Tariffs & trade wars

Powered by Macrobond

May 2025

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Summary

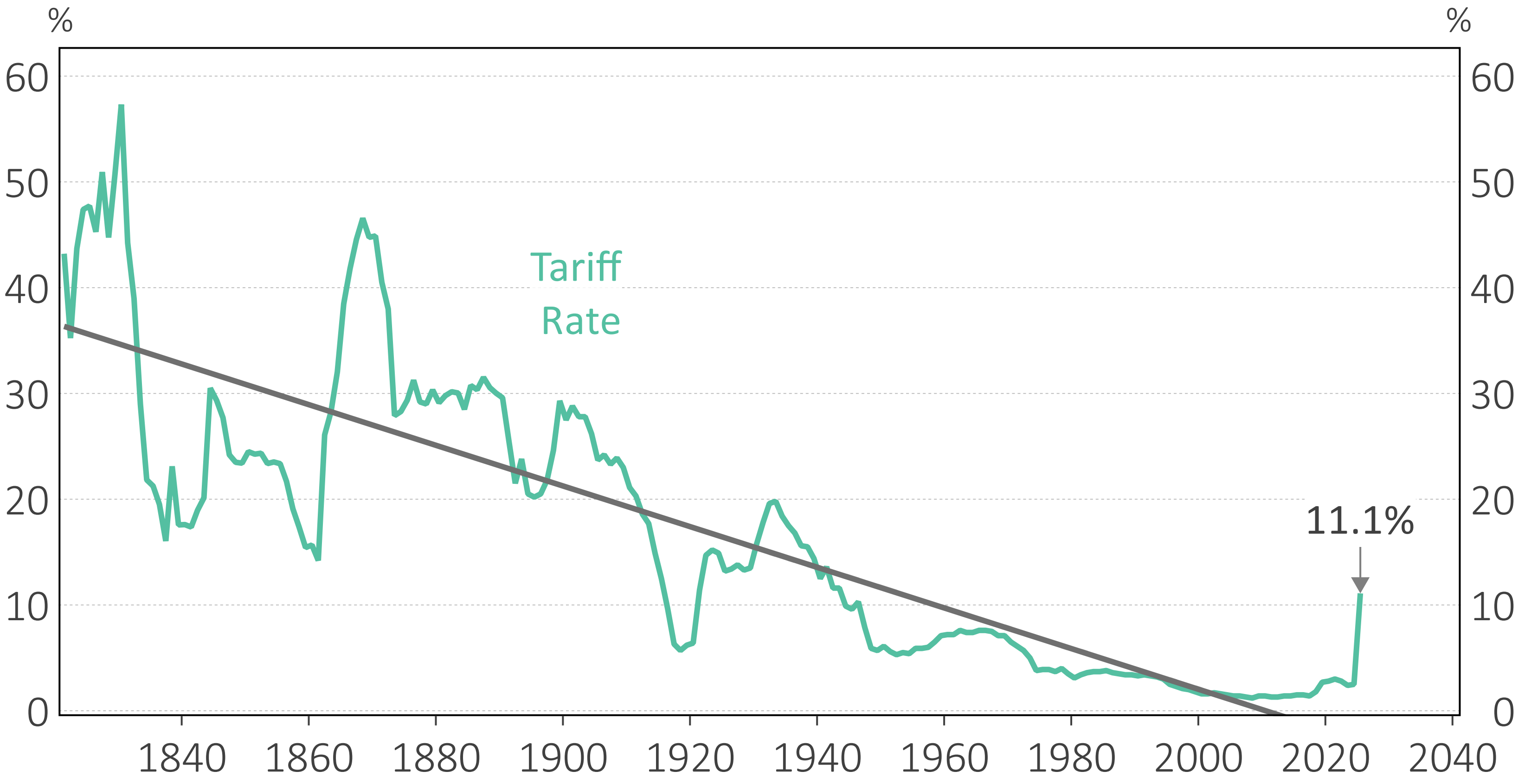
- Tariffs and trade wars are the focus of the economic and political debate at present.
- The parameters shift on an almost daily basis – there is a need to cut through to the underlying fundamentals and work out what to watch.
- From that perspective:
  - Tariffs are the latest addition to the trade restrictions that have been building in recent years.
  - Tariffs do raise revenue but the US consumer pays – PinPoint estimates that the full reciprocal tariff package will cost the average US consumer US$2,798 per year.
  - China was able to divert its trade elsewhere in the first trade war – the recent weakening of the CNY against other major currencies will help drive China trade diversion again.
  - PinPoint's simulations point to a sharp lift in US import prices "in the warehouse" as tariffs rise, feeding into US inflation measures more broadly. A more cautious Fed is another outcome.
  - Measures of US recession risks remain relatively benign and the high frequency indicators favoured by PinPoint in its tariff watch are yet to show any real impact.
  - The one exception is some sign of a pull back in US consumer discretionary spending.

Tariffs – A Long Run Perspective

- The US Tax Foundation expects the average effective tariff rate will rise to 11.1% - the highest average rate since 1943.
- The tariff spike interrupts a long-run downward trend.

Average U.S. Tariff Rate on All Imports

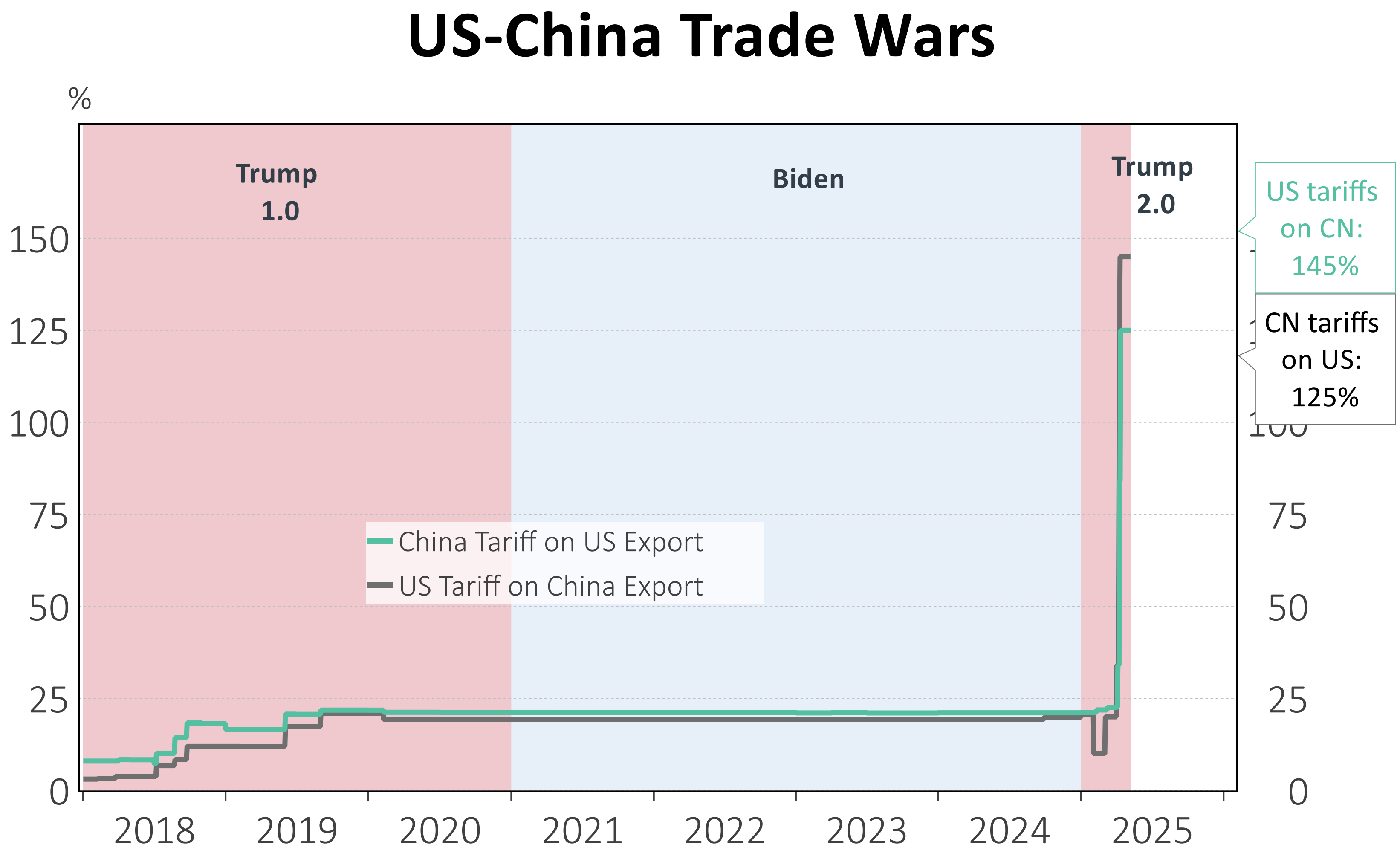
(Tariff Revenue as % of Total Imports)



Source: PinPoint Macro Analytics, Macrobond, TF

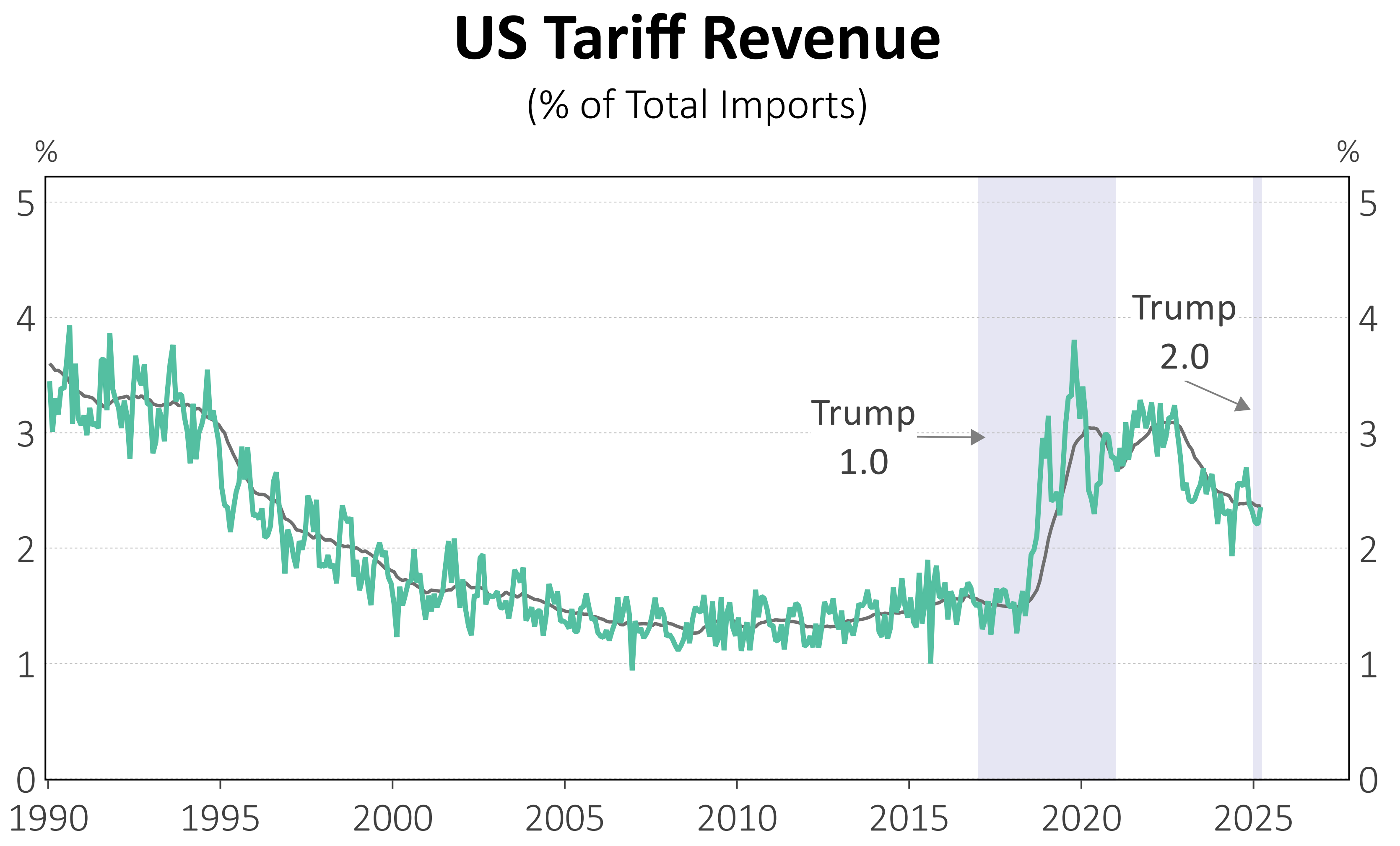
Tit for Tat

- Major economies like China, Canada, and the EU have imposed retaliatory tariffs.
- A tit-for-tat response is a common feature of trade wars.



Source: PinPoint Macro Analytics, Macrobond, WH, PIIE, MOF

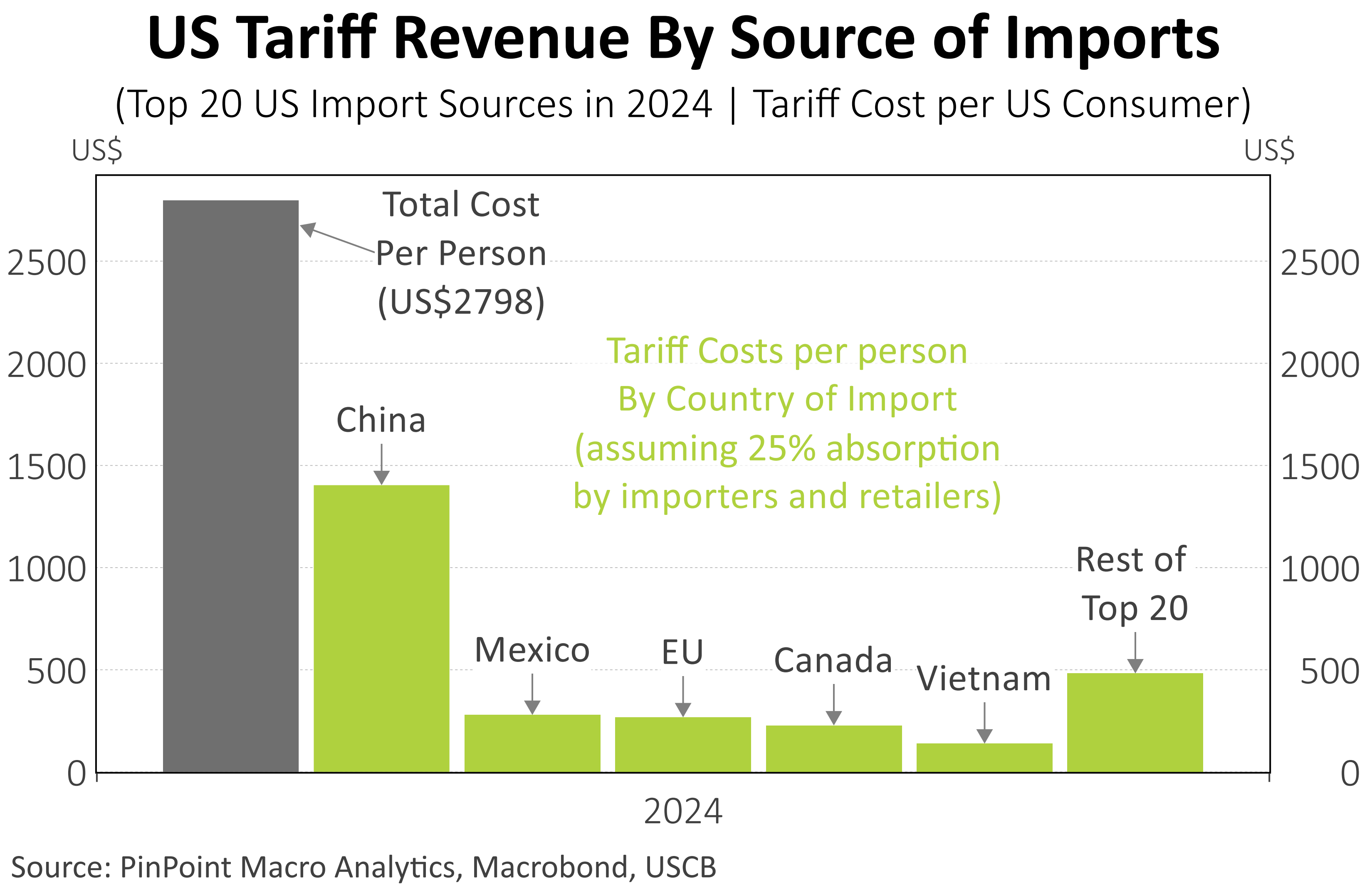
Tariffs Raise Revenue – But the US Consumer Pays



