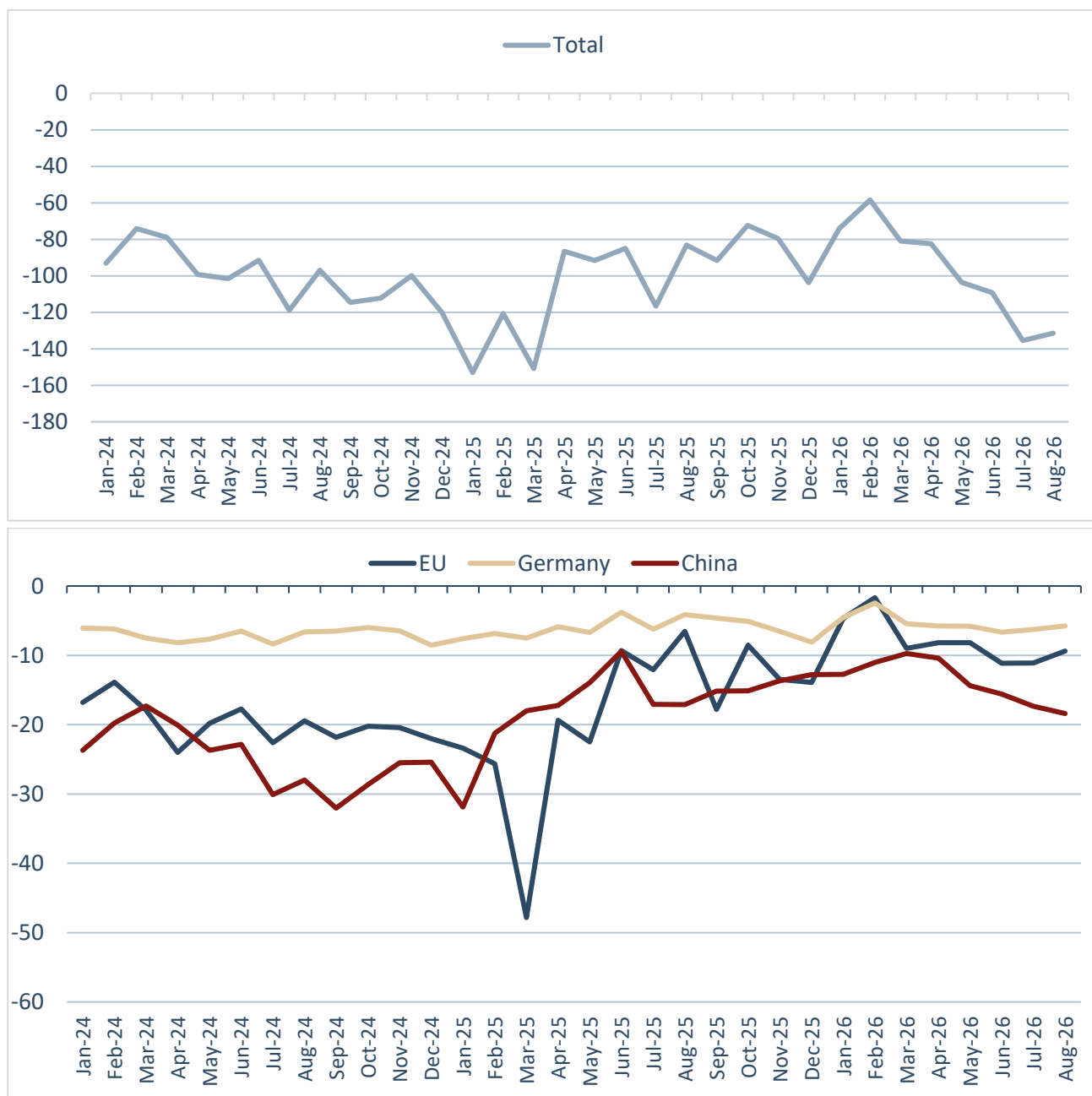
Regarding its bilateral goods trade deficit with the EU, the trade policy of the current US administration at first glance seems to have been more successful (see Figure 2-6, at the bottom). In 2024, the monthly US goods trade deficit with the EU was between 14 and 24 billion US dollars. The sharp increase to almost 50 billion US dollars in March 2025 is due to increased imports by the US from Ireland, probably due to frontloading. The US trade deficit with Ireland more than doubled in March 2025 to 29.7 billion US dollars compared to February 2025, before falling back to 9.4 billion US dollars in April 2025. The minimum of the US-EU trade deficit since President Trump's inauguration was reached in February 2026 at just 1.7 billion US dollars. Since then, it has increased again to 9.4 billion US dollars in August 2026 but still remains well below the level in August 2024 at more than 19 billion US dollars. Two years ago, the US-EU trade deficit accounted for around 20 percent of the total US trade deficit. In contrast, in August 2026, it accounts for just over seven percent. But importantly, the deficit fell less because tariffs significantly reduced US imports from the EU than because US exports to the EU increased. This is particularly true since the beginning of 2026, as US energy exports to the EU have surged since the start of the US-Israeli war against Iran.

Meanwhile, the bilateral US trade deficits with Mexico and Vietnam each contribute over 20 percent to the total US trade deficit. Mexico has profited from tariff exemptions under the US-Mexico-Canada trade agreement. Tariff exemptions for some electronic devices help explain the increase in US imports from Vietnam. A further explanation is the relative tariff advantage of Vietnam over China and other Asian competitors such as India.

The US goods trade deficit with Germany seems to have remained more stable over the period from January 2024 to August 2026 than with the EU. In 2024, it fluctuated between 6 and 8 billion US dollars. After Liberation Day in April 2025, it decreased slightly to between 4 and 7 billion US dollars. Similar to the total US goods trade deficit and the bilateral US trade deficit with the EU, the US trade deficit with Germany also reached its minimum in February 2026 at 2.5 billion US dollars. In that month, Germany alone had a larger trade surplus with the US than the EU as a whole. But in the following months, the US trade deficit with Germany widened again to reach 5.8 billion US dollars in August 2026, which is just slightly below the level in August 2024 at 6.6 billion US dollars.

