

Are Tariffs Really Inflationary?

Since the election, many have assumed higher tariffs will lead to higher inflation. However, a closer look reveals this may not be the case. During the 2018 trade war, PCE inflation actually trended slightly downward despite increasing tariffs, as represented by tariff revenue.

Why might tariffs be less inflationary than expected? A tariff is a tax on imported goods. When taxes increase, some cost is borne by businesses via lower margins, and some cost is passed through to consumers via higher prices. It is too early to say which will bear more of the tax burden this time around, but considering the high prices already faced by consumers, businesses may have to accept lower margins rather than increase prices.

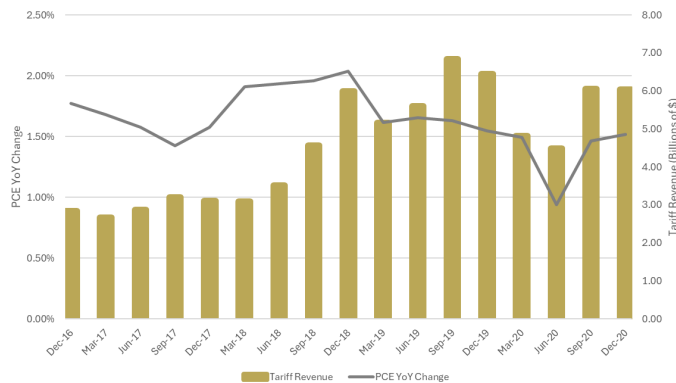
Even if the cost is borne by consumers, a tax is a one-time price increase. Inflation is the rate of price increases over time. Thus, a tariff does not directly increase inflation after it is in place.

Finally, imports are about 14% of GDP. * While not insignificant, this potential price increase affects only a fraction of the economy. Put it all together, and tariffs may not be so inflationary after all.

* U.S. Bureau of Economic Analysis, as of December 31, 2023.

CHART OF THE WEEK

PCE Inflation & Tariff Revenue



U.S. Bureau of Economic Analysis and U.S. Treasury via Bloomberg, as of Nov. 19, 2024.

Index Returns (%)							Index Characteristics				
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	5894	-1.75	2.44	25.06	32.37	9.32	24.9	16.8	3.1	1.7	1.3
Russell 1000 Growth	3917	-2.34	3.65	29.09	36.18	8.85	33.0	19.8	5.7	2.0	0.6
Russell 1000 Value	1906	-1.24	2.17	19.21	28.12	7.80	19.6	15.0	1.9	1.4	2.0
FTSE High Dividend Yield*	463	-1.06	2.46	20.22	28.72	9.87	15.0	14.3	1.6	1.6	3.9
S&P Small and Mid Cap	17981	-3.68	3.06	15.69	28.21	4.62	19.9	19.0	1.4	1.2	1.5
MSCI EAFE	2277	-2.26	-7.55	5.01	11.94	2.36	14.6	14.7	1.4	1.1	3.1
MSCI EM	1090	-3.20	-6.83	9.17	14.82	-2.04	13.4	12.6	1.4	1.3	2.6

* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income							Levels				
Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
U.S. Aggregate	4.83	-0.71	-2.85	1.47	6.50	-2.31	DX	106.30	106.02	101.33	96.03
U.S. Int. Gov/Credit	4.54	-0.24	-1.77	2.82	6.05	-0.22	\$ per €	1.06	1.06	1.10	1.13
U.S. Corporates	5.22	-0.91	-2.59	2.59	8.79	-2.08	\$ per £	1.26	1.27	1.27	1.35
High Yield	7.30	-0.33	-0.08	7.92	13.56	3.14	¥ per \$	154.12	154.61	141.04	113.99
Municipals (1-10)	3.20	0.14	-0.75	1.11	4.28	0.31					

Levels (%)							Levels				
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
2-yr Treasury	4.28	4.34	3.64	4.25	4.91	0.51	Oil (WTI)	69.54	68.12	70.30	62.36
10-yr Treasury	4.41	4.43	3.78	3.88	4.42	1.55	Gasoline	3.06	3.08	3.12	3.41
30-yr Treasury	4.61	4.57	4.12	4.03	4.57	1.91	Natural Gas	2.95	2.91	2.51	5.07
SOFR	4.57	4.60	4.96	5.38	5.31	0.05	Gold	2624	2598	2063	1846
6-mo. CD rate	4.53	4.51	4.41	5.28	5.58	0.28	Copper	9173	9002	8464	9753
Prime Rate	7.75	7.75	8.00	8.50	8.50	3.25	Wheat	555	552	628	823
30-yr fixed mortgage	7.26	7.32	6.68	6.99	7.79	3.20	BBG Index	235.48	232.51	226.43	218.50

Returns as of November 18, 2024

LAST WEEK IN REVIEW

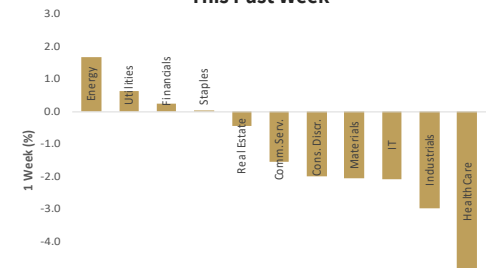
- Consumer Price Index (Oct.):** Headline (0.2% MoM, 2.6% YoY). Core (0.3% MoM, 3.3% YoY). Core inflation has stalled at above 3% since July. Shelter costs and auto insurance continue to contribute to increased core-services prices.
- Producer Price Index (Oct.):** Headline (0.2% MoM, 2.4% YoY). Core (0.3% MoM, 3.1% YoY). Acceleration of producer prices augers poorly for future core-inflation reports.
- Retail Sales (Oct.):** Headline (0.4% MoM). Ex Auto & Gas (0.1%). Upward revisions to September sales suggest that consumer spending remains strong into the fourth quarter.

THIS WEEK

- U.S Treasury Net Inflows (Sept.):** 11/18
- Housing Starts & Bldg. Permits (Oct.):** 11/19
- Existing Home Sales:** 11/21
- S&P Flash PMIs (Nov P.):** 11/22

S & P SECTOR RETURNS

This Past Week



Year-to-Date