Source: PinPoint Macro Analytics, Macrobond, U.S. Treasury, BEA, BLS

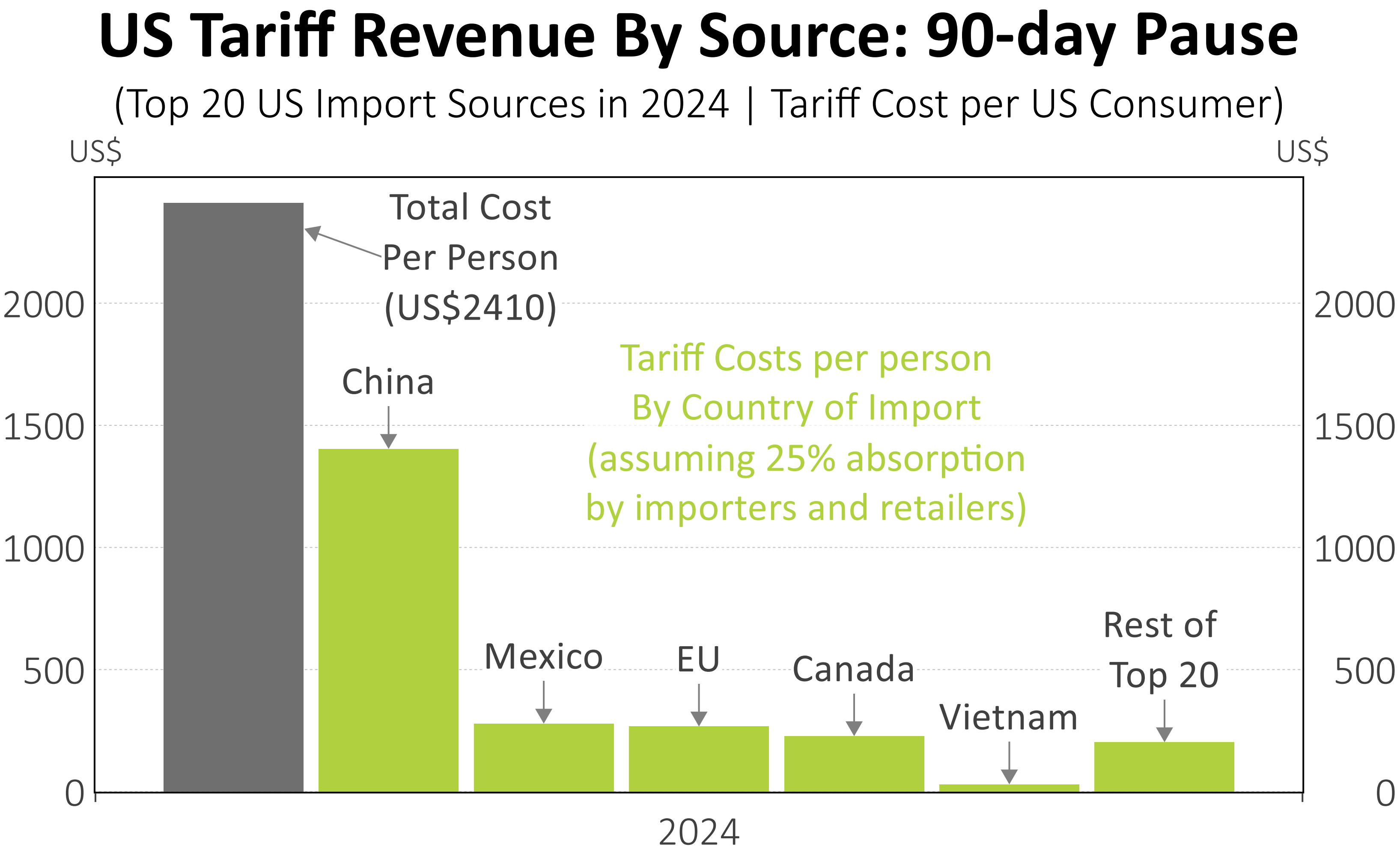
Tariff Costs to US Consumers – With Reciprocal

- PinPoint Macro estimates that the reciprocal tariffs imposed on the Top-20 US import sources will cost the average US consumer $2,798 per year.



Tariff Costs to US Consumers – With 90-Day Pause

- The 90-day reciprocal tariff pause reduces the cost for the average US consumer to $2,410.
- The reduction compared with the full tax package is relatively small because China, Canada and Mexico (42% of US imports) were excluded from the pause.



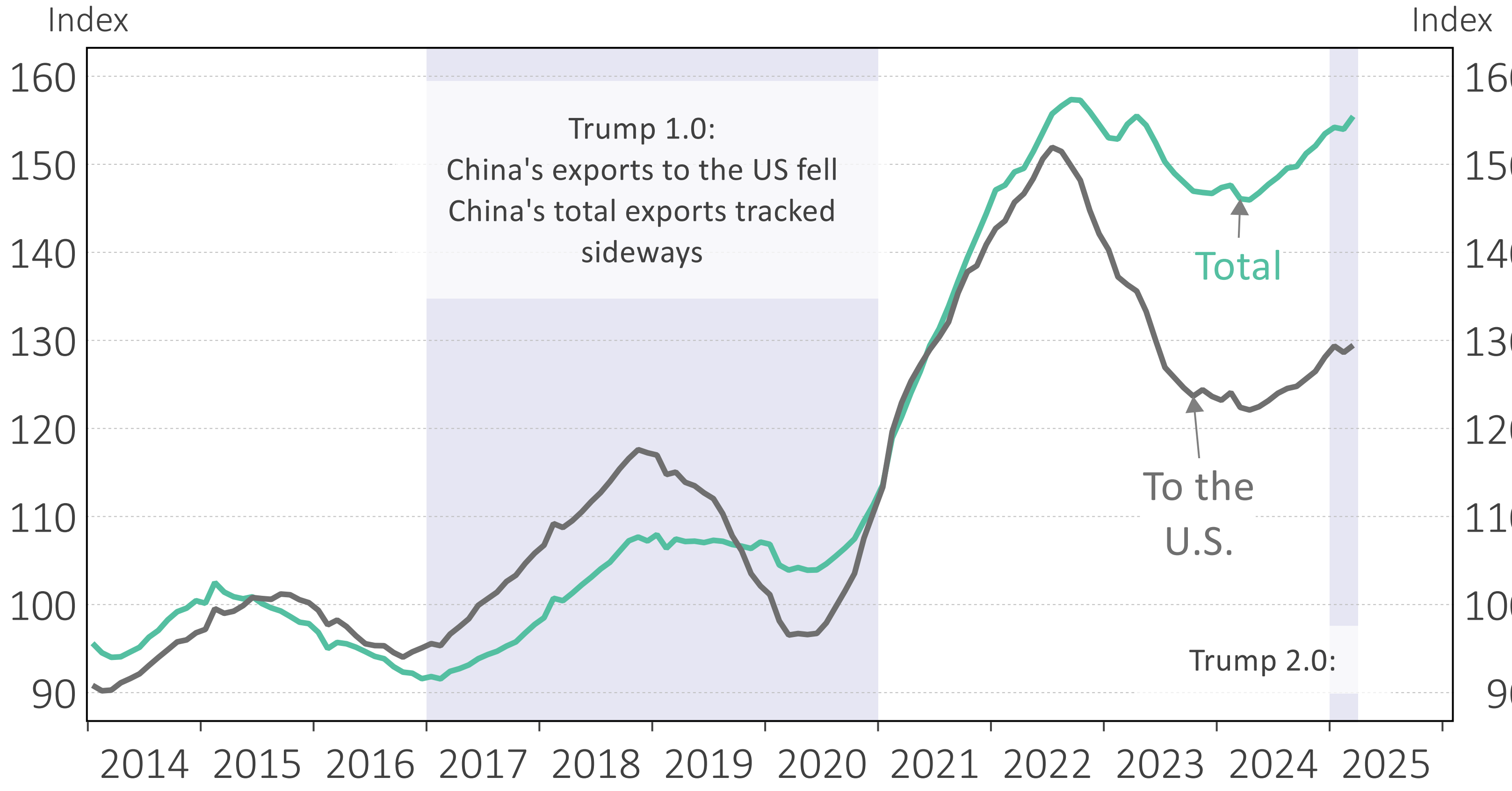
Source: PinPoint Macro Analytics, Macrobond, USCB

Lessons From the First Trade War

- Chia’s exports to the US fell in the first us-China trade war (2018-20).
- But total Chinese exports tracked sideways.
- China was able to divert its exports to other countries.

China Exports & Trade Diversion

(2016=100 | Rolling Annual | USD)



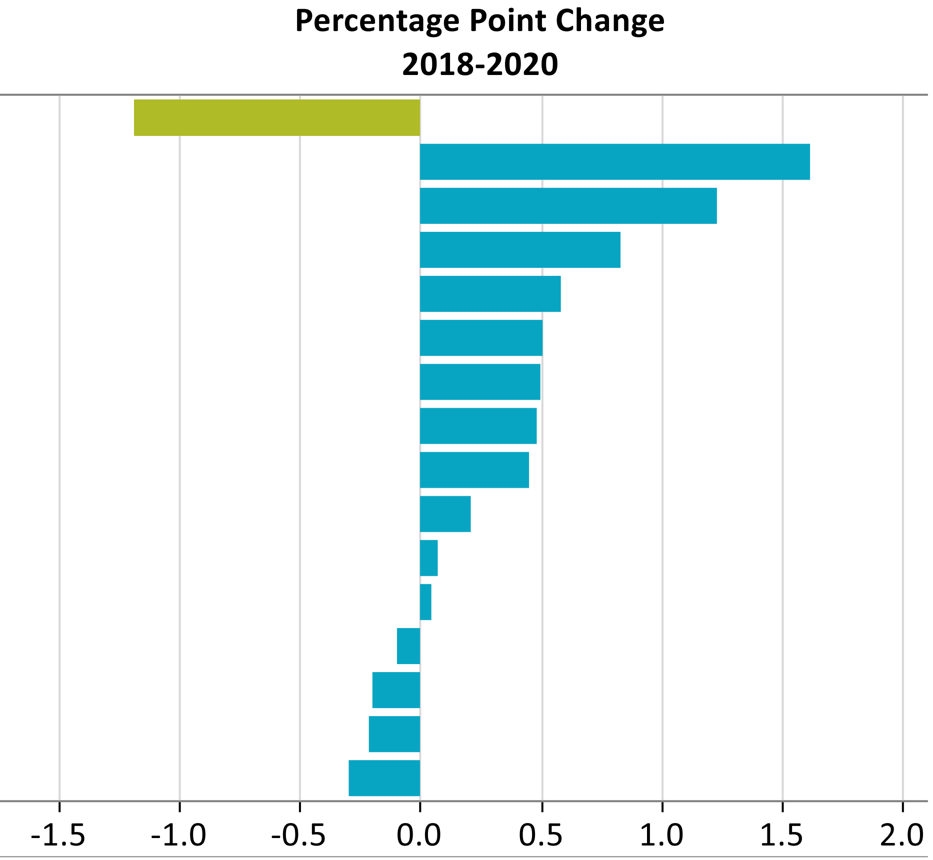
Source: PinPoint Macro Analytics, Macrobond, GAC

Lessons From the First Trade War

US Import Shares: 2018 - 2020

(Change in Import Shares | Trump 1.0 and US-China trade war)

US imports from:	Market Share in 2020
China	16.2
Mexico	11.4
Vietnam	2.7
Taiwan	2.2
Switzerland	1.8
S Korea	2.9
India	1.9
Ireland	2.4
Malaysia	1.7
Thailand	1.3
Germany	4.2
UK	1.9
Italy	1.9
Japan	4.5
France	1.5
Canada	9.6

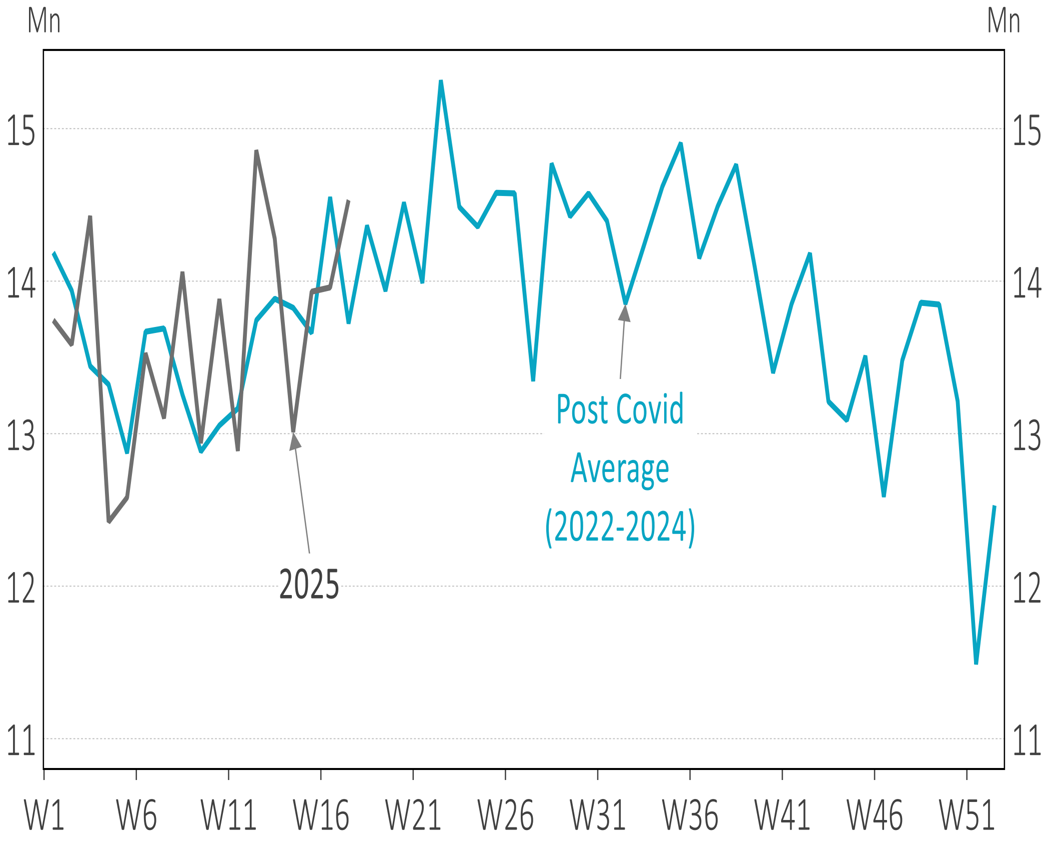


Source: PinPoint Macro Analytics, Macrobond, BEA, USCB

Trade War 2: Little Impact on US Trade (as yet)

