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Morning Briefing

More On Trump's Tariffs

Check out the accompanying chart collection.

Executive Summary: Importers are responsible for paying tariff bills, but it's Jane and Joe Consumer who will carry most of the burden. Importers will try to protect their profit margins by offloading the tariff costs to their export partners and customers when possible; when consumers lack substitution options for imported must-have products, they'll pay up. … Also: Trump's tariff tactics should surprise no one; they're straight out of his book The Art of the Deal. Melissa draws the connections. … And: Joe reports that analysts' net earnings estimate revisions for S&P 500 companies haven't been so downwardly slanted for two years. Only two S&P 500 sectors had upward NERIs in April.

Trump's Tariffs I: Who Foots the Bill? When a tariffed good reaches a country's borders, the importer pays the custom toll. But importers have profit margins to protect, so rather than eat the entire cost, importers share the burden with their exporters and their customers. Negotiated lower wholesale prices, plus passing on a portion of the increase to the consumer (or other businesses), can offset the tariff. There are also foreign exchange effects that can place more of the burden on the importing or the exporting country.

When the White House initially presented its reciprocal tariff rates on large posterboards, the formula it later published cited a study that showed import prices were relatively inelastic, rising just one-fourth of the increased cost due to tariffs. However, that was an incorrect citation. While retail prices increased by roughly that amount during Trump 1.0, the *study* actually found that import prices rose to include 94.5% of the tariff cost, suggesting that US producers took a hit to their profit margins.

And while the dollar rose during Trump 1.0 (arguably making exporting countries' citizens poorer, but of course helping their producers sell cheaply), it is now falling against most major currencies (*Fig. 1*). While the Chinese yuan is weakening, that is likely a deliberate attempt by China to lessen the impact on its exporters (*Fig. 2*).

The exact "cost" of tariffs varies by product and country. Goods for which Americans have many substitution options or that robust domestic industries also produce—i.e., for which imports are less needed—tend to see lower price increases due to tariffs. Conversely, goods that are primarily exported by just one or two countries tend to see much larger price increases. And if the dollar continues to fall, the inflationary impact is magnified.

So in the end, it's mostly the average Joes who "pay" for the tariff. The goal is to bring manufacturing jobs back to America so that people can afford these products. But there's a lot of friction in the prolonged processes of reshoring and building domestic industry—price increases happen much quicker.

Trump's Tariffs II: *The Art of the Deal* in Action. "The real excitement is playing the game," President Donald Trump wrote in his book *The Art of the Deal*. Today, that game is trade, and the gameboard is global.

With fresh trade negotiations underway, the Trump administration is executing a strategy that eschews multilateral harmony but adheres faithfully to another standard: classic Trump dealmaking. Its tactics are outlined plainly in *The Art of the Deal*. Let's connect the dots from the negotiating principles Trump espoused in the book to the trade tariff deals he is shaping today.

On April 9, Trump wrote on Truth Social: "[B]ased on the fact that more than 75 Countries have called Representatives of the United States ... to negotiate a solution to the subjects being discussed relative to Trade, Trade Barriers, Tariffs, Currency Manipulation, and Non Monetary Tariffs, and that these Countries have not ... retaliated in any way, shape, or form against the United States, I have authorized a 90 day PAUSE, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately."

One of the important lessons in Trump's book: "Aim very high." By coming out of the gate with high reciprocal tariffs, there's room for Trump to soften his stance while deals are being negotiated. The softening effectively "butters up" the other side, giving it the sense of a victory and mitigating ill will. In this case, imposing "only" a 10% global tariff until further agreements are reached is the softening, which can come across as a pivot (it's not actually a pivot if it's part of the initial plan). The table is set with a global baseline 10% tariff—not as harsh as the alternative reciprocal tariffs—and if that's all that survives the negotiations, that's okay with Trump; it was what he was after in the first place. If lower tariffs or reduced non-tariff barriers on US exports to the world are successfully negotiated, or higher reciprocal tariffs on US imports abroad stick due to "unsuccessful" negotiations, so much the better—they're a bonus. It's a win/win tactic for Trump.

One thing is for sure: The trade upheaval is giving the President plenty of opportunities to test his dealmaking prowess—including the art of building leverage, establishing what's fair, and negotiating as if all is negotiable.

Let's review where a few of the deals with key trading partners stand:

(1) *China: Leverage in a game of chicken*. "Leverage: don't make deals without it," Trump once wrote. The President is building an arsenal of leverage against China, but Beijing has yet to balk. On April 2, Trump paused reciprocal tariffs on most nations for 90 days, except for the now-up-to-145% tariff on Chinese goods. Beijing responded with retaliatory tariffs of 125% on US goods and non-tariff import curbs.