Figure 2-6: US goods trade balance, total and with the EU and Germany

In billions, USD



Source: US International Trade Commission

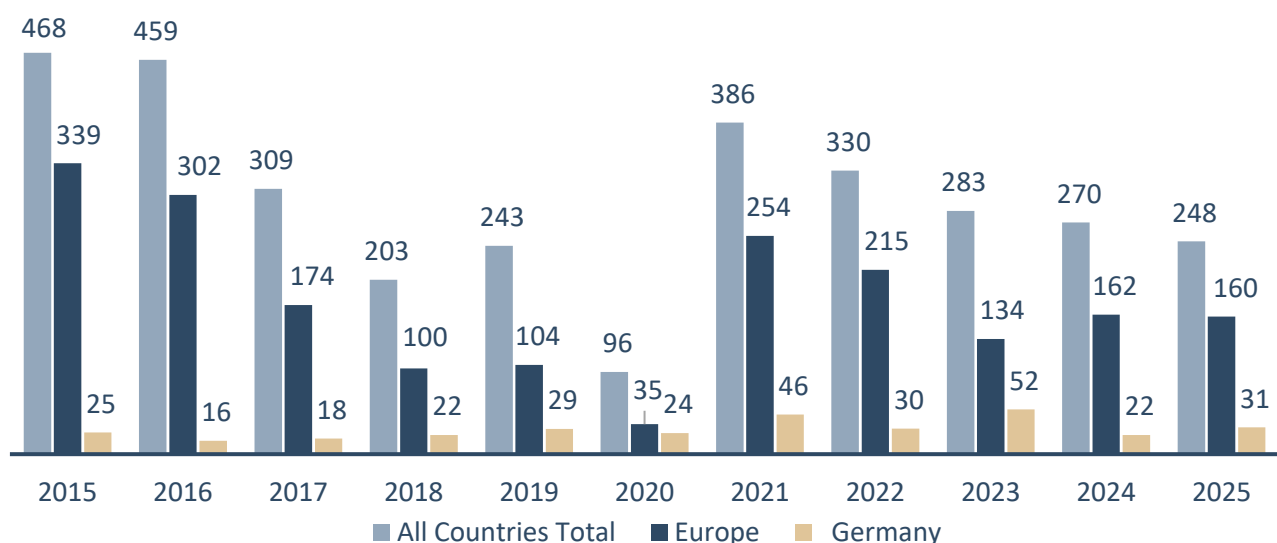
For China, the US goods trade deficit was between 18 and 32 billion US dollars in 2024. After Trump's inauguration in January 2025, the US administration introduced China-specific US import tariffs in quick succession. Most drastically, US tariffs on Chinese imports peaked at over 100 percent in April 2025. China implemented retaliatory tariffs. This led to a marked decrease of the US-China trade deficit to a minimum of 9.4 billion US dollars in June 2025. Following the 90-day truce in May 2025, which lowered the reciprocal US tariffs on China to 10 percent, and the subsequent talks, the US-China trade deficit increased again until August 2025 to reach 17 billion US dollars. But with the extension of the truce, the US trade deficit fell again until the Supreme Court ruling on the IEEPA tariffs. Even though the US trade deficit with China subsequently increased again to reach 18.4 billion US dollars in August 2026, this is still well below the value in August 2024 at almost 28 billion US dollars. Consequently, while the US trade deficit with China in August 2024 accounted for 29 percent of the overall US trade deficit, this figure fell to 14 percent in August 2026. Nevertheless, it is important to consider that part of the reduction of the US trade deficit with China might simply reflect Chinese goods being rerouted through other countries. This could also partly explain the strong increase of the US trade deficit with Vietnam or Mexico, for instance.

2.5 Foreign direct investment flows to the US

The policy aim of the current US administration to "Make America Great Again" centers on the idea of rebuilding the US manufacturing base instead of importing these goods from abroad. In this vein, foreign investment coming to the US should be increased. Various trade deals that the administration negotiated with trade partners such as the EU, Japan, and South Korea in 2025 therefore include pledges by the foreign countries to increase investment in the US. Figure 2-7 plots the annual flow of total FDI into the US from 2015 to 2025 (the latest data available). The total flow of FDI to the US amounted to 248 billion US dollars in 2025. That is a reduction of 8.2 percent compared to 2024 (270 billion US dollars). As FDI transactions tend to fluctuate, one can also compare the value for 2025 with the average FDI flow to the US for 2015 to 2024. This amounts to 305 billion US dollars. Accordingly, the value for 2025 is more than 18 percent below that average value.

