



Economics Group

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Counting Throes: August & Everything After

Staying current with the trade war has become more complicated than simply keeping a running tally of goods affected. We offer a better way to measure the tariff cost and look at what it means for businesses.

Where No One Notices the Contrast of White on White

What represents a bigger escalation: a 10% tariff on \$207 billion of goods? Or a 15% tariff on \$156 billion of goods that does not go into effect until December? And what happens when you ratchet up the tariff rate on one but not the other?

Keeping up with the latest developments in the ongoing trade war requires more than just a timeline or a simple running tally of the total dollar amount of goods affected. A high tariff rate on a small subset of goods, for example, could have a greater cost than a lower tariff rate even on a much larger dollar amount of goods.

The top chart is our latest tool to help readers visualize the increasing costs of the trade war. The concept here is to apply the stated tariff rate to the dollar amount of the impacted goods at their 2018 import level. This is not a perfect indication as supply chains will tend to shift as U.S. importers find alternate foreign sources or domestic providers for various categories. But it offers a better understanding than a simple summing of the affected goods would offer on its own. This is especially true when you consider that there are certainly some goods where a viable alternative is not readily available.

The barely visible bars that occur prior to March 2018 reflect that the effective cost of the early skirmishes like the softwood lumber tariffs in late 2017, the solar panels and washing machines at the start of 2018 and later the steel and aluminum tariffs are quite small. The more recent and more significant escalations targeting China are highlighted with callouts on the graph. The takeaway from this exercise is that the past six months have seen a significant escalation in the trade war.

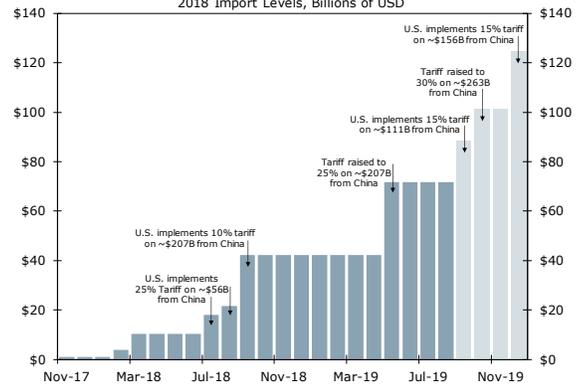
We All Want Something Beautiful

As mentioned above, this static account is not a perfect exercise. Not only do supply chains shift, but for all but perfectly inelastic goods, demand responds to price changes. Through the second quarter, the additional customs revenue collected are running about \$26B lower than the implied cost of tariffs, indicating a pullback in demand for these items and/or some cost pushback on to foreign suppliers.

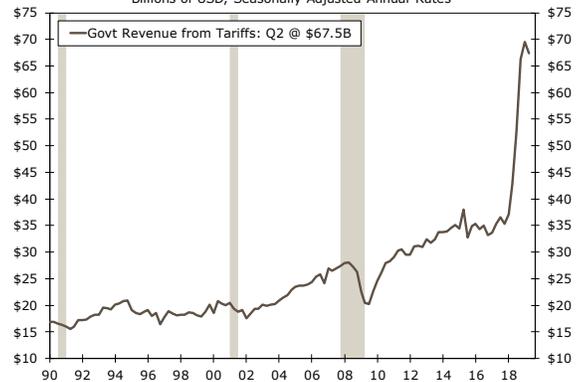
She Says She's Tired of Life, She Must Be Tired of Something

In a \$21 trillion economy, the direct impact of tariffs remains manageable. But trade uncertainty is rising, and with it the indirect costs of the trade war. There are growing signs of stress in manufacturing, including the lowest level of capex plans in three years and the Markit manufacturing PMI slipping into contraction territory for the first time since 2009. Financial conditions have tightened over August despite market expectations for more Fed easing. Consumer confidence has held up surprisingly well, but a more marked deterioration along the lines of business sentiment as the trade war wages would spell significantly more trouble for the outlook.

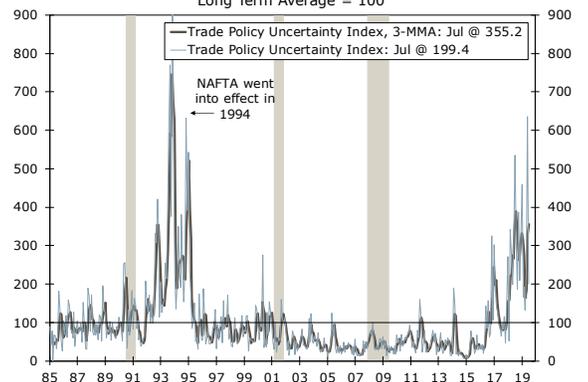
The Rising Cost of the Trade War
 Annualized Cost Based on Value of Goods x Tariff Rate
 2018 Import Levels, Billions of USD



U.S. Federal Tax Revenue from Tariffs
 Billions of USD, Seasonally Adjusted Annual Rates



U.S. Trade Policy Uncertainty Index
 Long Term Average = 100



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