US Ports Import Activity

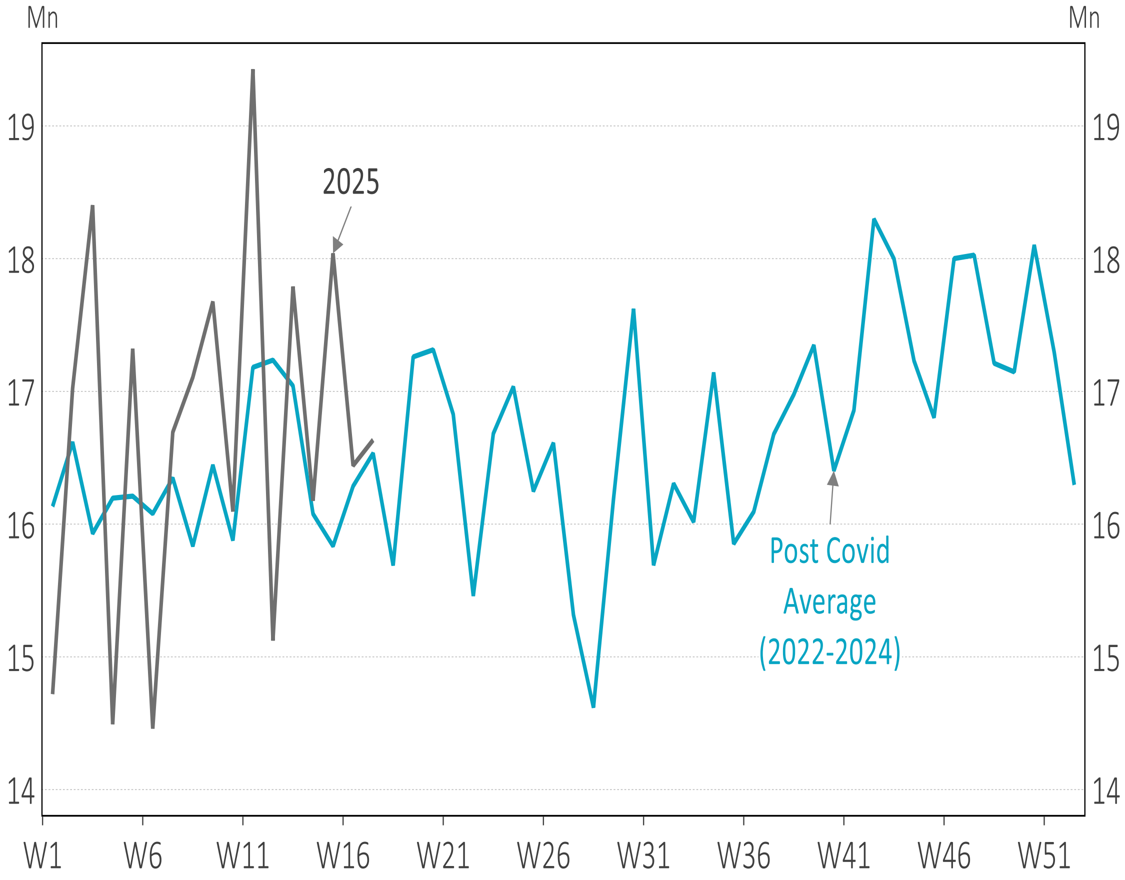
(Weekly Trade Flows in Metric Tonnes | As at: 7 May)



Source: PinPoint Macro Analytics, Macrobond, IMF

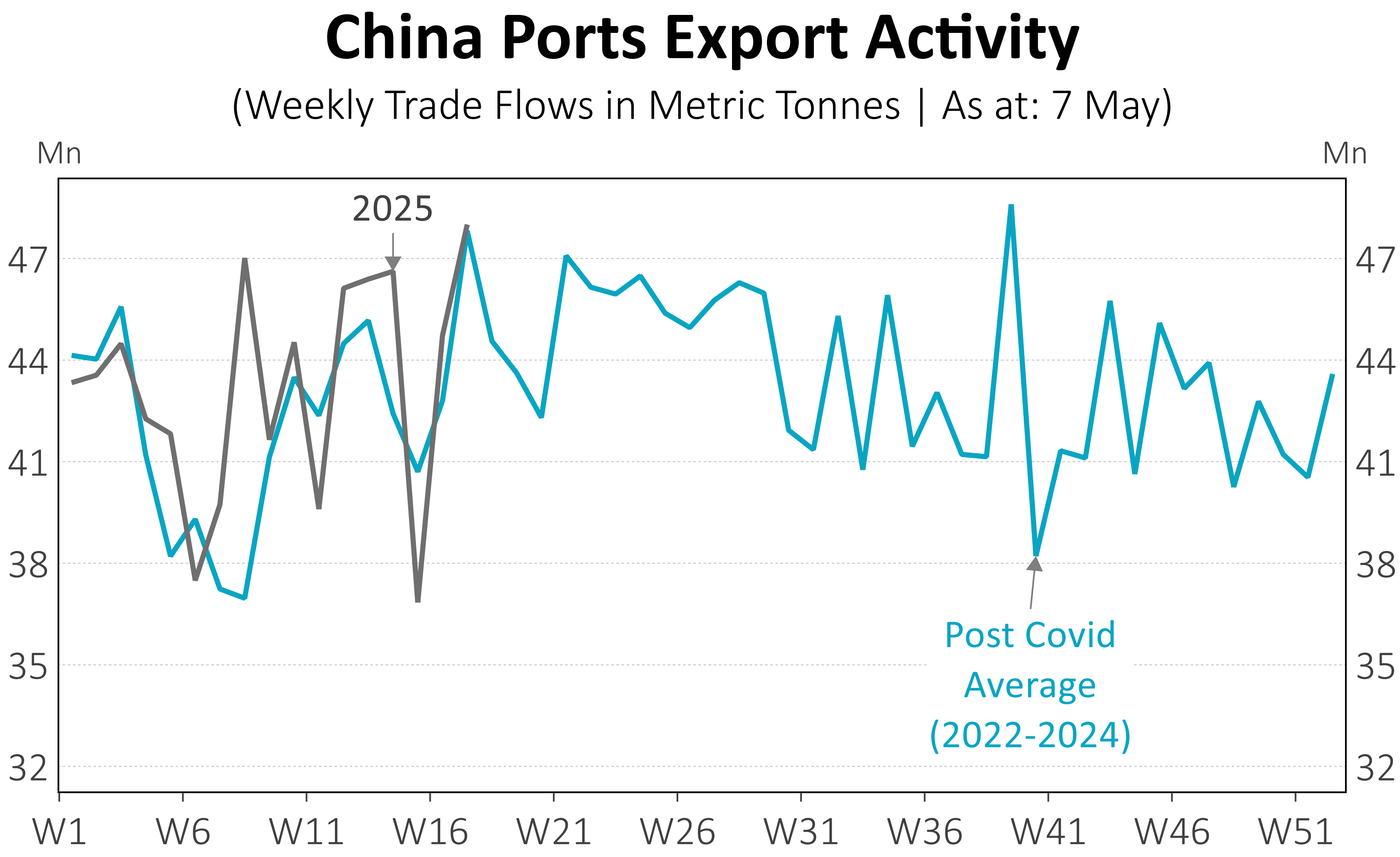
US Ports Export Activity

(Weekly Trade Flows in Metric Tonnes | As at: 7 May)



Source: PinPoint Macro Analytics, Macrobond, IMF

Trade War 2: Little Impact on China Exports (as yet)



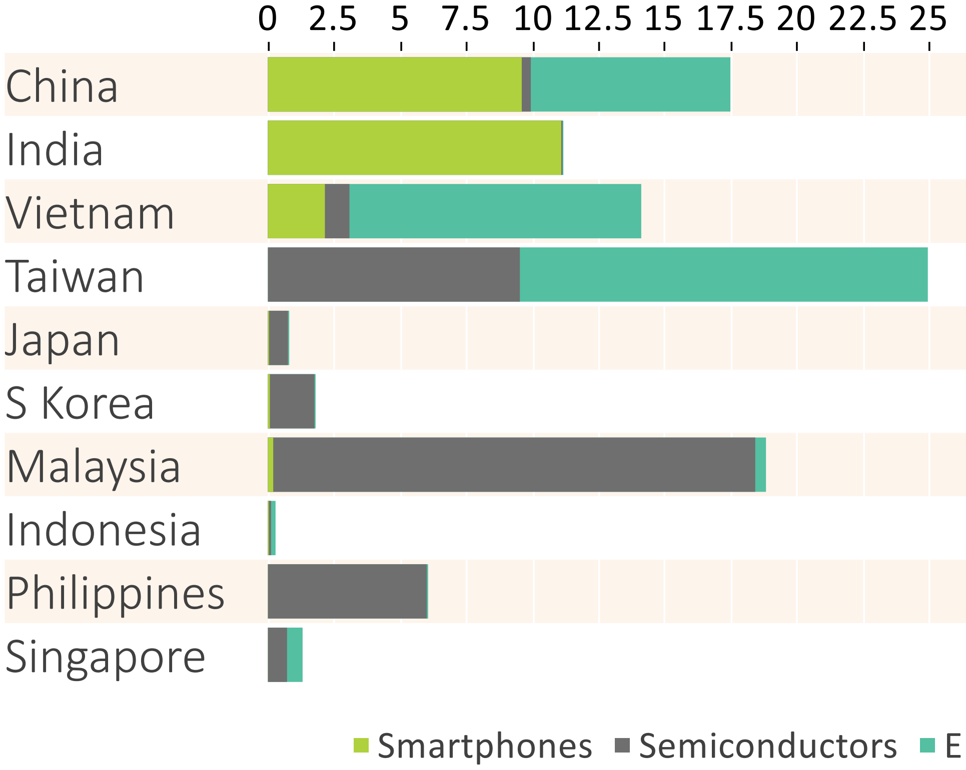
Source: PinPoint Macro Analytics, Macrobond, IMF

Trade War 2: The Importance of High Tech

U.S. Tariff Exemptions

(% share of U.S. Imports)

% Share of U.S. Imports from:



	Smart phones	Integrated Circuits	Electronic Computers
China	9.6%	0.3%	7.6%
India	11.1%	0.0%	0.0%
Vietnam	2.2%	0.9%	11.0%
Taiwan	0.0%	9.5%	15.4%
Japan	0.0%	0.7%	0.0%
S Korea	0.1%	1.7%	0.0%
Malaysia	0.2%	18.2%	0.4%
Indonesia	0.0%	0.1%	0.2%
Philippines	0.0%	6.0%	0.1%
Singapore	0.0%	0.7%	0.6%

Source: Macrobond, U.S. Census Bureau

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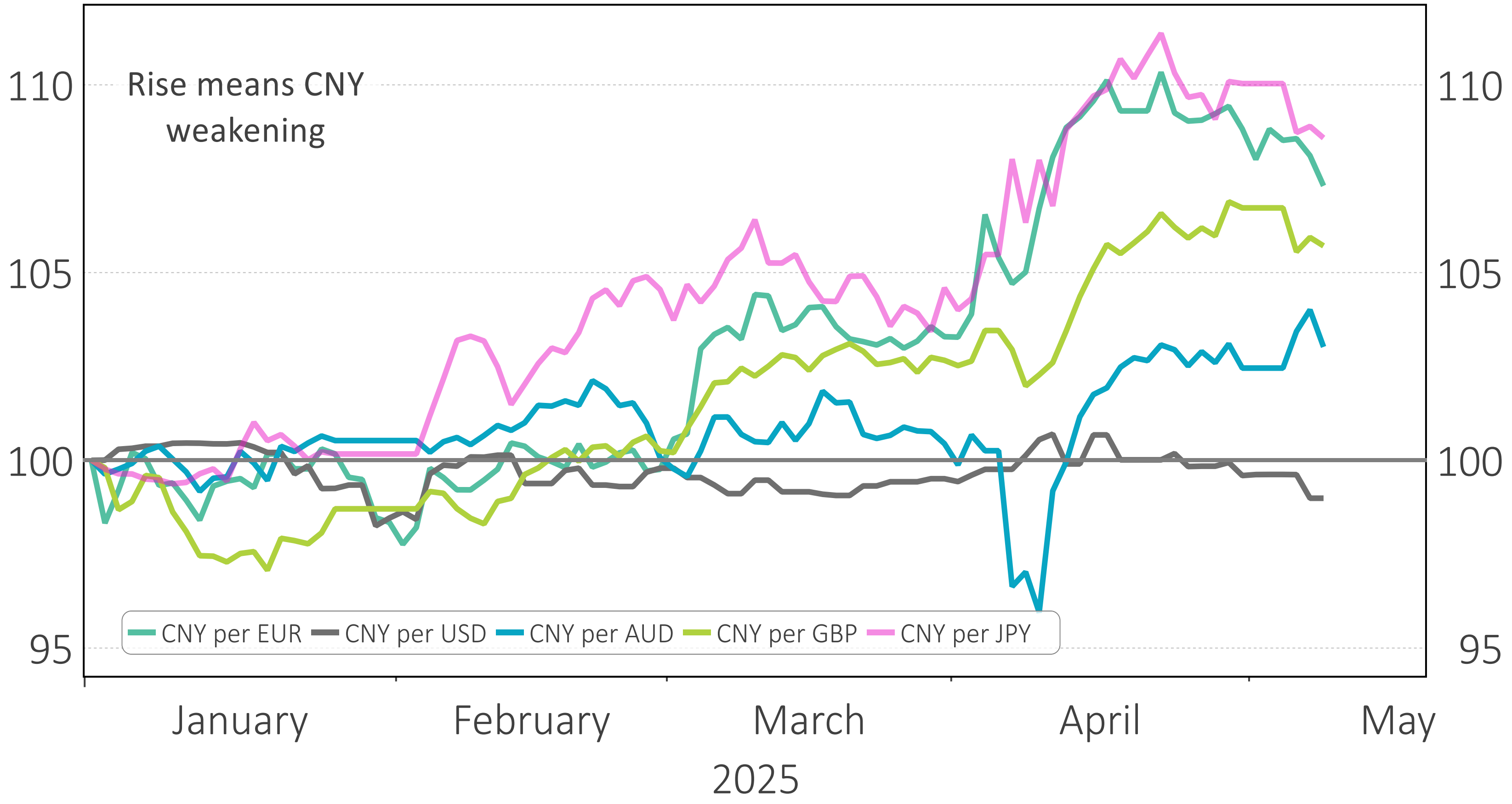
Trade War 2: Trade Diversion Again?

- CNY/USD little changed so far in 2025.
- But CNY has weakened against other major currencies.
- This relative price shift is favourable for Chinese trade diversion.

