

## How Have Tariffs Affected U.S. Trade?

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### Key takeaways

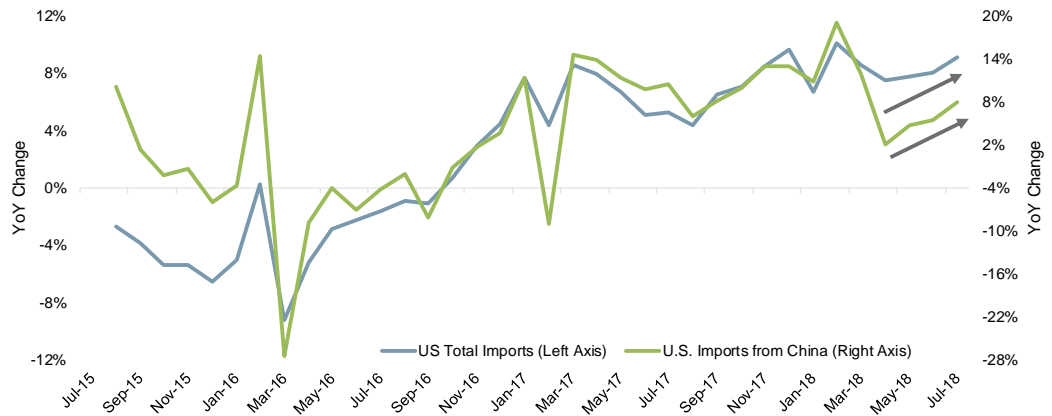
- » *Since March, market participants and global economic watchers have been looking for any signs that rising tariffs could derail U.S. demand for foreign goods, along with the economy.*
- » *A quick reading on trade measures suggests that tariffs have yet to affect U.S. demand for foreign goods at a broad macroeconomic level.*

### What it may mean for investors

- » *We believe that the U.S. economy will be able to continue weathering trade-related uncertainties so long as business investment and consumer sentiment remain positive. This outcome would be supportive of risk assets.*

Since March, market participants and global economic watchers have been looking for any signs that rising tariffs could derail U.S. demand for foreign goods, along with the economy. Has this been the case over the past six months? A quick reading on trade measures suggests that tariffs have yet to affect U.S. demand for foreign goods at a broad macroeconomic level. Looking forward, we believe that risks do remain for trade activity so long as dialog between the U.S. and China on tariffs remains tentative. In terms of the effects on economic growth, we believe that leading indicators such as consumer sentiment and business investment are likely to be indicative of any potential tariff-related impacts on the U.S. economy. We are monitoring these measures in this time of elevated trade tensions.

**Chart 1. U.S. demand for foreign goods is rising despite the tariff concerns**



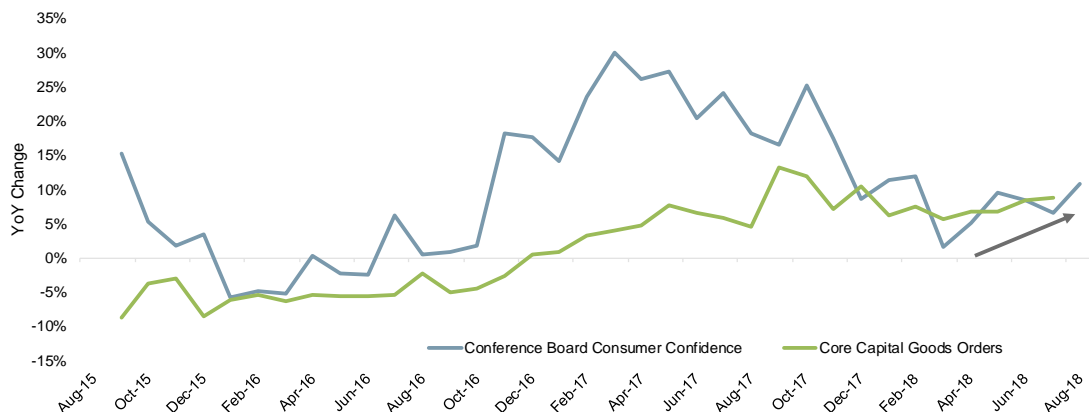
Sources: Wells Fargo Investment Institute, Bloomberg, September 15, 2018. YoY = year over year.

## Tariffs and trade

A tariff is a tax imposed on the imported goods of a country. Theoretically, higher tariffs (or the threat of tariffs) should equate to lower import activity. The reasoning is that rising tariffs could discourage imports of a targeted country's goods and encourage firms to seek out either domestic or foreign substitutes as the cost of imported goods are expected to rise. Anecdotal evidence suggests that some U.S. importers have engaged in substitution in one form or another, but broadly, growth in U.S. trade activity has remained positive since tariff disputes first erupted in March.