The Chinese exception to the tariff pause singles the nation out as a bad actor. In recent days, the US President has pressured nations seeking tariff reductions or exemptions from the US to curb trade with China, aiming for further isolation. In response, China's President Xi Jinping has launched a targeted campaign warning Southeast Asian countries dependent on China for exports, investment, and technology not to bend to Trump's "bullying." Xi has visited Vietnam and struck deals with Malaysia and Cambodia.

Trump suggested that he may be done raising China tariffs. On April 18, he told reporters: "I don't want them to go higher because at a certain point you make it where people don't buy." But he's not done playing games with China in other ways. For example, the US Trade Representative unveiled a plan to subject all Chinese-built and -owned ships docking in the US to levies based on volume carried. The administration also recently disallowed Nvidia from exporting AI chips to China, limiting China's access to US technologies. The $5.5 billion hit Nvidia announced signals Trump's commitment to playing hardball—even at a cost.

President Trump repeatedly has stated he would like to personally meet with Xi to move negotiations forward. "If you're going to make a deal of any significance, you have to go to the top," Trump wrote in *The Art of the Deal*. Trump has said he thinks he can get a deal done with Xi by May, but a meeting has yet to be set. "The ball is in China's court," White House Press Secretary Karoline Leavitt said on April 15.

(2) *European Union: Surely but fairly.* Momentum on a trade deal with the European Union seems to be progressing, albeit slowly. The EU could become one of the first test cases for what Trump constitutes as a "fair" trade deal. "There will be a trade deal, 100%," Trump told reporters leading up to a meeting with Italian Prime Minister Giorgia Meloni, adding that the

EU “wants to make one very much.”

But, he added, “it will be a fair deal.” In other words, the EU will bend to Trump’s idea of fairness—or else. That reflects a key “fairness” mindset Trump describes in *The Art of the Deal*: “When people treat me badly or unfairly, I fight back very hard.”

European exports to the US are currently subject to the global 10% baseline reciprocal tariff, with the White House hinting that escalation is likely if talks don’t progress by mid-summer. Brussels has delayed retaliatory tariffs until July 14.

European leaders remain skeptical. Meloni, a conservative, is the first of Europe’s leaders to meet with Trump since his April 2 tariff announcement. She has said she cannot create deals for the EU but is willing to take the first steps necessary to lead the way to one. Trump has not yet met with European Commission President Ursula von der Leyen.

(3) *India: It’s negotiable.* “You have to assume that a certain amount of what you’re asking for is negotiable,” Trump wrote in *The Art of the Deal*. That remains the unspoken premise of Washington’s strategy. Trump recently all but branded India’s Prime Minister Narendra Modi as the “tariff man.” Now, tariff man Modi reportedly is open to reducing tariffs on more than half of India’s imports from the US, which were worth a total $41.8 billion last year. Included in the terms that the US wants are greater market agriculture market access and tighter digital trade rules.

India is among the most likely candidates for a trade deal with the US to be made soon. On Monday, Vice President JD Vance and India’s “tariff man” were all smiles as they met and agreed to a roadmap for a trade deal. If no deal were to be successfully made, India would face a tariff rate of 26% on imports beginning in early July. That seems unlikely.

Strategy: Estimate Revisions Data in the Doghouse. This week, LSEG released its April snapshot of the monthly consensus earnings estimate revision activity over the past month. While the company provides raw data for all its polled measures, we focus primarily on the revenues and earnings forecasts, captured in our *S&P 500 NRRI & NERI* report. There, the analysts’ estimate revisions activity is indexed by the number of upward revisions in forward earnings less the number of downward ones, expressed as a percentage of total forward earnings estimates. We look at this activity over the past three months because that timespan encompasses an entire quarterly reporting cycle. Since analysts’ tendency to revise their estimates differs at different points in the cycle, three-month data are less volatile—and misleading—than a weekly or monthly series would be.

Joe's review of the April data found the worst earnings revisions activity in two years:

(1) *Tariff talk takes S&P 500 NERI down to a 26-month low.* The S&P 500's NERI index, which measures the revisions activity for earnings forecasts, was negative this month for a seventh straight month. It fell to a 26-month low of -5.7% in April from -4.8% in March (*Fig. 3*). A zero reading indicates that an equal number of estimates were raised as were lowered over the past three months.

While April's -5.7% ranks just above the bottom third of its readings since March 1985, when the data were first calculated, it is well below the average reading of -1.9% seen since.