China FX Spot Rates

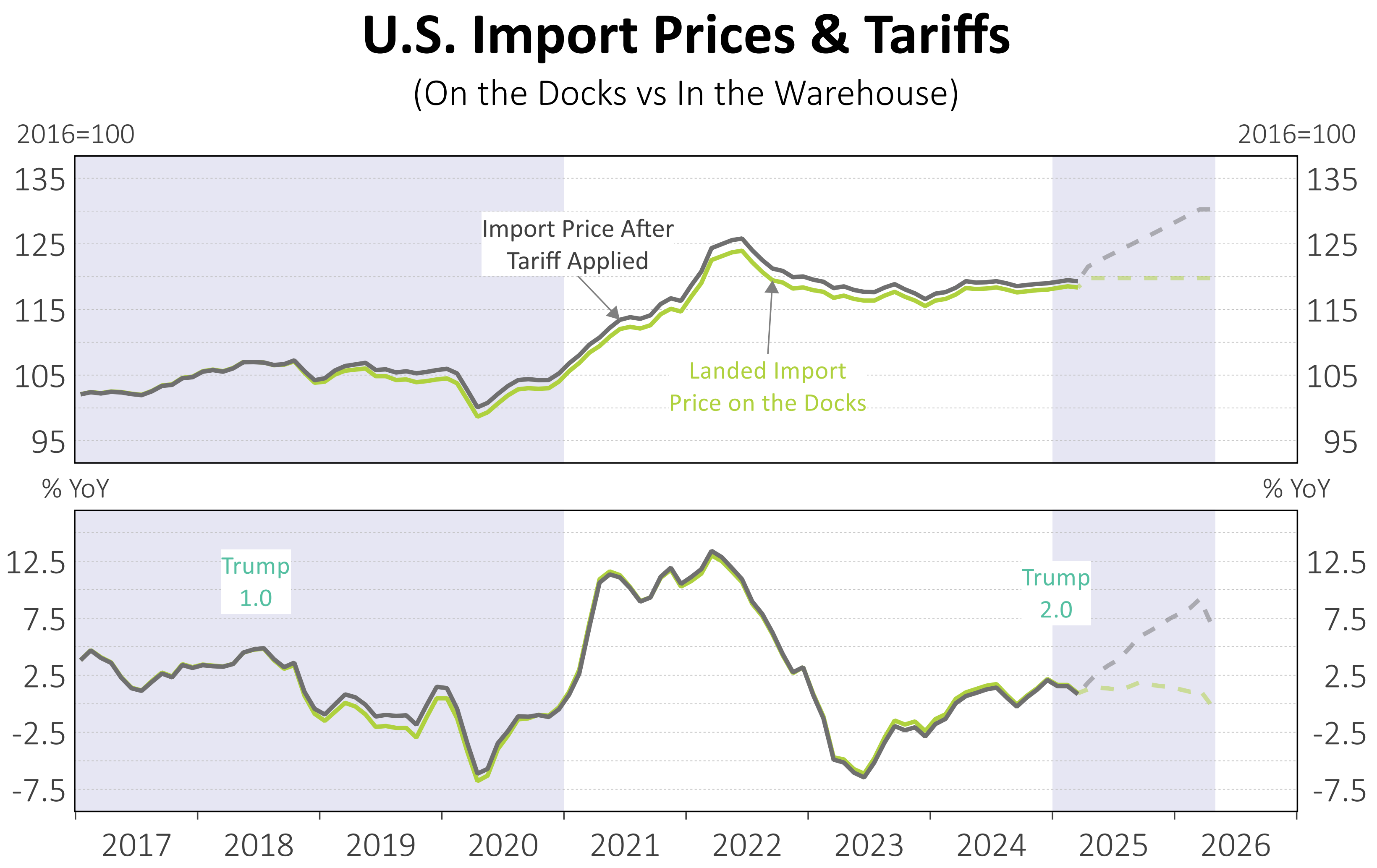
(Index | End 2024=100)



Source: PinPoint Macro Analytics, Macrobond, SAFE

US Tariffs & Inflation

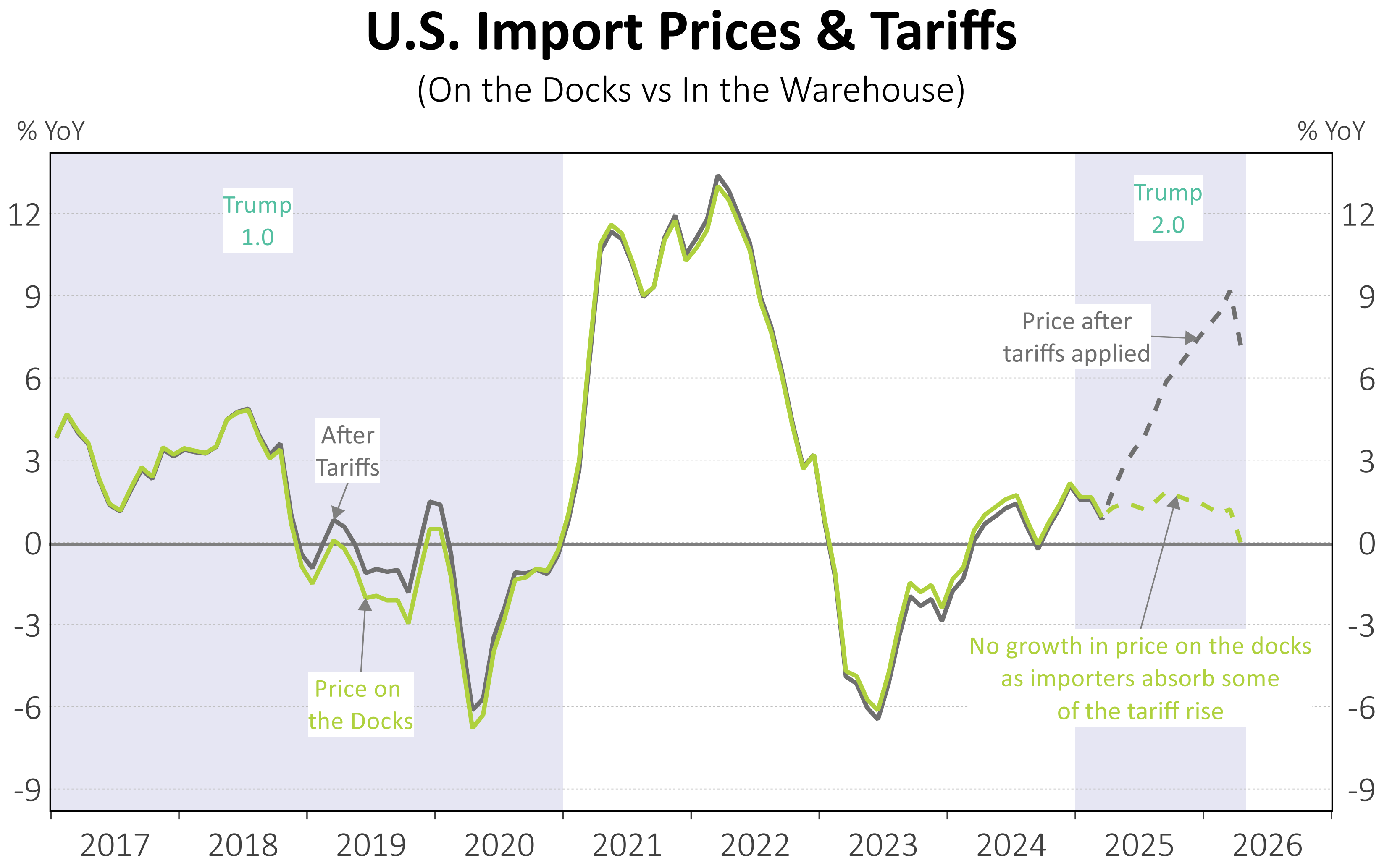
- Landed import prices “on the docks” reflect international trade prices and exchange rates.
- Import prices “in the warehouse” add on the tariff rate.



Source: PinPoint Macro Analytics, Macrobond, BLS, U.S. Treasury, BEA

US Tariffs & Inflation

- PinPoint Macro simulations point to a sharp lift in US import prices courtesy of higher tariffs.
- This simulation is illustrative only.
- The key assumptions are:
  - no trade diversion;
  - US reciprocal tariffs implemented as announced; and
  - importers/retailers absorb 25% of the price impact.

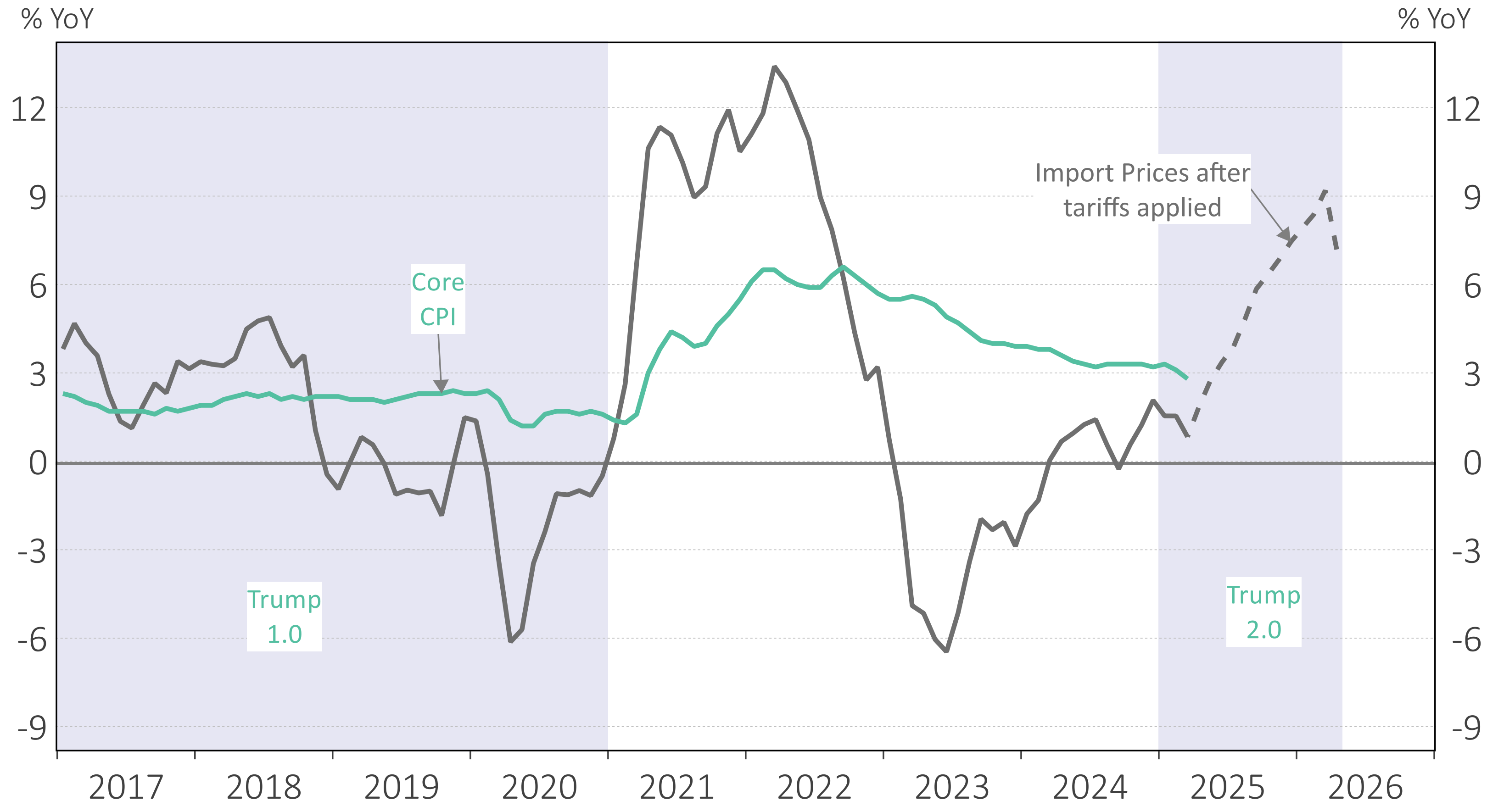


Source: PinPoint Macro Analytics, Macrobond, BLS, U.S. Treasury, BEA

Rising Import Prices Flow Into Prices More Broadly

U.S. Import Prices, Tariffs & CPI

(Annual % Change)

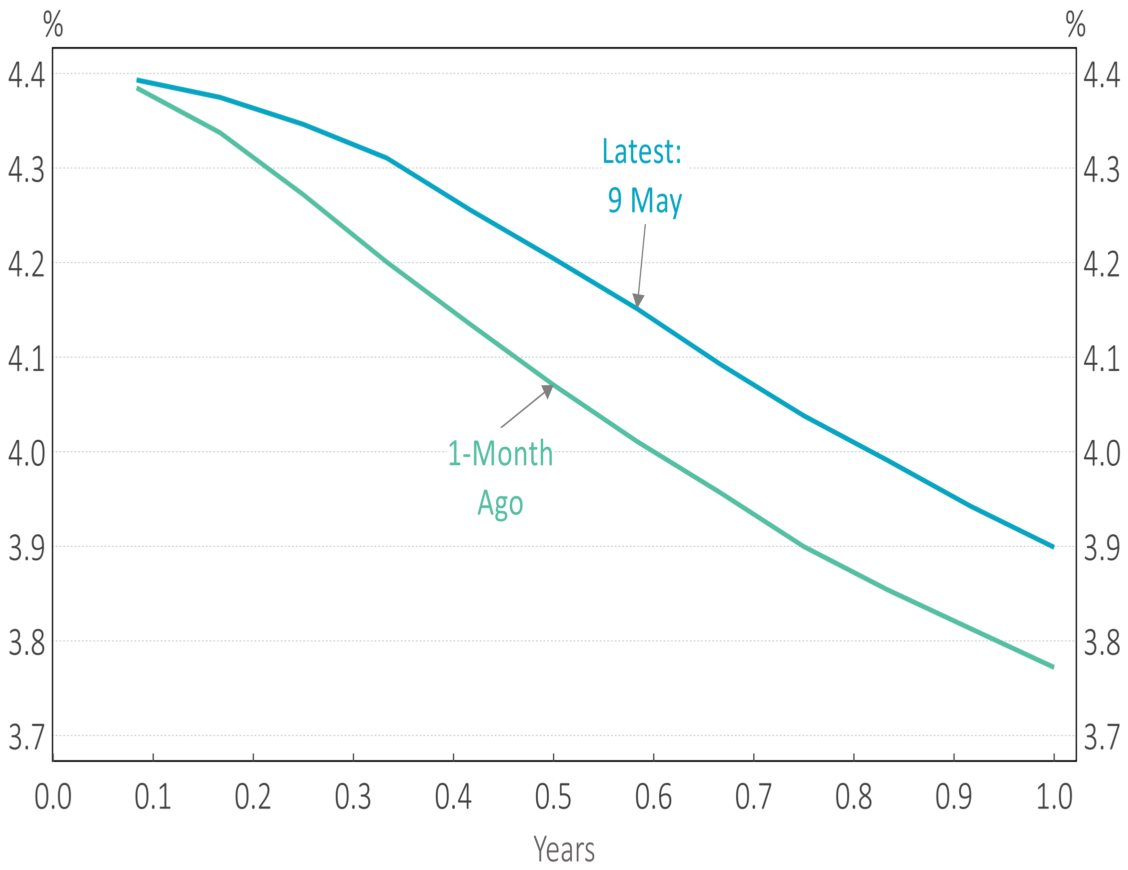


Source: PinPoint Macro Analytics, Macrobond, BLS, U.S. Treasury, BEA

US Tariffs, Inflation & the Fed

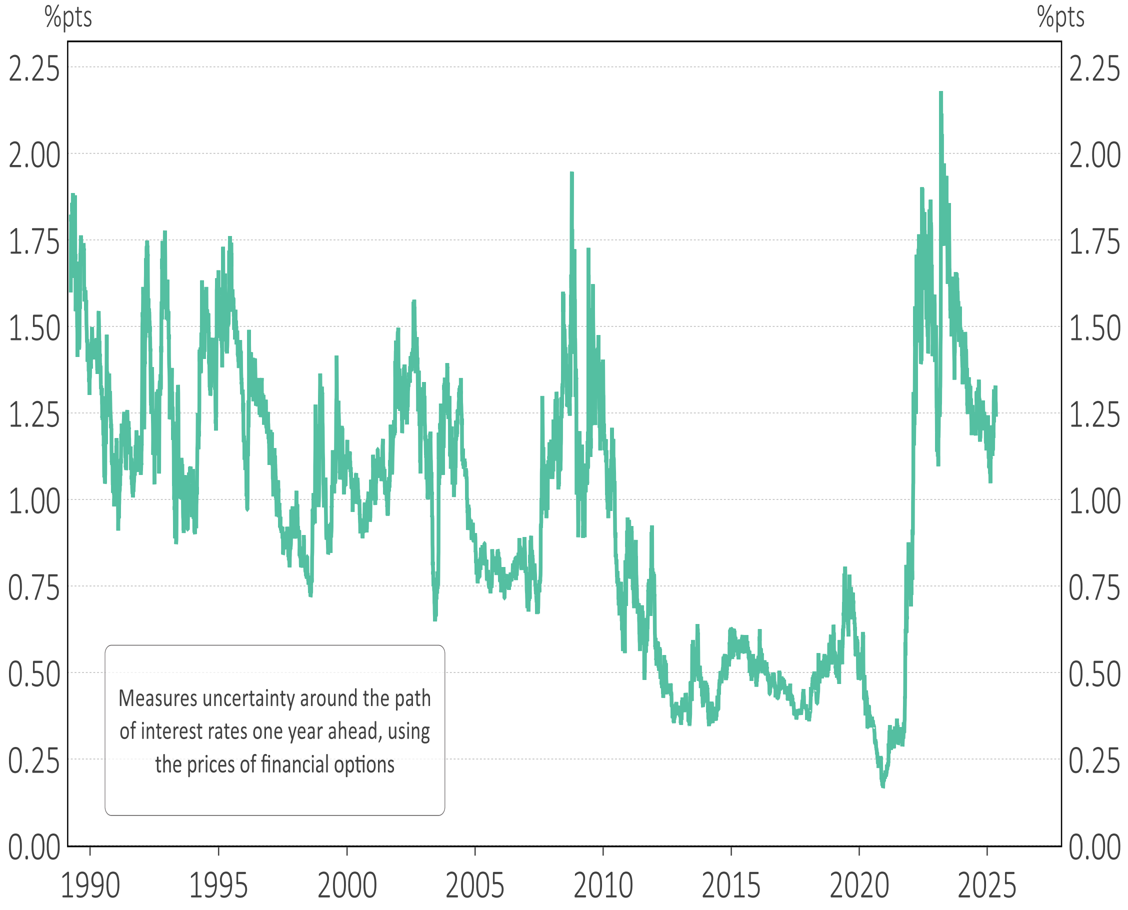
U.S. Fed OIS Curve

(Overnight Indexed Swaps measure pricing for Fed rate changes)