Figure 2-7: Total flow of foreign direct investment to the US by region

In billions, USD



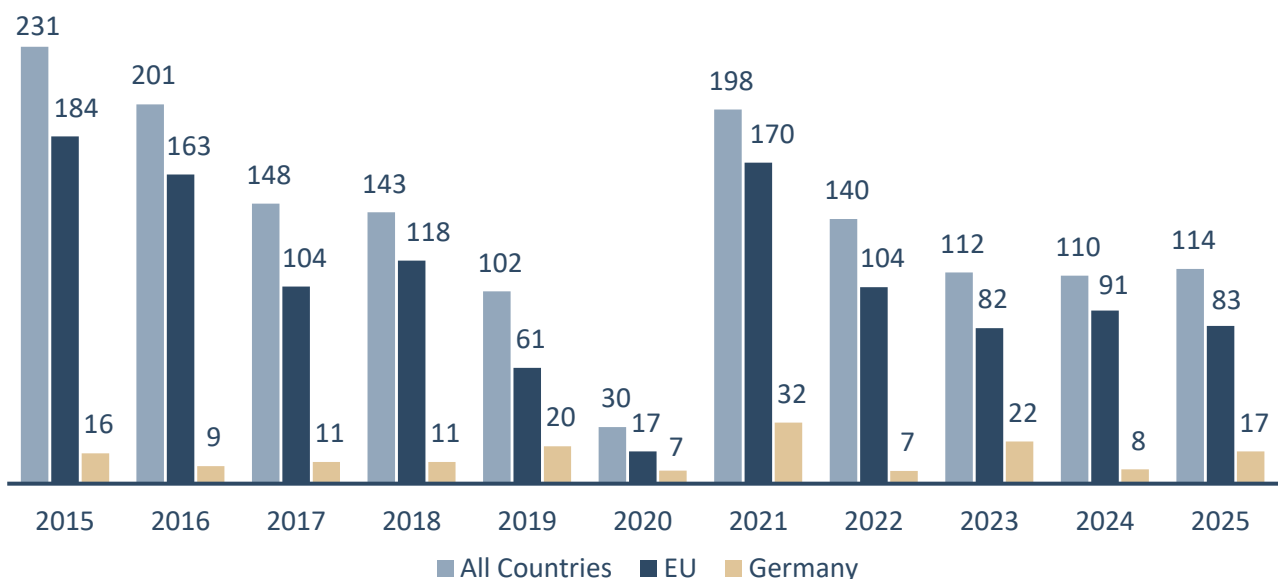
Source: US Bureau of Economic Analysis

Total FDI to the US from the EU in 2025 stood at 160 billion US dollars. This is a slight increase of 1.4 percent compared to 2024. But it is a decrease of almost 12 percent when compared to the average EU investment flows to the US between 2015 and 2024 of 182 billion US dollars. Finally, German companies invested 31 billion US dollars in the US in 2025 according to BEA data. This is an increase of 40 percent compared to 2024 and of nine percent compared to the average value for 2015-2024 of 29 billion US dollars. Using data from the German Bundesbank for FDI flows from Germany to the US, these amount to around 29 billion euros in 2025. This is a reduction of 21 percent compared to 2024. Thus, the US data and the German data on German FDI flows show different trends for the year 2025. In summary, while overall and EU FDI flows to the US appear to have declined in President Trump's first year of his second term, the trend for German FDI flows to the US is unclear, considering the deviation between US and German data.

Focusing on manufacturing FDI flows to the US only, Figure 2-8 shows that total FDI in that sector increased slightly by 3.3 percent to 114 billion US dollars in 2025 compared to the previous year. But, the average manufacturing FDI inflow to the US over the time period 2015 to 2024 was 141 billion US dollars. Compared to that figure, the value for 2025 is a decrease of almost 20 percent. EU companies invested 83 billion US dollars in the US manufacturing sector in 2025. That is a decrease of almost nine percent compared to 2024 and of almost 24 percent compared to the average value for the time period 2015 to 2024 (109 billion US dollars). In contrast, German FDI flows to the US manufacturing sector more than doubled to 17 billion US dollars in 2025. This increase can be attributed particularly to the chemical industry, where German companies have invested more in the US. Compared to the average German investment flows in the manufacturing sector between 2015 and 2024 of 14 billion US dollars, the 2025 value is still an increase of 19 percent. As the German Bundesbank does not report FDI flows at the sectoral level for individual countries, one cannot verify this increasing trend using German data.

Figure 2-8: Manufacturing foreign direct investment flows to the US by region

In billions, USD



Source: US Bureau of Economic Analysis

In sum, in contrast to some of the claims of the current US administration, FDI inflows to the US across all sectors, as well as in the manufacturing sector, have in aggregate not increased significantly since President Trump's re-election. Rather, they appear to have underperformed compared to the average inflows during the previous ten years. Whether this trend will continue remains an open question. The US tariff policy, as well as a number of regulatory changes, are designed to attract more investment in the US. Moreover, the US remains an inherently attractive investment location for a number of reasons, such as lower energy costs or less regulation than in the EU.

3 State of the US democracy

The 2026 US midterm elections are unlikely to reset US foreign and economic policy, and structural challenges in US politics will persist well beyond 2026. Democrats are favored to win control of at least the House of Representatives and stand a good chance to win control of the Senate (CPR, 2026b; 2026c; DDHQ, 2026). However, a Democratic victory would likely lead only to slim majorities in either chamber because the US electoral landscape is increasingly non-competitive. In an era of high partisanship and slim majorities, a new majority opposed to the president's agenda can block his legislative initiatives but cannot override his veto. A new majority therefore likely cannot revoke presidential actions taken under laws already in place. The tariffs now in force rest on trade laws that Congress passed decades ago, and the president's foreign policy powers rest largely on the US Constitution itself (CRS, 2025; CRS, 2026). The underlying trends in American democracy that structurally support erratic economic policy are likely to persist through the 2026 and 2028 elections. European industry and policymakers should therefore expect current US trade policy, including tariffs, to continue for at least the rest of this presidential term and should plan for continued uncertainty in American economic policy. This section aims to explore the structure of the US Congress, some of the underlying trends in US electoral politics, and what this means for the outcome of the 2026 midterm elections.

3.1 The US legislature and its resistance to majorities

The US Congress has 535 voting members, 435 in the House of Representatives and 100 in the Senate. Republicans currently hold 219 House seats and Democrats 214, with two seats vacant (US House of Representatives, 2026). In the Senate, Republicans hold 53 seats and Democrats 47 (US Senate, 2026). Both counts include independents who caucus, or organize, with one of the parties. House members represent single-member districts and serve two-year terms, so the entire House is elected every two years. Each state elects two senators to serve staggered six-year terms; about one third of the Senate is elected every two years. Midterm elections take their name from falling halfway through the four-year presidential term.

To legislate, the same version of a bill must pass both the US House and Senate and be signed by the US president. The House passes bills by a simple majority of members voting, which is 218 votes when all seats are filled and every member votes. In the Senate, most legislation requires a three-fifths majority, or 60 votes, to pass. This practice, the "filibuster," lets the minority party block most bills in the Senate. Since the 95th Congress (1977 to 1979), when Democrats held 61 seats, one party has controlled 60 Senate seats only for several months in 2009 and 2010 (US Senate, 2026). The president can veto any bill. Overriding a veto requires a two-thirds vote in both chambers, which is 290 votes in the House and 67 in the Senate when every member votes. No party has held two-thirds of either chamber since the same 95th Congress, when Democrats held 292 House seats (US House of Representatives, 2026).

