

President Trump set to push ahead with tariffs despite the risks for the US economy

President Trump's press secretary has dismissed reports that tariffs on imports from Mexico, Canada and China will be delayed. Consequently, from tomorrow it appears importers will be paying higher prices, which will eventually be passed onto consumers and put added pressure on household finances



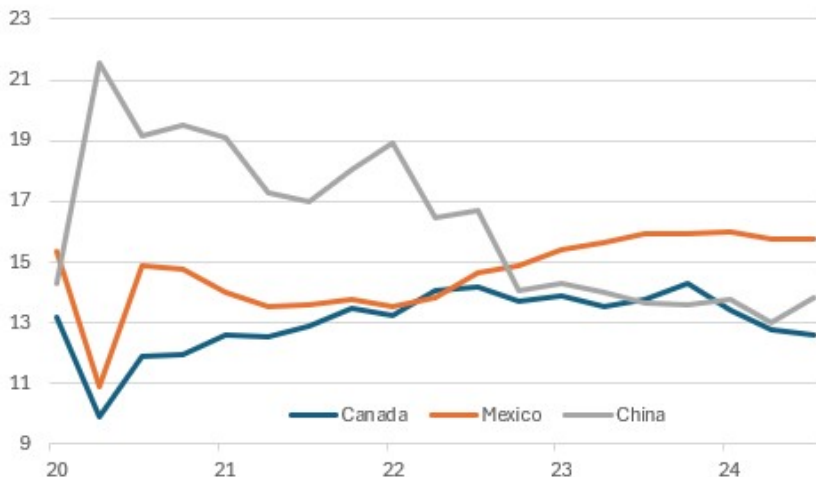
Tariffs are coming

So it looks as though President Trump intends to move ahead with his threat of 25% tariffs on imports from Mexico and Canada with 10% tariffs on products from China from 1 February. This comes after a story from Reuters suggested he would wait until 1 March to allow those countries to "take action". However soon afterwards White House Press Secretary Karoline Leavitt said "I saw that report, and it is false. I was just with the President in the Oval Office, and I can confirm that tomorrow the Feb. 1 deadline that President Trump put into place... If the president at any time decides to roll back those tariffs, I'll leave it to him to make that decision. But starting tomorrow, those tariffs will be in place".

Below is a chart showing the relative importance of China's, Canada's and Mexico's imports to the

US. You can see that China, Mexico and Canada in total account for just over 42% of all goods imports into the US – remember goods are the products that are tariffed, services are not. This has been falling recently, primarily due to an outright decline in the value of imports from Canada and China. In terms of import composition, Mexico and Canada trade focuses on autos, building materials, food and fuel.

China, Canada and Mexico % of total imports into US



Source: Macrobond, ING

The primary source of the growth of US imports is actually Asia and predominantly Taiwan, Korea, Vietnam and Thailand. The strong suspicion is that these are Chinese products in origin, but have been shipped to these other countries and rebadged with a new country sticker in order to avoid current US tariffs on Chinese products – this helps to explain the large drop in US imports directly from China. The table below shows the year to date source of goods imports into the US.

Year to date (Jan-Nov 2024) imports of goods versus 2023

	2024 YTD	2023 YTD	YoY% change
Mexico	466.6	438.6	6%
China	401.4	392.8	2%
Canada	377.2	385.3	-2%
Germany	146.7	145.6	1%
Japan	135.8	135.6	0%
Vietnam	124.8	104.8	19%
South Korea	120.5	105.8	14%
Taiwan	106.2	81.1	31%
Ireland	95.8	75.4	27%
India	80.1	77.2	4%
Italy	69.9	66.9	5%
UK	62.1	58.6	6%
Thailand	57.7	51.7	12%

Source: Bureau of Economic Analysis

Tariffs and the impact on the US consumer

While tariffs should improve the competitiveness of domestic US manufacturers, those with international supply chains will face higher costs while US exporters will fear reprisals from foreign nations – note that 17% of US goods exports go to Canada, 16% go to Mexico and 7% go to China and totalled \$763bn in the first 11 months of 2024. At the same time much of the cost increase caused by tariffs will be passed onto US consumers. The burden will fall disproportionately on low-income households who spend more of their income on physical goods relative to higher income households who spend more of their income on services and experiences, which aren't subject to tariffs.

If we try and work out the potential economic impact then we know that US household disposable (after tax) income is around \$22tn from today's personal income and spending report. If Canadian and Mexican imports (total over past 4Q is \$930bn) are taxed at 25% then this is $0.25 * \$930bn = \$232.5bn$ and then China's at 10% = $\$432bn * 0.10 = \$43.2bn$, giving a total of \$275.7bn of tax.

Assuming no substitution for American made products and that this tax is passed on 100% to the US consumer then this is equivalent to 1.25% of disposable household income ($275.7bn / 22,000bn$). That works out roughly as \$835 for every man, woman and child in America ($\$275.7bn / 330mn$ people) – so for a family of four that is \$3,342.

This is obviously a worst-case scenario as there will be a some substitution and profit margins will absorb some of the tax (either the foreign exporter, the importing company, the retailer, etc), while several Chinese items are already subject to tariffs. Nonetheless, consumers will notice this as US manufacturing, less than 10% of US GDP, will be unable to ramp up production quickly enough to push out imports.

As we saw with washing machines in 2018, which were subject to a 20% tariff from the first Trump administration, there was a roughly three-month wait until the tariffs impacted consumer prices

as retailers sold their existing inventory that hadn't been subject to the tariff. Consequently, as understanding of the tariffs becomes more apparent in the population we could get a modest short-term boost to consumption, but medium to longer term there will be a squeeze on spending power that likely results in weaker spending growth.

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