Source: PinPoint Macro Analytics, ICAP

US Policy Rate Uncertainty

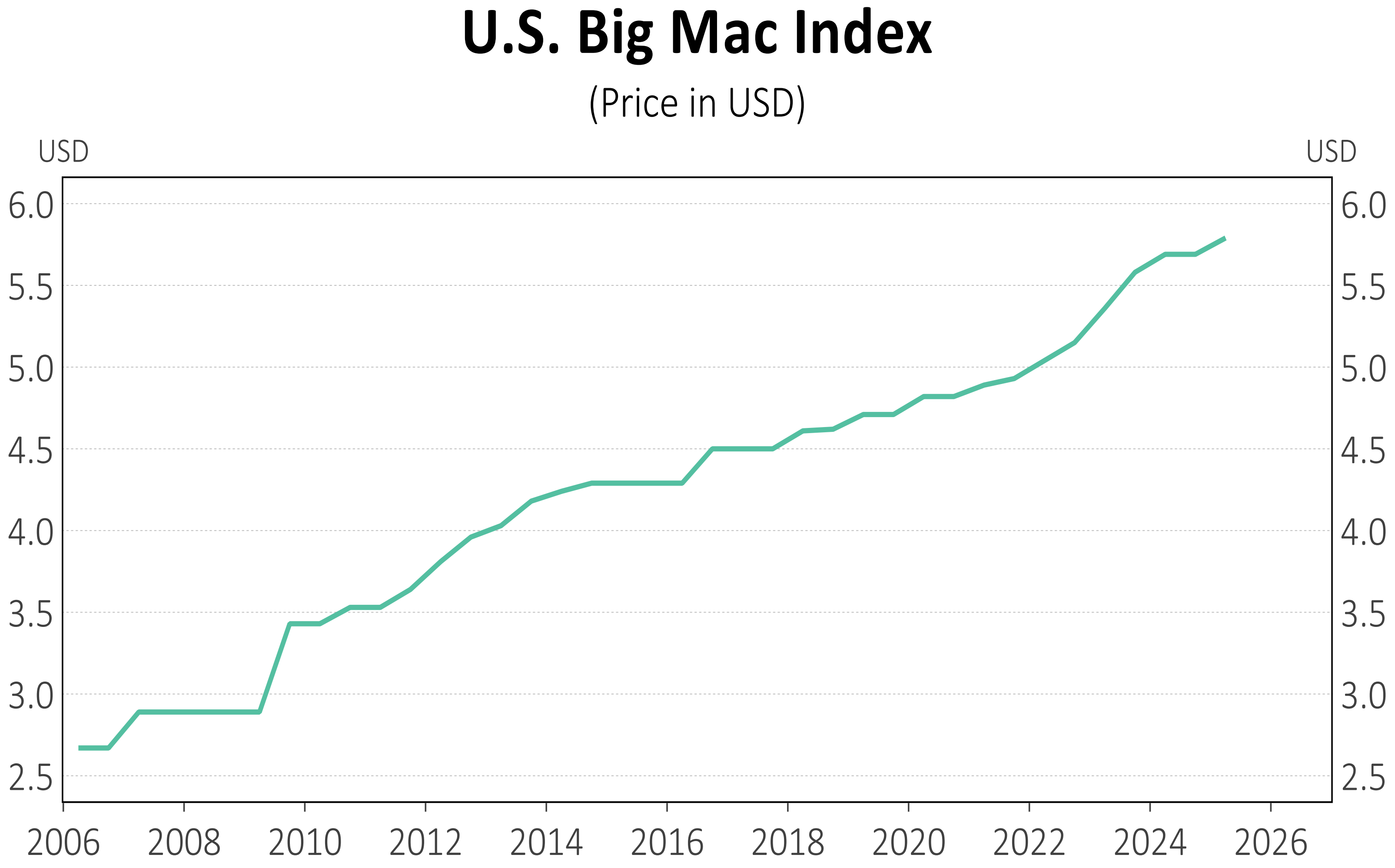


Source: PinPoint Macro Analytics, Macrobond, Kansas City Fed

- Tariff-related inflation risks will make the Fed more cautious about pushing on with rate cuts.

Price Impact – What to Watch

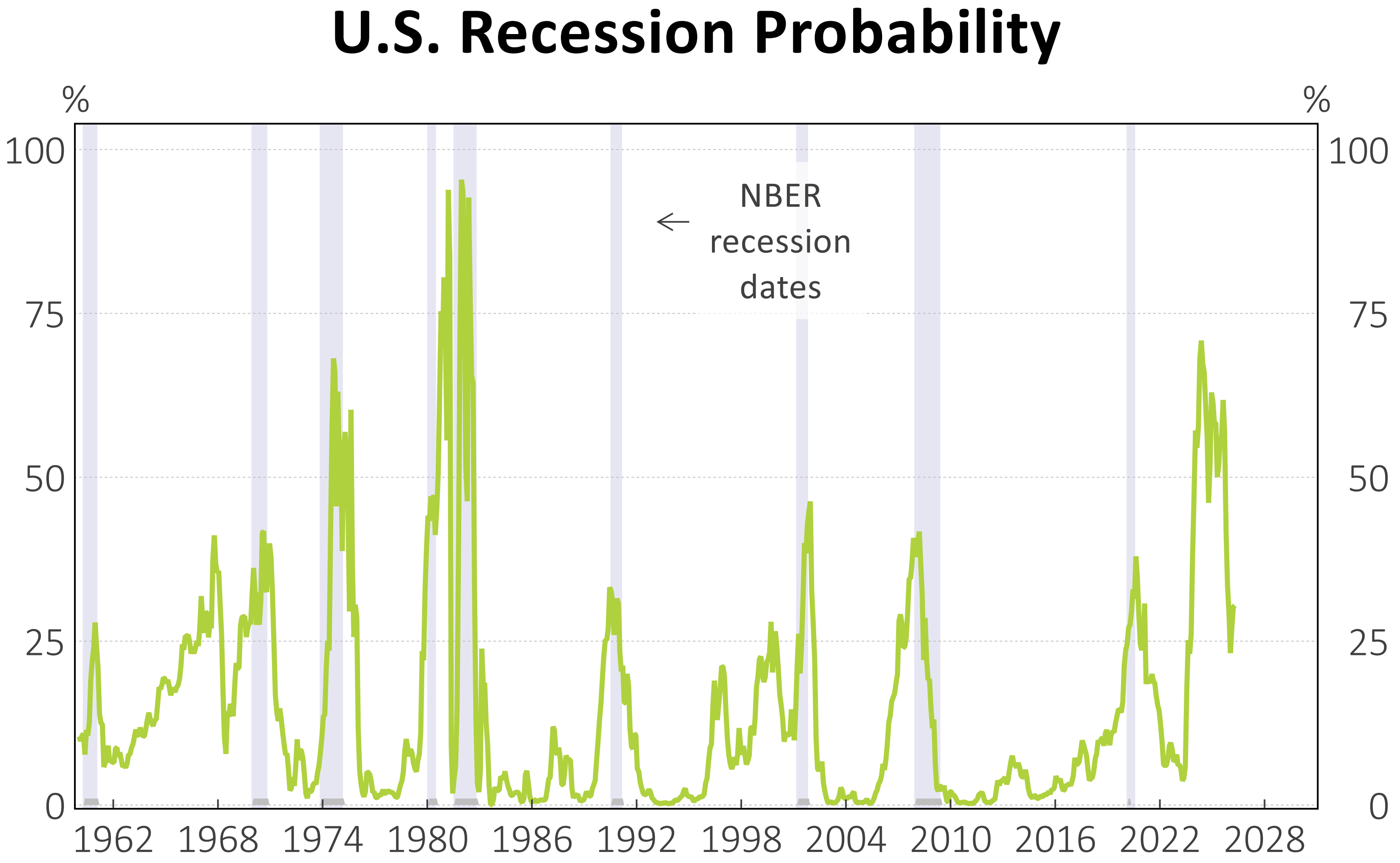
- Big Mac prices, that partly reflect beef imported from countries like Australia, could be a useful bellwether of the impact on US consumers.



Source: PinPoint Macro Analytics, Macrobond, Economist

Tariffs & US Recession Risks

- The slope of the yield curve provides an indication of financial market pricing for recession.



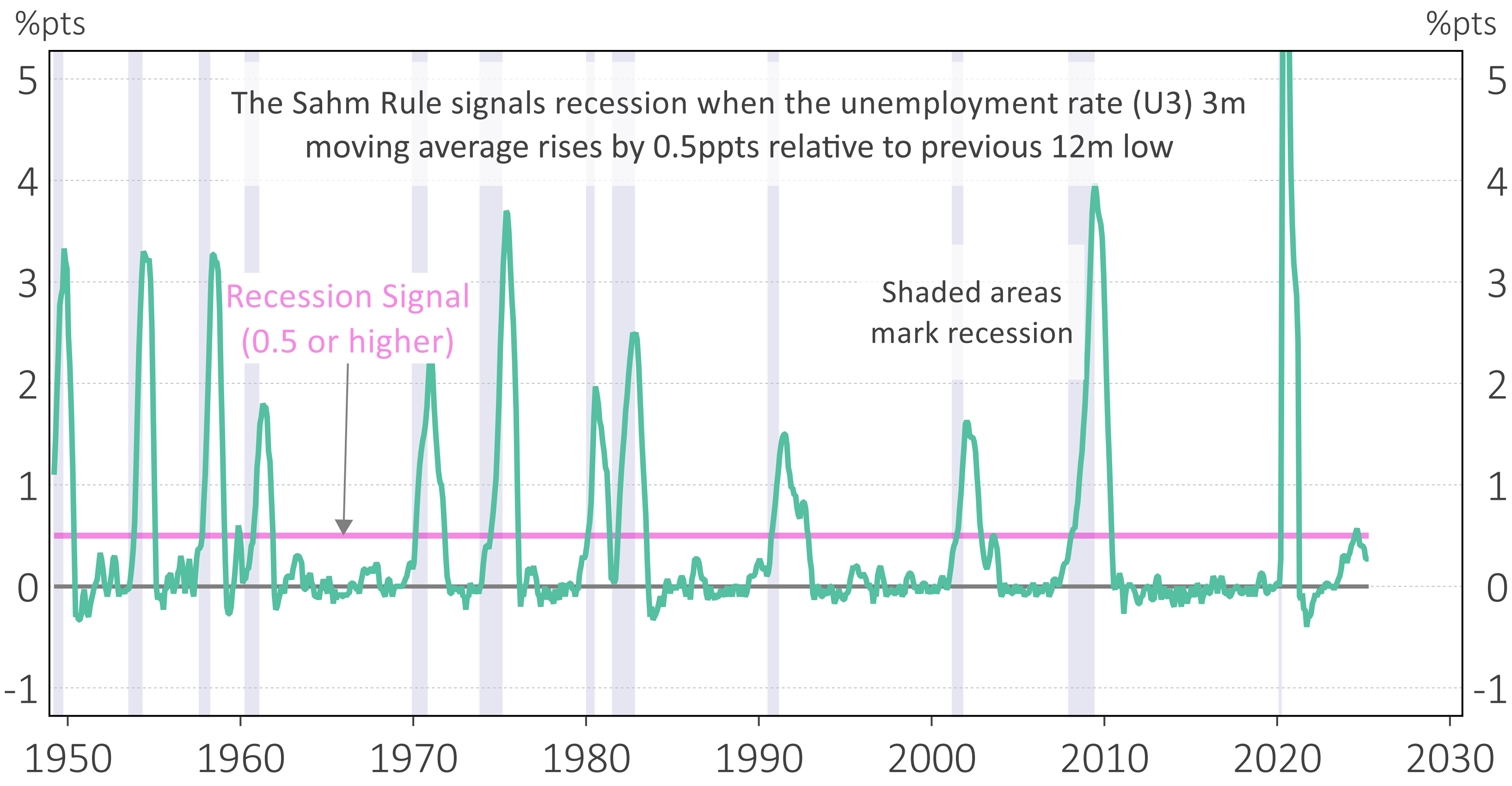
Source: PinPoint Macro Analytics, Macrobond, New York Fed, NBER

Tariffs & US Recession Risks

- The labour market can provide an early warning indicator on recession risks.

U.S. Sahm Rule Recession Indicator

(Derives from US Unemployment Rate)



Source: PinPoint Macro Analytics, Macrobond, St. Louis Fed

Tariffs & US Recession Risks

- PinPoint Macro's US Recession Pressure Dashboard takes a variety of US indicators and maps them against previous recession profiles.
- The Recession Pressure Score (bottom line in table) shows what percentage of the indicators match a recession profile.