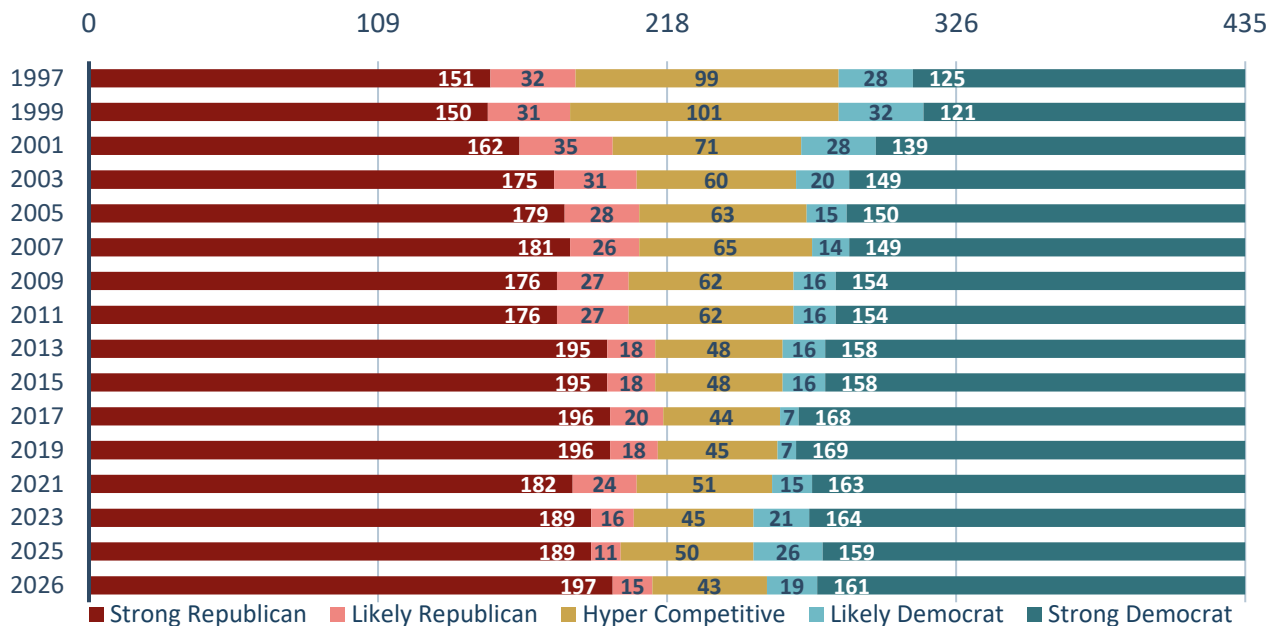
3.2 Small room for change in the legislature

Most House and Senate seats are safe for one party. Two significant causes for this are geographic sorting and "gerrymandering." Over the past decades, Americans have increasingly chosen to live among people who share their politics, in a process by which the electorate sorts itself (Klein, 2020). "Gerrymandering," meanwhile, is the process by which state governments draw House districts to favor one party. Ahead of the 2026 US midterms, ten states redrew their maps in the middle of a decade, in a contest that began with White House pressure on Republican-led states and drew a Democratic response in California and other states. According to the Cook Political Report, the result is a House map that is more Republican and less responsive

to national swings, with the median district now two points more Republican than before (Wasserman, 2026). While this may not change the results of the 2026 midterms, given the substantial headwinds Republicans face, it will make the 2028 and 2030 US congressional elections increasingly less competitive.

Figure 3-1: US House of Representative seats increasingly non-competitive

District seats by Partisan Voting Index



Note: Strong districts have a partisan lean of more than 5 points, Likely districts more than 3 and up to 5 points, and Hyper competitive districts 3 points or less. 218 seats are required for a majority.

Source: The Cook Political Report Partisan Voting Index

Using the Cook Political Report Partisan Voting Index, a normalized metric of a district’s average political leanings, we observe that sorting and “gerrymandering” has effectively neutralized most competitive House seats in the past three decades. The sharpest declines came in 2001 and 2013, after the redistricting that follows each census. The drop from 50 highly competitive districts in 2025 to 43 in 2026 coincides with the recent mid-decade redistricting contest (CPR, 2026a; Wasserman, 2026).

While few seats are competitive, control of the House still changes hands. Before the 2018 midterm election, the last held under President Trump, the index counted 44 highly competitive districts, approximately as many as today. The Democratic Party still gained 41 seats and won the majority (CPR, 2026a; US House of Representatives, 2026). The House majority has changed hands in four of the last five midterm elections. What the map constrains is the size of majorities: after every midterm since 1998, the majority party has held between 222 and 247 seats, far short of the 290 needed to override a veto (US House of Representatives, 2026). Narrow majorities further limit the ability of one party to implement a long-term legislative agenda, as congressional control oscillates between the highly polarized blocs.

Senate seats cannot be “gerrymandered,” because senators represent entire states; however, Senate races are rarely competitive, in the sense that one party typically holds an overwhelming advantage in a race. In the Cook Political Reports final race ratings from 1984 to 2024—projections which include state partisan leanings, candidate quality, campaign spending, and other factors—38.2 percent of Senate races over that

timespan were rated competitive, meaning relatively winnable for either party. Meanwhile, 61.8 percent were rated solid or likely for one party (CPR, 2026d). Because only about one third of seats are contested in each election, and only about two fifths of those contests are competitive, the Senate responds slowly to national swings. In 2018, the election that gave Democrats 41 House seats, Democrats lost two Senate seats (US Senate, 2026).

Such non-competitive seats give a minority of American voters—and ideological viewpoints—significant control over who wins elections. If a House seat is safely Democratic, the voters choosing which candidate runs as a Democrat effectively choose the victor. Only a slim minority of voters participate in party primary contests, the often-closed elections where a party's candidate is decided. These voters tend to be more ideologically extreme and therefore choose more ideologically extreme candidates. According to an analysis by the Unite America Institute (2026), only 9.4 percent of eligible voters participated in the dominant-party primaries that effectively decide House elections ahead of the 2026 midterms. These are Democratic primaries in safe Democratic seats and Republican primaries in safe Republican seats. For the Senate, the figure was 10.2 percent. In effect, 9.4 percent of eligible voters choose the winners of up to 88 percent of House seats, and 10.2 percent choose the winners of up to 74 percent of Senate races (UAI, 2026).