For example, import activity in the U.S. expanded 9.1% year over year (YoY) in July, even as the threats of a global trade war seemed to reach a crescendo early in the third quarter. Indeed, U.S. imports from China rose in July, continuing the second quarter's trend. More broadly, global export volumes have gained pace to date in the second half of 2018 as global economic growth has stabilized. Taken together, at a broad level, data suggests that tariff-related concerns have yet to dent U.S. and global demand for foreign goods.

**Chart 2. U.S. household confidence and business investment activity have been rising despite tariff uncertainties**



Sources: Wells Fargo Investment Institute, Bloomberg; September 15, 2018. Core capital goods orders = U.S. manufacturing orders, excluding those in the defense and aircraft sectors.

**Market implications**

While tariff disputes between the U.S. and China remain salient to investors’ perceptions of the threat of an escalating global trade war, data suggests that the effects of rising tariffs have yet to broadly affect U.S. economic activity. To this point, two key leading economic indicators (consumer sentiment and business investment) that we are watching suggest the U.S. economy should continue to expand in the near term (Chart 2).

We believe that the U.S. economy will be able to continue weathering trade-related uncertainties so long as business investment and consumer sentiment remain positive. The sum of positive economic reports continues to suggest that activity in the economy remains robust. This likely is one reason why risk assets in the U.S. have continued to rally, despite the uncertainties related to the ongoing trade tensions.

With that being said, the U.S. administration’s promise to raise tariffs on an expanded pool of Chinese goods could yet impact U.S. demand for Chinese imports—and household and business sentiment alike. Nevertheless, we believe that trade-related risks to the U.S. economy are likely to remain contained so long as the U.S. administration’s intentions with respect to tariffs is progress on policy and not protectionism.

## Economic Calendar

Date	Country	Report	Estimate	Previous
9/17/2018	INDONESIA	Exports YoY	10.00%	19.33%
9/17/2018	EUROZONE	CPI YoY	2.00%	2.10%
9/17/2018	AUSTRALIA	House Price Index QoQ	-0.70%	-0.70%
9/18/2018	US	NAHB Housing Market Index	--	67
9/18/2018	US	Total Net TIC Flows	--	\$114.5b
9/18/2018	US	Net Long-term TIC Flows	--	-\$36.5b
9/18/2018	ITALY	Industrial Orders NSA YoY	--	4.90%
9/18/2018	JAPAN	Exports YoY	5.20%	3.90%
9/19/2018	US	MBA Mortgage Applications	--	--
9/19/2018	US	Current Account Balance	--	-\$124.1b
9/19/2018	US	Housing Starts	--	1168k
9/19/2018	US	Housing Starts MoM	--	0.009
9/19/2018	US	Building Permits	--	1311k
9/19/2018	US	Building Permits MoM	--	1.50%
9/19/2018	UK	CPI YoY	2.40%	2.50%
9/20/2018	US	Philadelphia Fed Business	--	11.9
9/20/2018	US	Initial Jobless Claims	--	--
9/20/2018	US	Continuing Claims	--	--
9/20/2018	US	Leading Index	--	0.006
9/20/2018	US	Existing Home Sales	--	5.34m
9/20/2018	US	Household Change in Net Worth	--	\$1028b
9/20/2018	EUROZONE	Consumer Confidence	-2	-1.9
9/20/2018	SOUTH KOREA	PPI YoY	--	2.90%
9/20/2018	JAPAN	Natl CPI Ex Fresh Food YoY	0.90%	0.80%
9/21/2018	US	Markit US Manufacturing PMI	--	--
9/21/2018	US	Markit US Services PMI	--	--
9/21/2018	US	Markit US Composite PMI	--	--
9/21/2018	EUROZONE	Markit Eurozone Manufacturing	54.5	54.6
9/24/2018	US	Chicago Fed Nat Activity Index	--	0.13
9/24/2018	US	Dallas Fed Manf. Activity	--	30.9
9/24/2018	GERMANY	IFO Business Climate	--	103.8
9/24/2018	BRAZIL	Trade Balance Weekly	--	--
9/25/2018	US	Conf. Board Consumer	--	133.4
9/25/2018	US	Richmond Fed Manufact. Index	--	24
9/25/2018	US	FHFA House Price Index MoM	--	0.20%
9/25/2018	US	S&P CoreLogic CS 20-City YoY	--	6.31%
9/25/2018	US	Conf. Board Expectations	--	107.6
9/25/2018	FRANCE	Manufacturing Confidence	--	110
9/25/2018	MEXICO	Economic Activity IGAE YoY	--	1.15%

Source: Bloomberg, as of September 14, 2018.

## **Risk Considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

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