US: Recession Pressure Dashboard

(Z-Scores unless otherwise noted | * indicates opposite formatting condition)

Theme	Indicators	4/2024	5/2024	6/2024	7/2024	8/2024	9/2024	10/2024	11/2024	12/2024	1/2025	2/2025	3/2025	4/2025
Inflation	PCE YoY *	-0.4	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	
Labour	Real Wage Growth YoY	0.2	0.3	0.5	0.4	0.7	0.8	0.7	0.6	0.5	0.4	0.6	0.7	
	Unemployment Gap *	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
	Initial Jobless Claims (1m Avg) *	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.6	-0.7	-0.6
	Nonfarm Payroll YoY	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Activity	Capacity Utilization	-0.5	-0.3	-0.1	-0.4	-0.3	-0.4	-0.3	-0.4	-0.1	0.1	0.1	0.0	
	Industrial Production YoY	-0.4	-0.3	-0.2	-0.4	-0.3	-0.4	-0.4	-0.4	-0.3	-0.2	-0.2	-0.2	
	Real Manufacturing & Trade Sales YoY	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1		
Credit	Consumer Credit YoY	-0.9	-0.9	-0.9	-0.9	-0.8	-0.9	-0.9	-0.9	-1.2	-1.2	-1.2	-1.2	
	C&I Loans YoY	-1.0	-0.9	-0.8	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	
Housing	Case-Shiller Home Price YoY	0.2	0.1	0.0	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3		
	Residential Under Construction	-0.1	-0.3	-0.3	-0.5	-0.1	-0.2	-0.2	-0.3	0.3	-0.2	0.2	-0.3	
Leading	Consumer Conf: Present Situation	0.8	0.8	0.7	0.7	0.7	0.5	0.7	0.9	0.9	0.8	0.8	0.7	0.7
	New Orders	-0.8	-1.1	-0.8	-0.9	-1.2	-1.0	-0.9	-0.6	-0.4	0.0	-0.8	-1.2	-1.0
	Truck Sales	1.4	1.3	0.8	1.6	1.4	1.2	1.0	1.3	0.9	1.3	0.8	0.9	1.5
	NFIB Optimism Index	-1.5	-1.4	-1.3	-0.8	-1.3	-1.3	-0.8	0.6	1.3	0.9	0.5	0.0	
	OECD Leading Indicator	-0.3	-0.3	-0.3	-0.2	-0.2	0.0	0.1	0.3	0.4	0.5	0.5	0.4	0.4
Markets	10y3m Spread (%)	-0.9	-1.0	-1.2	-1.2	-1.4	-1.2	-0.6	-0.3	0.0	0.3	0.1	-0.1	0.0
	S&P 500 NTM EPS YoY	0.2	0.3	0.2	0.5	0.4	0.4	0.0	0.4	0.3	0.5	0.5	0.1	0.4
	Recession Pressure (%)	68.4	73.7	68.4	73.7	68.4	68.4	63.2	52.6	57.9	47.4	47.4	52.9	n/a

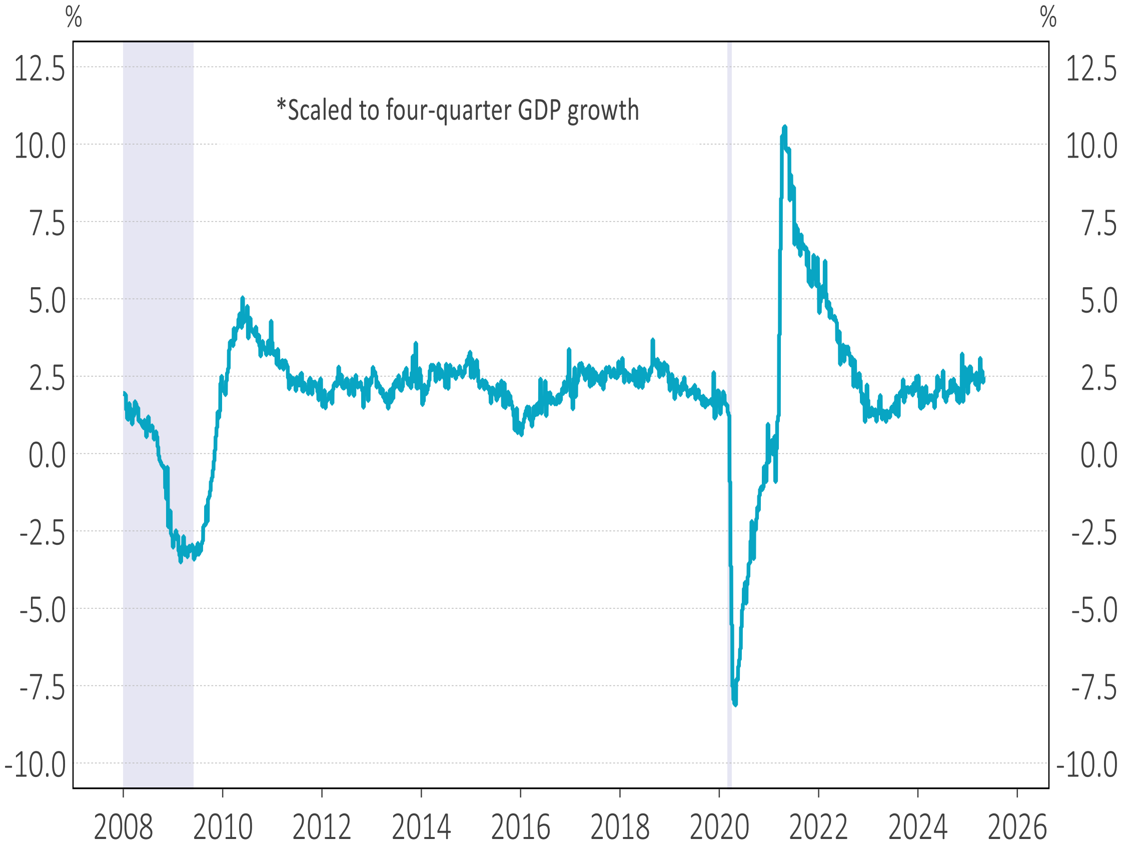
0~25th Percentile | 25~50th Percentile | 50~75th Percentile | 75~100th Percentile

Sources: BEA, U.S. Treasury, BLS, CBO, DOL, Fed, ISM, TCB, S&P Global, USCB, NFIB, New York Fed, OECD

Tariffs & US Recession Risks

U.S. Weekly Economic Index*

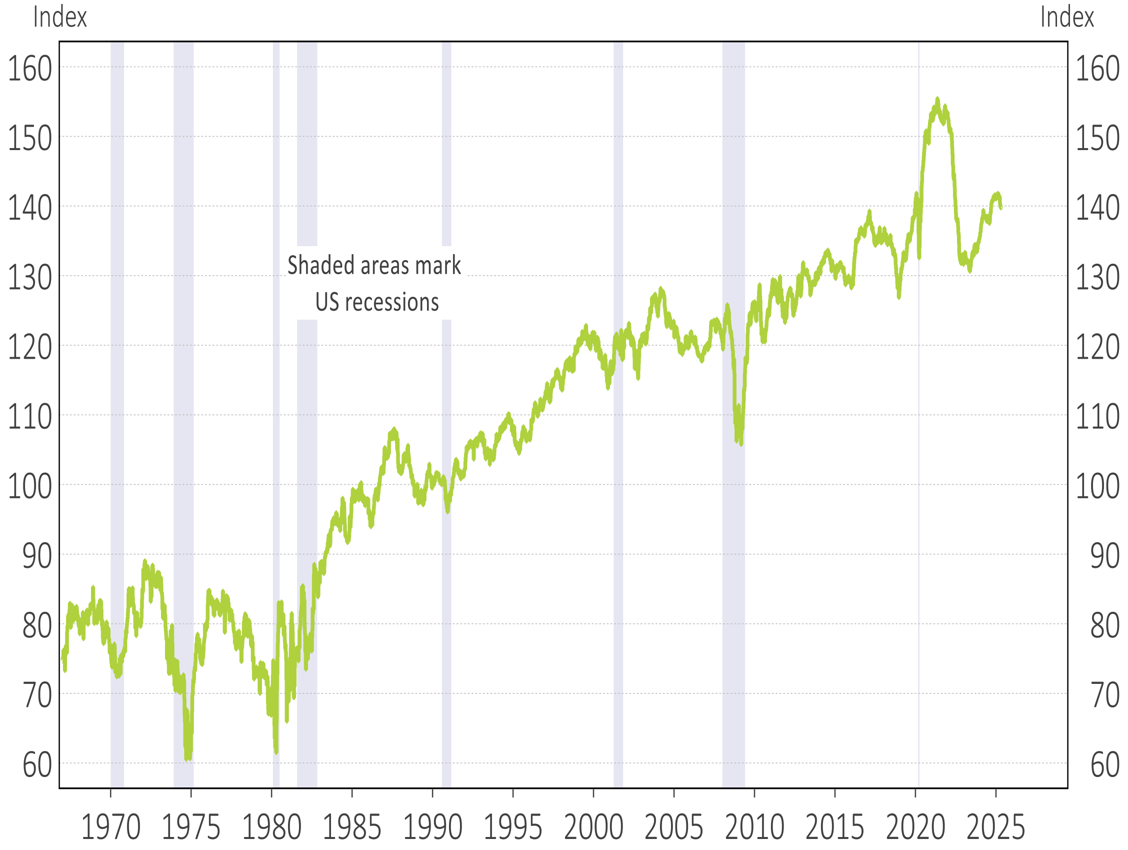
(indicators of consumer behavior, labor market & production | as at: 4 May)



Source: PinPoint Macro Analytics, Macrobond, FRB Dallas

U.S. FIBER Weekly Leading Index

(As at: 28 April)

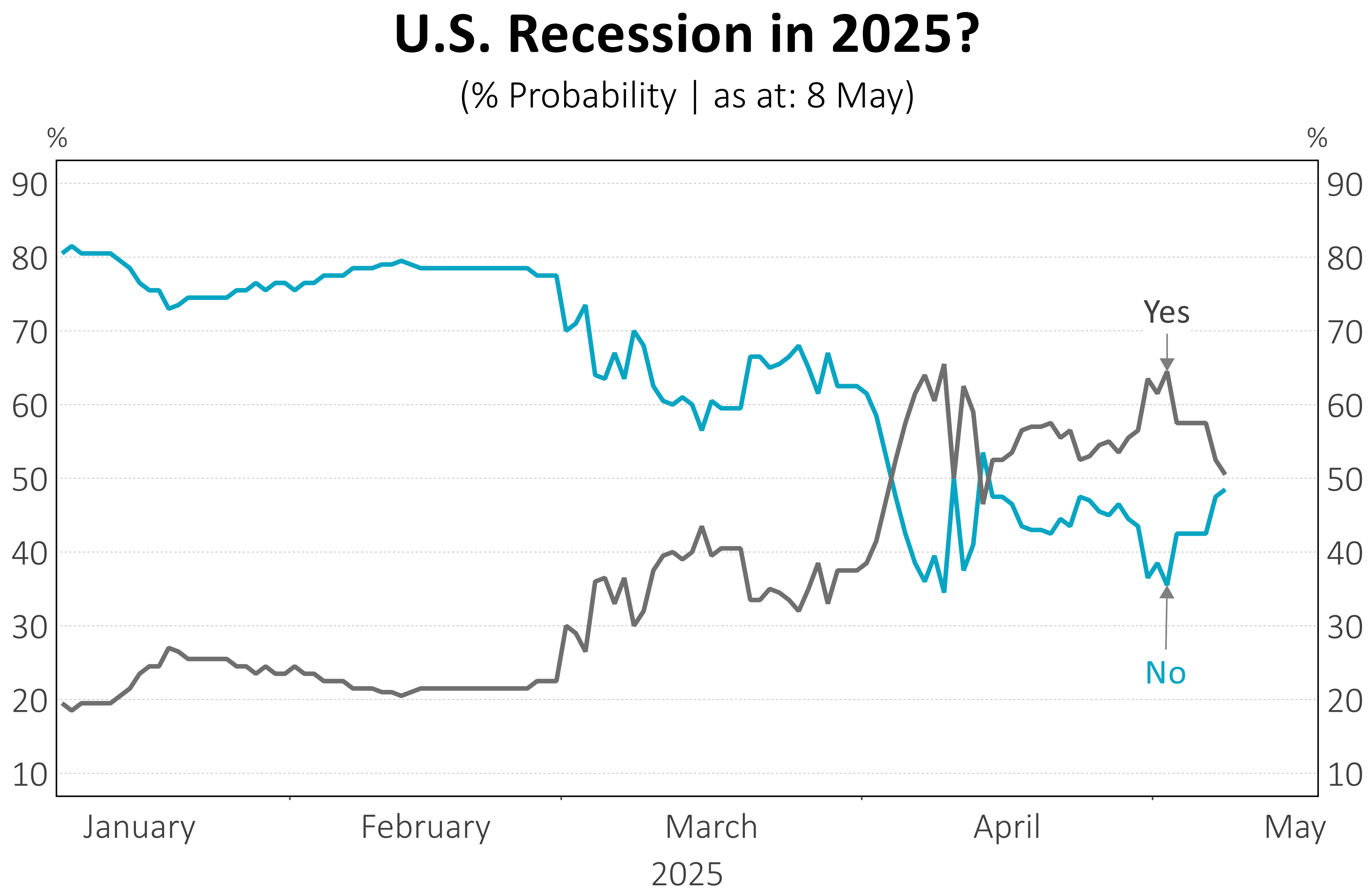


Source: PinPoint Macro Analytics, Macrobond, Foundation for International Business & Economic Research

- Leading Indexes are yet to turn down.

Tariffs & US Recession Risks

- Betting markets equally divided on recession risks in 2025.

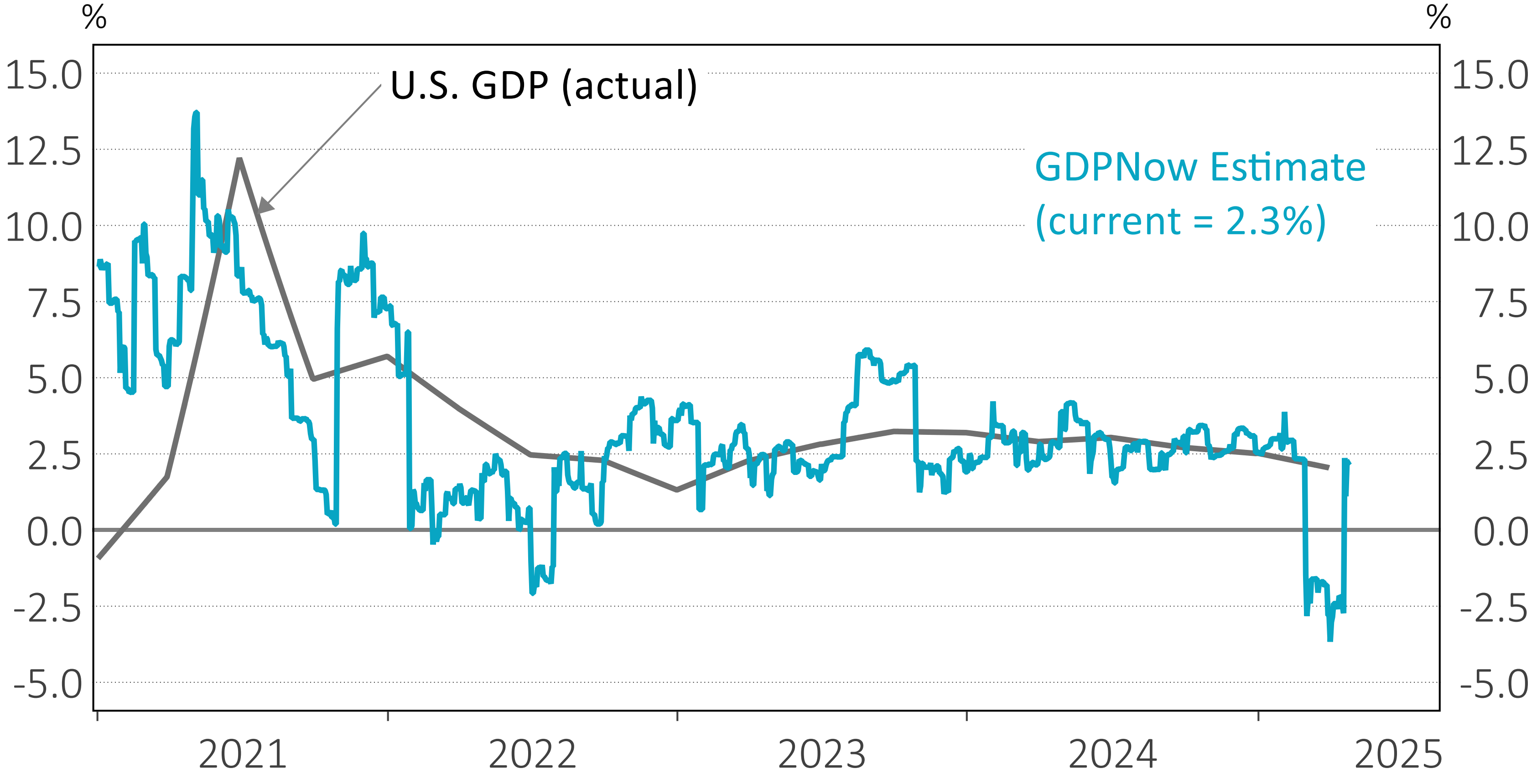


Source: PinPoint Macro Analytics, Macrobond, Polymarket

High Frequency Indicators & Tariff Risks

U.S. GDP & GDPNow Estimate

(Atlanta Fed GDPNow Estimate | As at 8 May)