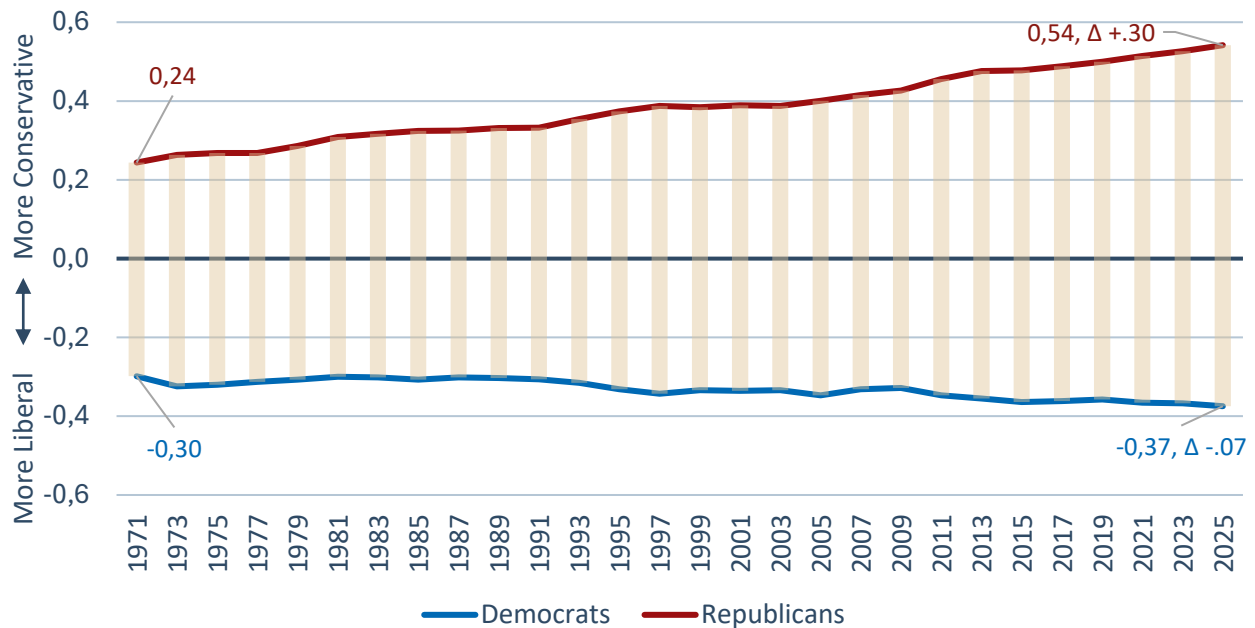
Just days away from the 2026 US midterm elections, we observe a rather non-competitive environment for House and Senate races. As of October 26, the Cook Political Report's election ratings (2026b)—a separate assessment from the Partisan Voting Index, and one which includes specific race and candidate analysis—count 385 of the 435 House seats as solid or likely Democrat or Republican. The remaining 50 competitive seats, those rated lean or toss-up, are largely held by Republicans. This reflects a difficult environment for the party, driven by rising fuel costs and the president's low approval ratings. Nonpartisan election analysts favor the Democrats to win the House—as they only need to win three new seats to secure a majority—but expect any Democratic majority to be slim (CPR, 2026b; DDHQ, 2026). Meanwhile, in the Senate, 35 seats are up for election, 22 of which are held by Republicans and 13 by Democrats. The Cook Political Report (2026c) rates ten of those as competitive (two lean Democrat, one lean Republican, seven toss-up); Republicans currently hold seven of these competitive seats. Democrats must win four new seats to gain control of the Senate. Election analysts estimate Democrats will gain between two and six new Senate seats and assess Senate control to be a toss-up between the parties (CPR, 2026c; DDHQ, 2026).

3.3 Polarization in American politics

Because it is difficult for one party to legislate alone, lawmaking in the United States depends on cooperation between the parties. Over the past 50 years, that cooperation has become harder to achieve. Both parties have become more ideologically uniform and have moved away from the center, the Republicans more so than the Democrats (Lewis et al., 2026). In 1971 and 1972, Congress had more than 160 moderate members whose voting records overlapped with those of the other party. By 2022, about two dozen remained. In the House, there has been no overlap between the least liberal Democrat and the least conservative Republican since the early 2000s, and in the Senate since 2004 (DeSilver, 2022).

Figure 3-2: Partisan divides have deepened, especially among Republicans

Average political ideology of members in the US Congress, by year



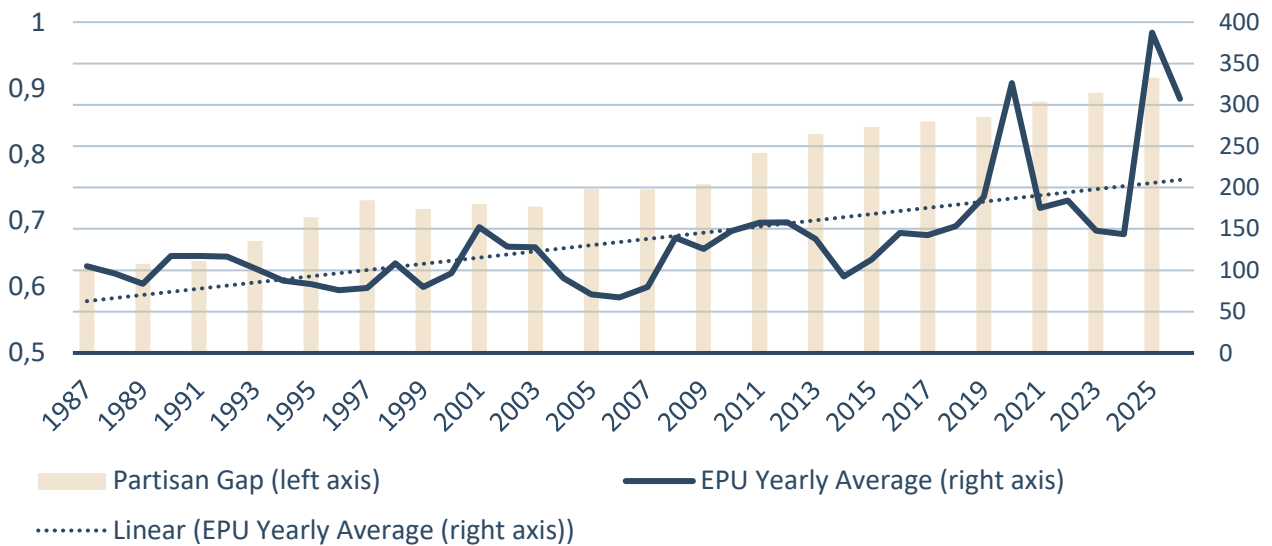
Note: Ideology as measured by Voteview DW-NOMINATE data on a standard liberal-versus-conservative spectrum, capturing economic and redistributive policy issues. Scores range from -1.0 (very liberal) to 1.0 (very conservative). Sources: Voteview DW-NOMINATE; Pew Research Center; own calculations

The gap between the average Democrat and the average Republican in Congress is now the widest since at least 1971 (Figure 3-2). Congress also passes fewer laws. It passed roughly half as many in 2022 as in 1975, and fewer still in the past two years (Warburton, 2024; Kopan, 2026). Raw law counts understate legislative output to some degree, because majorities increasingly fold numerous laws and changes into a few large omnibus bills. That shift itself moves lawmaking from committees to party leaders and gives small factions within the majority leverage over the final text. In 2025, hardliners from the Republican Party's Freedom Caucus faction blocked passage of the party's omnibus OBBBA until they secured deep cuts to clean energy tax credits. The cuts passed over the objections of moderate Republicans (DiGangi, 2025).

