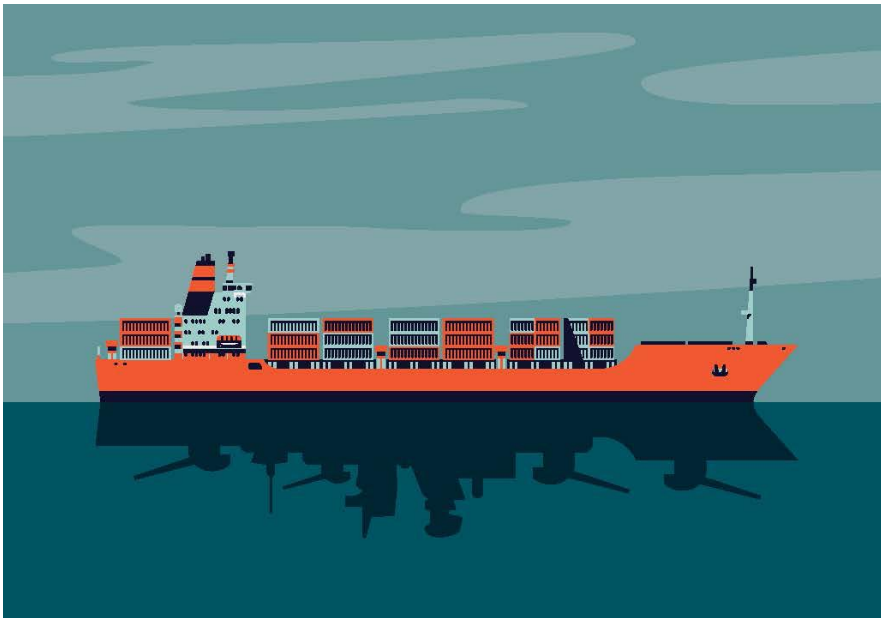
Shock news: Businesses don’t like tariffs

This week, the US starts the public hearing into raising tariffs of 25%, not the originally suggested 10% on $200bn of Chinese imports - US businesses will protest



Source: London Publishing Partnership

Tariffs are a tax on imports, businesses rely on imports

The public hearing on whether the next wave of US tariffs on Chinese imports should be 10% or 25% is likely to hear an outpouring of anger from US businesses this week. Why? It's pretty simple. Businesses and consumers in the US import lots from China - about $500bn (in approximate terms). And tariffs are a tax on those imports - they become more expensive. So business margins get squeezed and firms may invest a little less, and employ a few fewer employees. Consumers face not only higher prices, eating into their disposable incomes, but the central bank - the Federal Reserve, will likely carry on raising interest rates a little bit longer, taking them a little bit higher, causing the dollar to appreciate and hurting US business competitiveness.

Asking businesses whether tariffs should be raised 10% or 25% is a bit like asking them whether they want to be kicked in the foot or the face. Don't expect a polite reply.

Jackson Hole - Monetary policy in a changing economy

The title of Jerome Powell's Jackson Hole speech (see above) shouts out - "We are not going to give anything away about monetary policy". But just in case it does, I guess we should keep our eyes and ears open. Indeed, the popular notion that Jackson Hole is a traditional venue for signaling changes in policy direction is not supported by history, even the alleged signaling of new rounds of stimulus from this were most likely accidental.

What we can say almost for sure is that the Fed will hike rates again in September. And after that, we doubt even the Fed is that clear what comes next. That will be highly dependent on factors out of the Fed's control - the evolution of the trade war, developments in emerging market economies including China, where the dollar goes next... That said, a further hike from the Fed in 4Q is still looking a reasonable call, barring accidents. Powell won't make this any clearer.

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