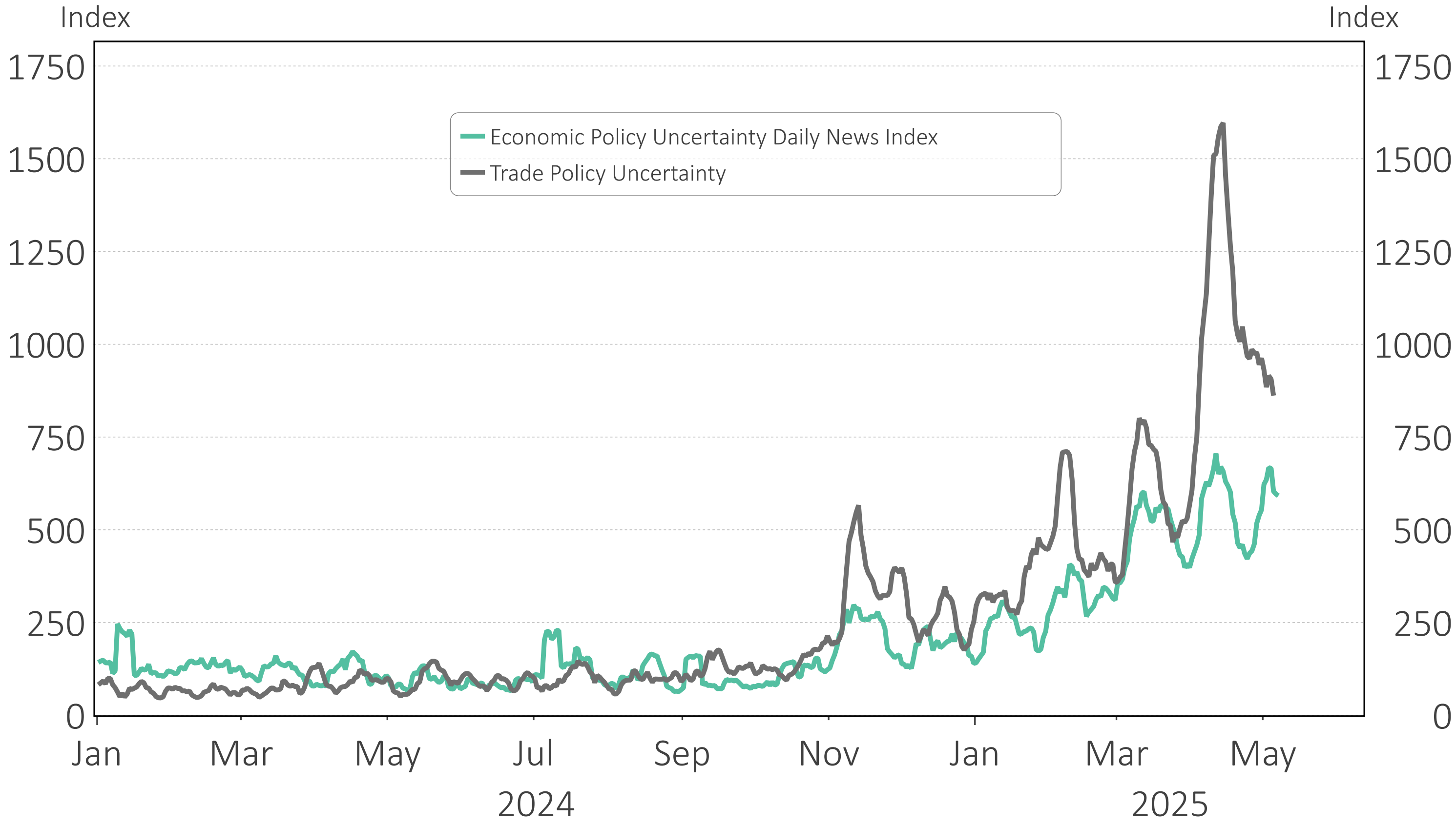
Source: PinPoint Macro Analytics, Macrobond, BEA, Atlanta Fed

High Frequency Indicators & Tariff Risks

- A rise in trade policy uncertainty has boosted overall US policy uncertainty.

U.S. Economic Policy Uncertainty

(Daily Index | As at: 5 May)



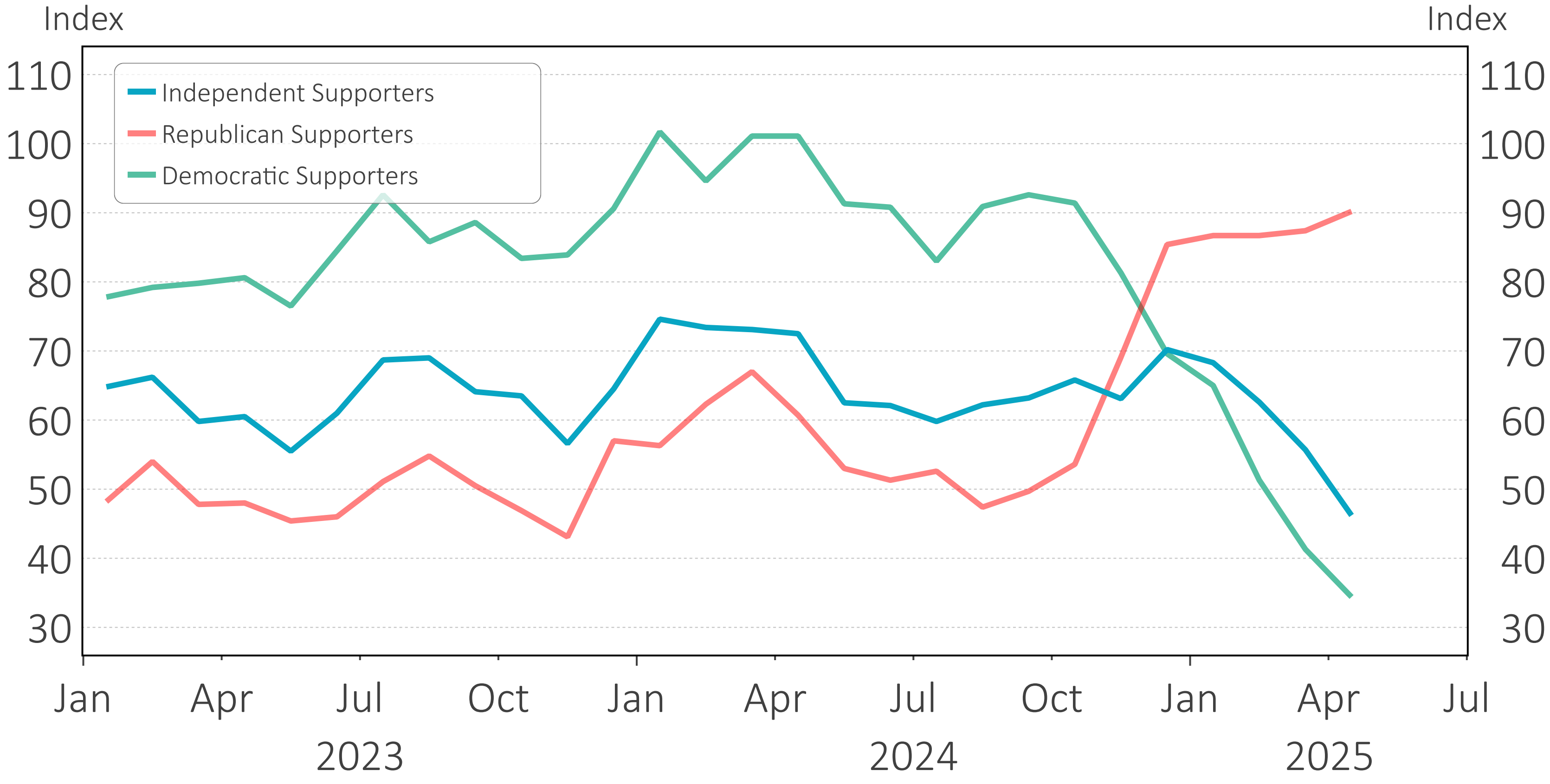
Source: PinPoint Macro Analytics, Macrobond, Economic Policy Uncertainty

High Frequency Indicators & Tariff Risks

- US consumer confidence has fallen sharply.
- But Republican supporters are yet to join the decline.

U.S. Consumer Sentiment

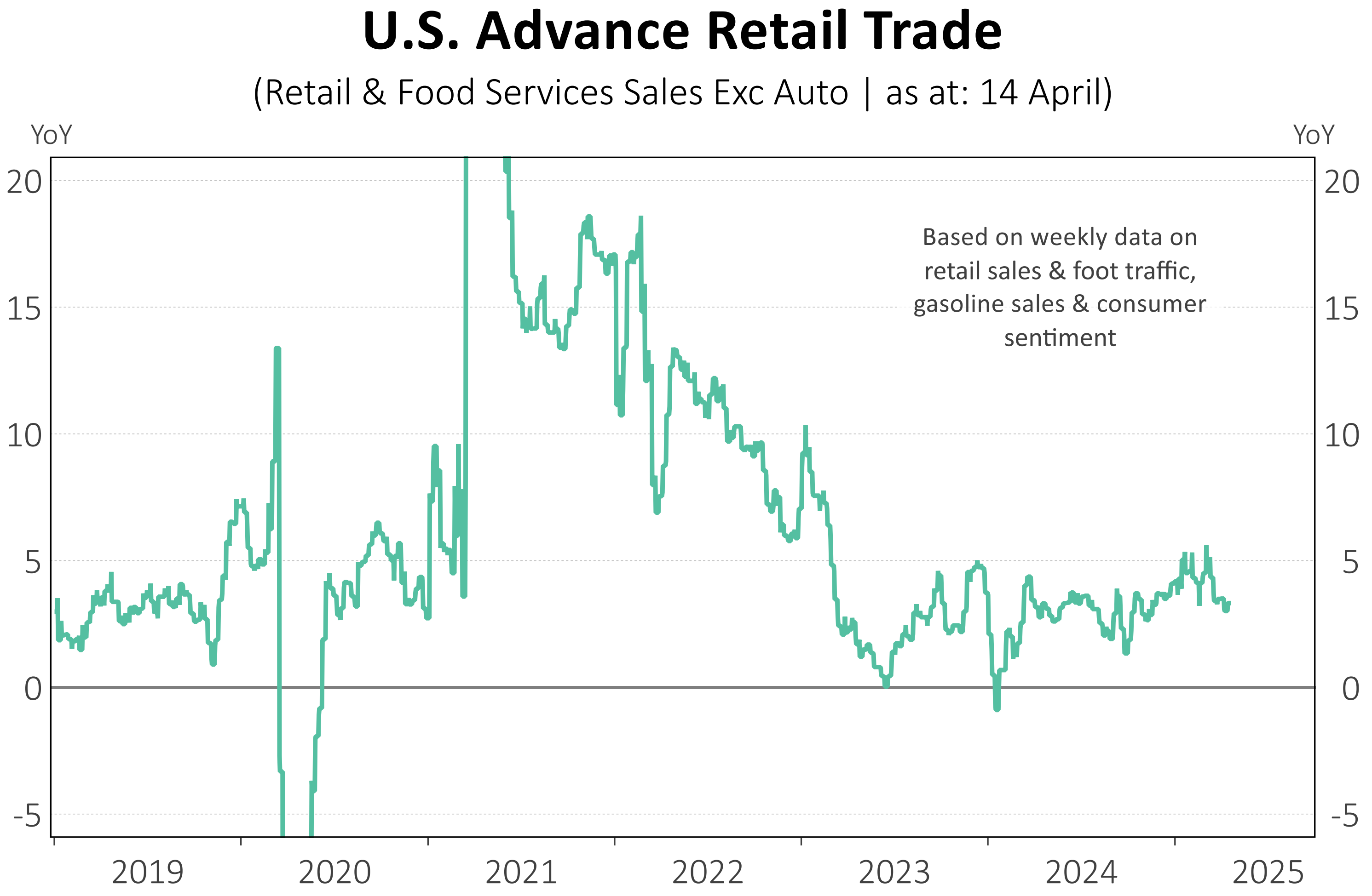
(By Political Party)



Source: PinPoint Macro Analytics, Macrobond, University of Michigan

High Frequency Indicators & Tariff Risks

- Overall retail spending growth has slowed a little…



Source: PinPoint Macro Analytics, Macrobond, FRB Chicago

High Frequency Indicators & Tariff Risks

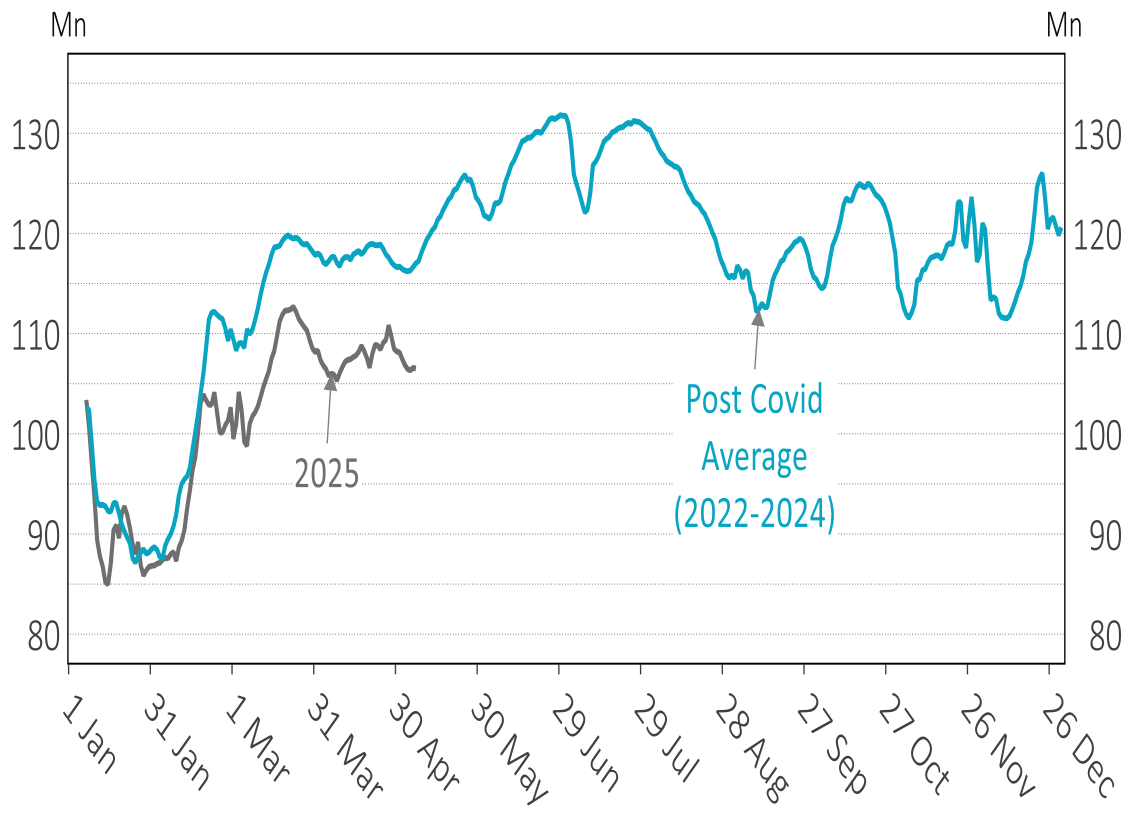
U.S. Restaurants: Seated Diners

(from Online, Phone & Walk-In Reservations)

Source: PinPoint Macro Analytics, Macrobond, OpenTable, USCB

U.S. TSA Checkpoint Travel

(Number of Passengers)



Source: PinPoint Macro Analytics, Macrobond, DHS

- …but some indication of a pull back in *discretionary* spending.