Polarization has also coincided with recurring, policy-made fiscal crises. After winning the House in 2010, Republicans led by the Tea Party faction used budget and debt-ceiling deadlines to extract concessions from President Barack Obama. This produced the 2011 and 2013 debt-ceiling crises and the 2013 government shutdown, when the Republican-led House refused to fund the government without steep cuts to the Affordable Care Act. Disputes between congressional Democrats and President Trump over immigration and border wall funding led to two shutdowns in 2018 and 2019.

Figure 3-3: Economic policy uncertainty has risen alongside the partisan divide

Ideological partisan gap between Members of Congress and Economic Policy Uncertainty Index, by year



Note: Partisan gap measured using Voteview DW-NOMINATE averages between party members of both chambers of Congress, excluding independents. Economic Policy Uncertainty Index developed as a news-based index of public media discourse. Sources: Voteview DW-NOMINATE; Economic Policy Uncertainty Index; own illustration

These episodes are visible in the Economic Policy Uncertainty Index (Figure 3-3). The index counts newspaper articles containing terms related to the economy, policy, and uncertainty, scaled to total article volume. The index spikes around external shocks such as the September 11 attacks and the COVID-19 pandemic, but its baseline has also risen alongside the growth of partisanship in Congress. The correlation does not by itself establish that polarization causes uncertainty, since both series trend upward over the period. In our assessment, however, the mechanism seems plausible and is supported by the episodes above. Divergent parties are less willing to compromise, so policy is either slow, as shown by the absence of any federal AI legislation, or reversed when control changes, as with the clean energy tax credits. For firms considering US investment, a policy in place one year may be withdrawn once the opposing party returns to power.

Congressional gridlock coincides with rising economic pressure on most households. The top one percent's share of household wealth rose from 22.8 percent in 1989 to 31.6 percent in early 2026, while the bottom 90 percent's share fell from 39.2 to 32.1 percent (Federal Reserve, 2026). In February 2026, 36.8 percent of households reported drawing on savings to cover expenses over the previous three months, while ten percent of households reported trouble affording food or their children missing meals (Kosar/Mehta/van der Klaauw, 2026). Trust in the federal government stood at 17 percent at the end of 2025, among the lowest readings since the question was first asked in 1958 (Pew Research Center, 2025).

3.4 The midterms will not reset US foreign and economic policy

Four congressional combinations are possible after November 3:

- Democrats gain control of both the House and the Senate
- Democrats gain control of the House, Republicans retain control of the Senate
- Republicans retain control of the House; Democrats gain control of the Senate
- Republicans retain control of both the House and the Senate

The first two options are the most likely. Democrats are favored to win the House, and the Senate is a toss-up. In our assessment, the other two options are unlikely. Republicans will struggle to hold the House, and a Democratic wave large enough to win the Senate would almost certainly carry the House as well.

None of these options will give either party the votes to override a presidential veto. While Democrats are favored to win the House, current race ratings project Democrats winning between 224 and 234 seats—taking into account partisan leanings and individual race assessments—far short of the 290 votes necessary to overturn a veto in the House (Covey, 2026). Similarly in the Senate, Democrats are projected to secure between two and six seats; while this means the Democrats are competitive in claiming a majority in that chamber, it is exceedingly unlikely they will gain anything more than a slim majority (Taylor, 2026). President Trump will therefore be able to veto any bill a new majority passes until his term ends in January 2029.

Polarization and division among the Republicans and Democrats decrease the likelihood that Congress would cooperate to override a presidential veto, allowing the US president significant control over the legislative agenda and therefore economic policy. US presidents typically exert enormous influence over their respective parties, the foremost example being President Trump's influence in the Republican Party. Individual Members of Congress have strong incentive to vote according to their party's and their president's wishes—even in situations where congressional power is ceded to the presidency (CRS, 2016). By design, the US Constitution envisioned a US Congress—jealous and protective of its own powers—as the first and foremost check on presidential authority. In the modern era, this check is infrequently enforced.

Tariff policy will likely not change with the majority, because it currently does not depend on Congress. Tariffs are constitutionally within Congress's jurisdiction, but Congress has delegated broad tariff powers to the president over the past century. After the US Supreme Court ruled in February 2026 that the IEEPA of 1977 does not authorize tariffs in the way used by the Trump administration, the administration turned to other trade laws Congress had passed, using Sections 122 (expired July 24, 2026) and 301 of the Trade Act of 1974 and new duties under Section 232 of the Trade Expansion Act of 1962 to replace IEEPA tariffs (CRS, 2026).

A Congress opposed to the president's use of these trade laws could repeal or narrow these powers by passing a law; however, that law can be vetoed by the president. Members of Congress have introduced bills that would require congressional approval for new tariffs (CRS, 2026). Without a veto-proof majority, these bills cannot become law over the president's objection. Given current congressional polarization, it is unlikely a bipartisan coalition will seek to limit the powers of the president. Whether the US Supreme Court serves as a more effective check on presidential tariff power remains to be seen. While the US Supreme Court limited

the president's use of IEEPA tariffs, it has simultaneously expanded presidential power in other areas, such as increasing presidential immunity to criminal prosecution (Blackman et al., 2026).

A Democratic-led House would still change the conditions under which the US government functions. It would prevent the Republican Party from passing unilateral legislation that avoids the filibuster, such as the One Big Beautiful Bill Act of 2025. It would give Democrats control of House committees and their oversight powers (CRS, 2025). It would also add additional influence to Democrats in annual spending negotiations, including in the likely spending standoffs between a Democratic-led House and a Republican president. Congress has not passed its spending bills on time since 1997, and there have been six full or partial government shutdowns since 2013; two of these were under President Trump's first term, and three under his current term (Kopan, 2026). As previously discussed, congressional leaders use shutdowns—or the threat thereof—to negotiate policy concessions from an administration. All of these tools raise the cost and public exposure of executive action, but do not necessarily reverse or halt it. It is likely a Democratic-led House would leverage budgetary legislation to extract policy concessions from the administration—increasing the uncertainty around US government funding and solvency—though any concessions would likely not include drastic reductions to executive power, such as a revocation of tariff authorities.