(2) *Fewer sectors have positive NERI.* Just two S&P 500 sectors had positive NERI in April, down from three sectors in March and the lowest count in 13 months (Energy was the only sector with positive NERI from December 2023 to February 2024). NERI turned negative in April for Communication Services and did so in February for Information Technology (*Fig. 4* and *Fig. 5*).

Financials' latest reading was still the best in class among the S&P 500's 11 sectors (*Fig. 6*). This sector's NERI was positive for a 14th straight month but is down to an eight-month low of 2.5% now from a three-year high of 8.0% in February.

Utilities was positive for an 11th straight month in April but is down to 0.3% now from a two-year high of 2.6% in November (*Fig. 7*).

Among the poorer performing sectors, Consumer Staples' NERI dropped to a 58-month low in April, followed by Materials' at a 57-month low (*Fig. 8* and *Fig. 9*).

In fact, eight of the 11 sectors' NERIs were at their lowest levels in many months during April; here are the rankings: Financials (2.5%, eight-month low), Utilities (0.3, 11-month low), Communication Services (-1.1, 15-month low), Energy (-4.1), Information Technology (-4.4, 25-month low), Health Care (-4.4), S&P 500 (-5.7, 26-month low), Consumer Discretionary (-7.0), Real Estate (-7.5, 27-month low), Industrials (-9.6), Consumer Staples (-12.8, 58-month low), and Materials (-21.1, 57-month low).

Calendars

US: **Wed:** C-PMI, M-PMI & NM-PMI Flash Estimates 51.0, 49.5 & 52.0; New Home Sales 680,00 units; MBA Mortgage Applications; Fed Beige Book; Waller; Goolsbee, Beth. **Thurs:** Headline & Core Durable Goods Orders 1.5% & 0.2%; Nondefense Capital Goods Orders ex Air 0.2%; Initial Claims; Atlanta Fed GDPNow -2.2%; Existing Home Sales 4.14mu; Kansas City Manufacturing Survey; Kashkari. (FXStreet estimates)

Global: **Wed:** Eurozone & Germany C-PMI Flash Estimates 50.3 & 50.5; Eurozone, Germany & France M-PMI Flash Estimates 47.9, 47.6 & 47.9; Eurozone, Germany & France NM-PMI Flash Estimates 50.5, 50.5 & 47.5; UK C-PMI, M-PMI & NM-PMI Flash Estimates 50.0, 44.1 & 51.0; Lane; Cipollone; Bailey; Breeden. **Thurs:** Germany Ifo Business Climate Index, Headline, Current Assessment & Expectations 85.2, 85.4 & 85.0; German Buba Monthly Report; France Consumer Confidence 91; UK CBI Industrial Trends -36; UK Gfk Consumer Confidence -21; Lane; Nagel. (FXStreet estimates)

US Economic Indicators

Regional M-PMIs (***link***): Three regional Fed banks have reported on manufacturing activity for April, and there was lots of weakness. The *Philadelphia region* contracted sharply in April, with its composite index sinking 38.9 points (to -26.4 from 12.5), to its lowest reading since April 2023, with both the new orders (-34.2 from 8.7) and shipments (-9.1 from 2.0) components swinging from expansion to contraction; new orders' decline was dramatic, its weakest performance since April 2020. The employment measure dropped 19.5 points (0.2 from 19.7), just shy of the breakeven point between expansion and contraction, while the average workweek (-12.7 from 8.7) fell sharply. The *New York* region showed a modest decline in April after dropping sharply in March. Its general business conditions measure improved 11.9 points (to -8.1 from -20.0), declining at a much slower pace than last month; both the new orders (-8.8 from -14.9) and shipments (-2.9 from -8.5) measures contracted more slowly, with the latter nearing the breakeven point of zero. Meanwhile, employment (-2.6 from -4.1) was little changed, while the average workweek (-9.1 from -2.5) moved lower. Manufacturing activity in the *Richmond region* deteriorated, with its composite (-13 from -4) index in contraction territory for the second month, after being above zero in February (at 6). Both the new orders (-15 from -4) and shipments (-17 from -7) measures sank deeper into negative territory, while employment (-5 from -1) fell slightly. *Turning to pricing*, both of the *New York* region's price indexes climbed for a fourth successive month to their highest levels in two years; both were up six points in April, with prices-paid at 50.8 and prices-received at 28.7. *Philadelphia's* price-paid (51.0 from 48.3) measure posted its highest reading since July 2022, while prices received (30.7 from 29.8) ticked slightly higher during the month. Both of the *Richmond* price measures, which are measured as percentage changes over the last 12 months, continued to accelerate in April: Prices paid rose to 5.37% from 3.75% and prices received to 2.65% from 2.34%.

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