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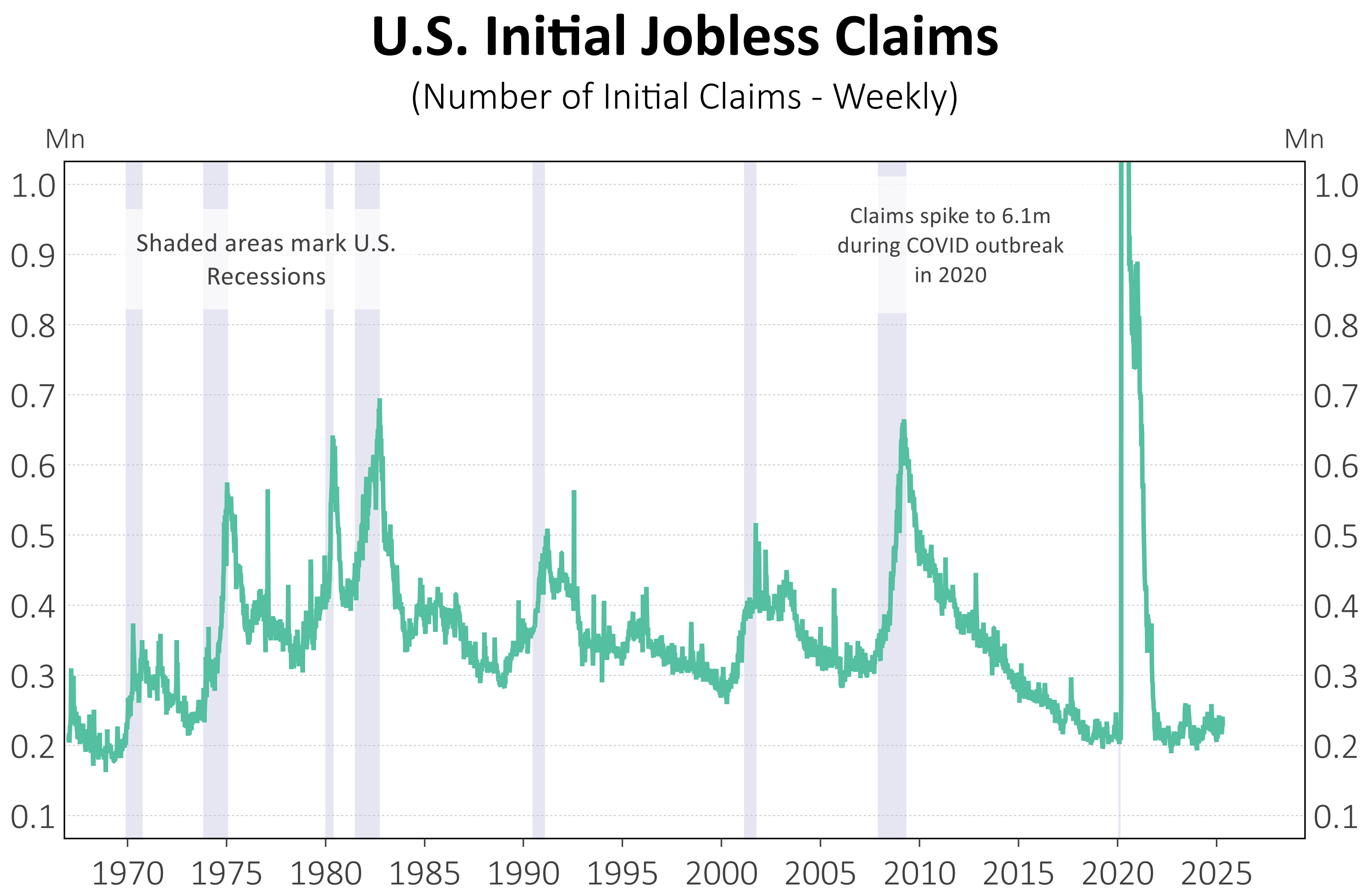
High Frequency Indicators & Tariff Risks

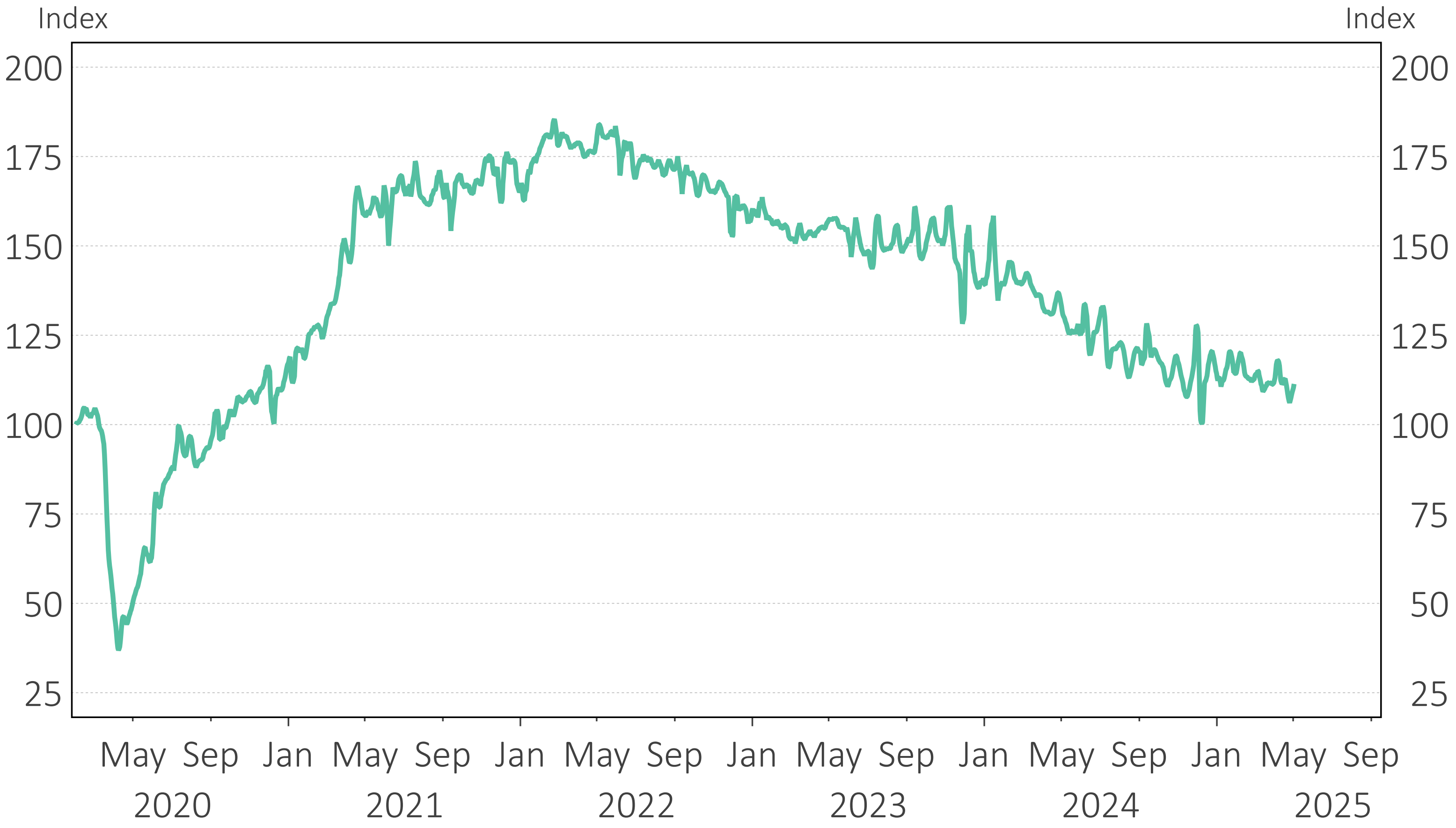


Source: PinPoint Macro Analytics, Macrobond, BLS, DOL

High Frequency Indicators & Tariff Risks

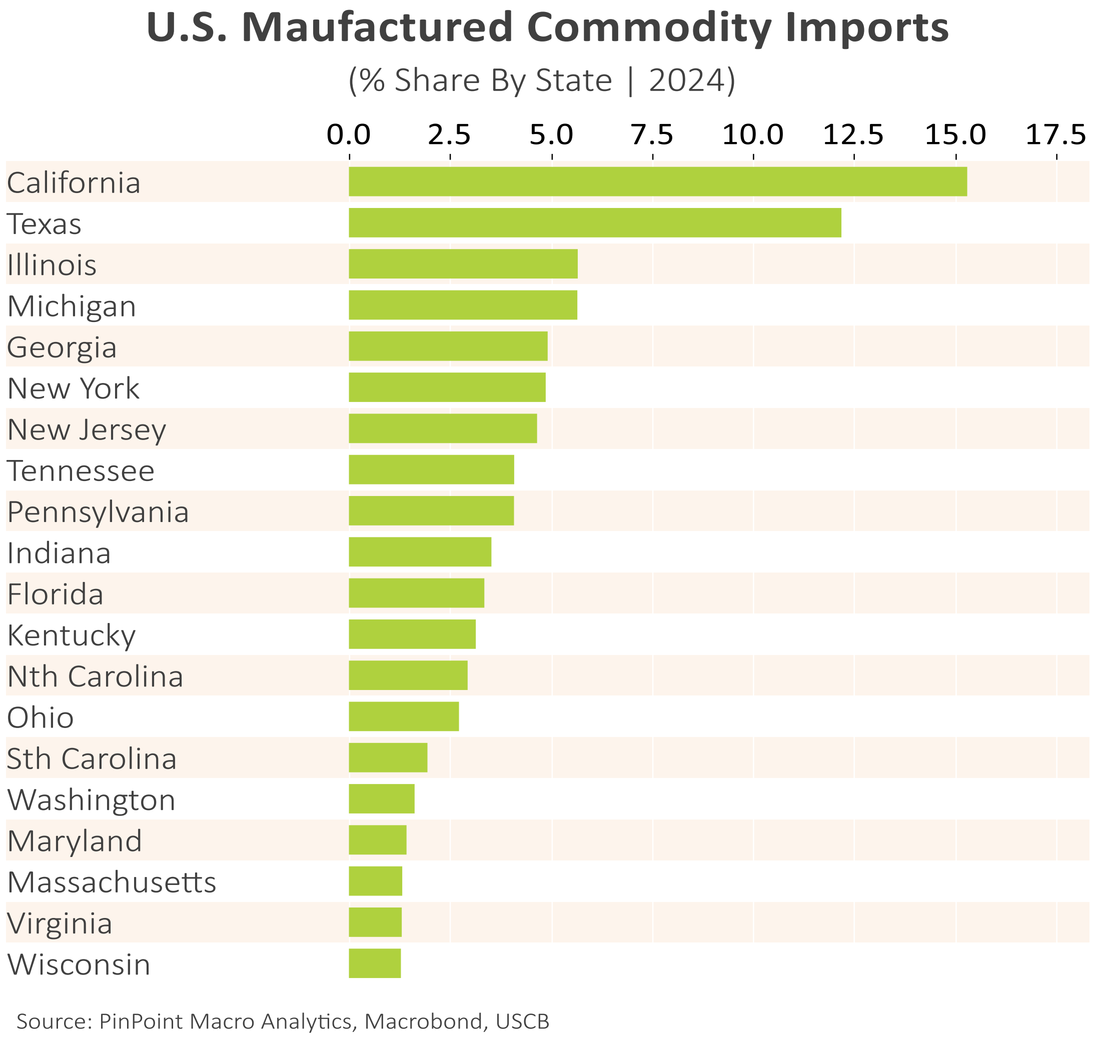
U.S. Indeed Job Postings Indicator

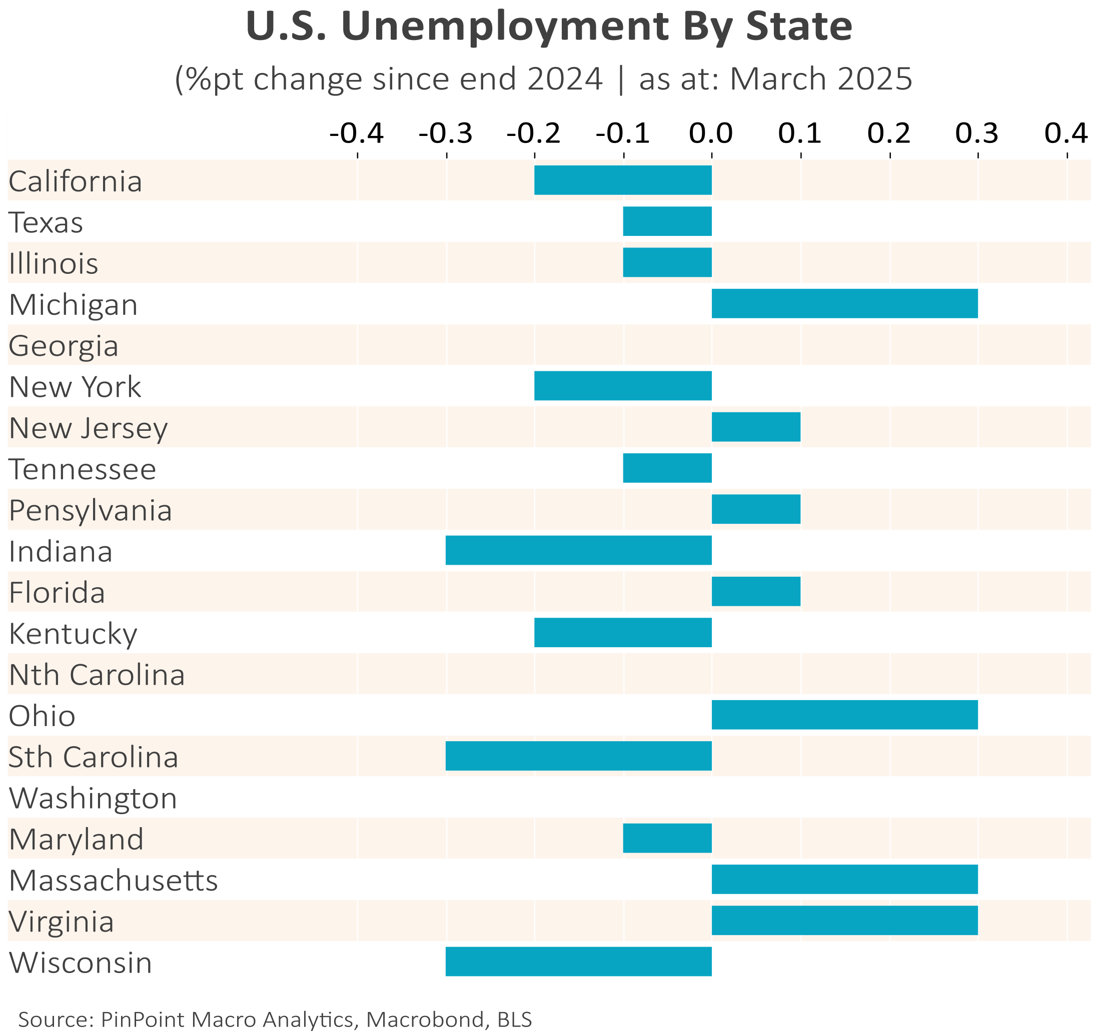
(New Job Postings | Feb 2020=100 | As at: 2 May)



Source: PinPoint Macro Analytics, Macrobond, Indeed Hiring Lab

High Frequency Indicators & Tariff Risks





- Import importance varies by State. Watch State unemployment trends.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