The Senate confirms the appointment of judicial nominees and executive branch officials; a Democratic-led Senate would exert a check on the president's appointees. Under the National Defense Authorization Act for Fiscal Year 2024, the president may not formally withdraw the United States from NATO without the consent of the Senate or an act of Congress. The provision has never been tested, and its enforceability against the president is constitutionally contested (CRS, 2025). The president also retains broad autonomy over the posture and deployment of US forces.

In foreign policy generally, the position of the US president is even stronger. Well over 90 percent of US international agreements are executive agreements, rather than treaties requiring Senate consent (CRS, 2025). Political arrangements such as the US-EU trade framework announced at Turnberry in July 2025 require no congressional approval at all. On war powers, Congress has never enacted a law over a presidential veto requiring the withdrawal of forces from hostilities. After the January 2020 US strike in Iraq that killed Iranian General Qasem Soleimani, Congress passed a resolution to limit hostilities against Iran but failed to override President Trump's veto (CRS, 2025). A Democratic-led Congress could hold investigative hearings, attach conditions to funding, and reject nominees; it could not set the direction of US foreign policy.

Control over domestic regulatory action is moving toward the presidency as well. In June 2026, the US Supreme Court held in *Trump v. Slaughter* that the president may remove, without cause, the heads of agencies that exercise executive power, overruling the 1935 precedent that had protected independent regulators Congress installed to oversee nonpartisan economic regulation, such as the Federal Trade Commission. In a concurring opinion, Justice Neil Gorsuch noted that the powers of these agencies—the regulatory powers delegated by Congress under the assumption they would be wielded by independent actors—have not disappeared but now answer directly to the president (SCOTUS, 2026a). Of note, in a separate case, the Supreme Court carved out a distinct exception for the Fed, keeping monetary policy more insulated from presidential influence (SCOTUS, 2026b).

For European firms and stakeholders, the midterms will change domestic US politics around foreign and trade policy, but not their legal basis. The Section 232 and Section 301 tariffs on European goods will stay in force

unless the president changes them, a court strikes them down, or Congress overrides a presidential veto, which is not likely. A Democratic-led Congress would bring more investigations and obstacles to presidential action, and likely more budgetary confrontations. However, in our assessment, stakeholders should plan for a general continuation of the current US trajectory and expect additional policy uncertainty in the years ahead.

It is more likely for stakeholders to see a genuine shift in US foreign and trade policy after the 2028 US elections, in which a new president and Congress will be elected. President Trump is barred for running for a third term by the 22nd Amendment to the US Constitution, which sets a two-term limit on the presidency. However, absent significant change in the US, the structural conditions that foment such volatile policy will continue.

4 Summary and conclusion

The US economy has grown solidly in President Trump's second term, but the administration's core economic promises remain unfulfilled. The cost of living has not come down. Inflation has been above the Fed's target for more than five years; over the past year, inflation has been driven largely by energy prices, which have risen since the start of the US-Israeli war against Iran. The federal deficit has not shrunk. Debt reached 123 percent of US GDP in early 2026, and interest costs now exceed 1 trillion US dollars a year. The total goods trade deficit rebounded after the US Supreme Court struck down the IEEPA tariffs in February 2026, and FDI inflows in 2025 stayed below their ten-year average. GDP growth itself depends heavily on AI-related investment, which makes it vulnerable to a correction in tech stock valuations. This fragility extends also to the labor market, which has created far fewer jobs than under President Trump's predecessor. Consumption growth is still strong but hides a widening and record-high wealth gap.

The midterms are unlikely to change the course of US foreign and economic policy. Democrats are favored to win the House and have a realistic chance to win the Senate, but any majority will be very slim. Current ratings project 224 to 234 Democratic House seats, far short of the 290 needed to override a presidential veto. Most seats in the House of Representatives are safe for one party, polarization has narrowed the space for cooperation between the parties, and the US president has a veto over any legislation until his term ends in January 2029. This makes it unlikely for an oppositional Congress to successfully pass any legislation that revokes or limits presidential tariff powers—which rest on laws Congress passed decades ago—or exert greater control over foreign policy. Moreover, formerly independent regulators are now formally under presidential control, with monetary policy and the Fed being the only exception.

Of course, a Democratic-led House or Senate would still heavily influence the operations of the US government. It would prevent the US president's party from unilaterally passing party-line budget legislation that avoids the filibuster and allow for investigations and oversight of the administration's policies. In our assessment, this would mean more confrontation between the US president and Congress and likely additional government shutdown risks, but not a reversal of tariff or foreign policy.

German and European stakeholders should plan for continuity. Current US tariffs should be expected to stay in place at least until the end of this presidential term—barring new developments from the US Supreme Court—alongside higher fiscal and political uncertainty in the US. A genuine policy shift becomes possible only after the 2028 elections, in which President Trump is unable to run again. Even then, safe seats, narrow majorities, and polarization in Congress will continue to drive volatility in US policy.

5 Zusammenfassung

Zwei Jahre nach der Wiederwahl von US-Präsident Donald Trump bieten die US-Zwischenwahlen am 3.11.2026 die erste landesweite Gelegenheit, über seine zweite Amtszeit abzustimmen. Dieser Bericht untersucht, ob die Regierung ihre wirtschaftspolitischen Versprechen eingehalten hat und ob die Wahlen die Ausrichtung der US-Wirtschafts- und Außenpolitik verändern können oder werden.

Der Bericht konzentriert sich auf drei grundlegende Säulen der Wirtschaftspolitik von Präsident Trump: eine expansive Fiskalpolitik zur Senkung der Steuerlast, eine Handelspolitik, die unilaterale Zölle umfasst, sowie das Bestreben, das heimische Verarbeitende Gewerbe zu revitalisieren und Investitionen in künstliche Intelligenz (KI) zu fördern. Eine Analyse der tatsächlichen wirtschaftlichen Entwicklung seit dem Amtsantritt von Präsident Trump im Januar 2025 zeigt eine gemischte Erfolgsbilanz und verdeutlicht die Anfälligkeit des derzeitigen US-Wachstumsmodells. Während das Wachstum des Bruttoinlandsprodukts (BIP) robust bleibt und die Investitionen deutlich zunehmen, entstehen auf dem Arbeitsmarkt weniger neue Stellen als unter der vorherigen US-Regierung. Zugleich liegt die Inflation seit Längerem deutlich über dem Zielwert der US-Notenbank Federal Reserve (Fed) von 2 Prozent, was die anhaltenden Probleme bei der Bezahlbarkeit der Lebenshaltungskosten in den USA verschärft. Der Krieg der USA und Israels gegen den Iran erhöht die bereits hohe Staatsverschuldung und treibt die Zinsen weiter in die Höhe. Dies zwingt die Gläubiger, die Tragfähigkeit der ausstehenden US-Staatsschulden in Höhe von 40 Billionen US-Dollar zu hinterfragen. Zwar entwickeln sich die KI-Investitionen dynamisch und treiben das gesamtwirtschaftliche Wachstum an. Ihre überproportional große Bedeutung für die US-Wirtschaft erhöht jedoch deren Anfälligkeit, was sich über die Vermögenskonzentration und die Volatilität der Finanzmärkte negativ auswirken könnte.

Eines der zentralen Ziele der Trump-Regierung war es, das US-Warenhandelsdefizit durch die Einführung einer Vielzahl von Importzöllen zu verringern. Da jedoch maßgebliche makroökonomische Faktoren das US-Warenhandelsdefizit bestimmen, haben die Zölle bislang nicht zu einem nachhaltigen Rückgang geführt. Im August 2026 belief sich das gesamte monatliche US-Warenhandelsdefizit auf 130 Milliarden US-Dollar und lag damit höher als im gleichen Monat zwei Jahre zuvor. Allerdings hat sich seine Zusammensetzung verändert, da die US-Zölle je nach Land oder Region sowie nach Warengruppe variieren. Im August 2026 entfielen auf die EU lediglich 7 Prozent des gesamten US-Warenhandelsdefizits, gegenüber 20 Prozent im August 2024. Dies ist weniger auf einen deutlichen Rückgang der US-Importe aus der EU zurückzuführen als vielmehr darauf, dass die USA mehr Waren, insbesondere Energieprodukte, in die EU exportieren. Auch Chinas Anteil sank von 29 Prozent zwei Jahre zuvor auf 14 Prozent. Stattdessen entfallen auf Mexiko und Vietnam inzwischen jeweils 20 Prozent des gesamten US-Warenhandelsdefizits. Der absolute Wert des US-Warenhandelsdefizits gegenüber Deutschland blieb in den ersten beiden Jahren von Trumps zweiter Amtszeit relativ stabil.

Die Verringerung des US-Warenhandelsdefizits ist Teil eines umfassenderen Vorhabens der derzeitigen US-Regierung, die industrielle Produktion in die USA zurückzuholen. Dazu sollen die Zuflüsse ausländischer Direktinvestitionen in die USA steigen. Eine Analyse der gesamten Direktinvestitionszuflüsse in die USA anhand von Daten des US Bureau of Economic Analysis zeigt, dass diese Strategie bislang nicht erfolgreich war: Im Jahr 2025 beliefen sich die Zuflüsse auf 248 Milliarden US-Dollar. Dies entspricht einem Rückgang um 8,2 Prozent gegenüber dem Vorjahr und um 18 Prozent gegenüber dem Durchschnitt der Jahre 2015 bis 2024. Betrachtet man ausschließlich die Direktinvestitionszuflüsse aus der EU in die USA, zeigt sich für 2025 ein leichter Anstieg um 1,4 Prozent, im Vergleich zum Durchschnittswert der letzten zehn Jahre jedoch ein Rückgang um 12 Prozent. Die Entwicklung der Investitionszuflüsse deutscher Unternehmen in die USA ist

uneindeutig: Während die US-Daten für 2025 einen Anstieg um 40 Prozent ausweisen, verzeichnen die Daten der Deutschen Bundesbank einen Rückgang um 21 Prozent. Die weltweiten Direktinvestitionszuflüsse in das Verarbeitende Gewerbe der USA stiegen 2025 gegenüber 2024 leicht um 3,3 Prozent auf 114 Milliarden US-Dollar. Gegenüber dem Durchschnitt der Jahre 2015 bis 2024 entspricht dies jedoch weiterhin einem Rückgang um rund 20 Prozent. Dieser negative Trend zeigt sich auch bei den Direktinvestitionszuflüssen aus der EU in das Verarbeitende Gewerbe der USA.

Die Zwischenwahlen 2026 dürften keine grundlegende Neuausrichtung der US-Politik bewirken. Die Demokraten gelten als Favoriten für eine Mehrheit im Repräsentantenhaus; der Ausgang der Senatswahl ist offen. Jede neue Mehrheit dürfte sehr knapp ausfallen und deutlich unter der Zweidrittelmehrheit liegen, die erforderlich ist, um ein Veto des Präsidenten zu überstimmen. Der US-Präsident wird daher großen Einfluss auf die Gesetzgebungsagenda behalten. Die meisten Kongresssitze gelten für eine der beiden Parteien als sicher, und die Polarisierung hat die parteiübergreifende Zusammenarbeit erheblich geschwächt. Daher ist es unwahrscheinlich, dass ein von der Opposition kontrollierter Kongress erfolgreich Gesetze verabschieden kann, die die Zollbefugnisse des Präsidenten aufheben oder einschränken, oder dass er die Außenpolitik stärker kontrollieren kann. Die Zollbefugnisse beruhen auf Gesetzen, die der Kongress vor Jahrzehnten verabschiedet hat. Zudem unterstehen ehemals unabhängige Regulierungsbehörden inzwischen formal der Kontrolle des Präsidenten; die Fed bildet die einzige Ausnahme. Ein von den Demokraten geführtes Repräsentantenhaus oder ein von ihnen geführter Senat könnte Untersuchungen gegen die Regierung einleiten und größeren Einfluss auf die Haushaltsverhandlungen nehmen. Es wäre jedoch kaum möglich, ein Veto des Präsidenten zu überstimmen, um eine Kehrtwende in der Zoll- oder Außenpolitik herbeizuführen.

Deutsche und europäische Akteure sollten daher davon ausgehen, dass die derzeitige US-Handelspolitik einschließlich der Zölle mindestens bis Januar 2029 fortbesteht und die Unsicherheit über die US-Wirtschaftspolitik anhält. Ein tatsächlicher Politikwechsel wird erst nach den Präsidentschaftswahlen 2028 möglich. Die strukturellen Ursachen für die wechselhafte US-Politik und die Schwäche des Kongresses werden jedoch fortbestehen.

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