

## 7. Friday Footnotes

### Tariffs, Inflation and Consumer Spending

*President Trump made more moves this week to address trade imbalances via new tariffs. With implementation not set until April 2nd, there is still plenty of room for negotiations. This has certainly spiked concerns about inflation and consumer costs.*

*The January CPI report showed higher-than-expected inflation, but the details suggest it may not be as concerning as the headline numbers imply. Please see below for a summary.*

*Despite the seasonal weakness in some areas of consumer spending, we still find ourselves in an anomalous cycle where broad consumer spend has not declined in a meaningful way, despite high inflation. We share the details below.*

*Putting these three indicators together can be a recipe for economic recovery or downturn. This remains a delicate process that will take time.*

*As a firm, we do not react to daily news but look at the big, long-term picture. Analysts are revising opinions and outlooks on an ongoing basis. So far, we haven't heard anything that would precipitate a meaningful change in portfolios, but we are monitoring on a daily basis.*

## Tariffs

Trump's announcement of reciprocal tariffs on February 13, 2025:

### 1. Matching tariff rates:

The plan aims to equalize tariff rates between the U.S. and its trading partners. For example, if a country imposes a 10% tariff on U.S. goods, the U.S. would impose a 10% tariff on that country's imports. This could lead to increased costs for imported goods, potentially raising prices for U.S. consumers across various product categories.

### 2. Signing of the memorandum:

Trump signed a memorandum calling for "fair and reciprocal" trade tariffs. This official document sets the process in motion, directing relevant government agencies to begin the assessment and implementation of these tariffs. The formalization of this policy could create uncertainty in international markets and potentially lead to retaliatory measures from affected countries.

### 3. Implementation timeline:

While not immediate, the plan allows for potential negotiations with affected countries. The Commerce Department has been given 180 days to evaluate each country's tariffs, with potential implementation as early as April 2, 2025. This delay could provide time for diplomatic efforts but may also create a period of economic uncertainty as businesses and markets anticipate potential changes.

### 4. Role of the Commerce Department:

Secretary Howard Lutnick will lead the evaluation process. This assessment will likely involve a comprehensive review of current trade agreements, existing tariffs, and potential economic impacts. The outcome of this evaluation could significantly influence U.S. trade policy and international economic relations for years to come.

### 5. Broader strategy:

These reciprocal tariffs are part of Trump's larger strategy to address trade imbalances and generate revenue for tax cuts. This approach could potentially reduce the U.S. trade deficit but may also lead to higher prices for consumers and potential retaliation from trading partners, potentially affecting global supply chains and economic growth.

### 6. Economic concerns:

The announcement has raised concerns about potential economic impacts, including increased inflation and consumer costs. Economists warn that tariffs often result in higher prices for goods, which could exacerbate current inflationary pressures and reduce purchasing power for American consumers.

### 7. Impact on developing nations:

Countries like India, Brazil, and Southeast Asian nations are expected to be significantly affected. These nations often have higher tariffs on U.S. goods, making them prime targets for reciprocal measures. This could potentially disrupt their export-driven economies and lead to broader economic challenges in these regions.

### 8. Addition to existing tariffs:

This plan adds to existing tariffs on Chinese imports and recent duties on steel and aluminum. The cumulative effect of these various tariffs could lead to a substantial increase in costs for businesses and consumers. For instance, researchers estimate that the combined effect of existing and proposed tariffs could result in an annual tax increase exceeding \$1,200 for the average American household.

Citations:

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[7] <https://www.washingtonpost.com/business/2025/02/13/trump-reciprocal-tariffs/>

[8] <https://www.usatoday.com/story/news/politics/2025/02/13/trump-tariffs-trade-war/78415322007/>

[9] <https://www.reuters.com/world/us/trump-says-reciprocal-tariffs-coming-thursday-2025-02-13/>

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## Inflation

### Key Points

- Headline CPI rose 0.5% month-over-month, above the expected 0.3%
- Core CPI increased 0.4% month-over-month, also exceeding the 0.3% forecast
- Shelter costs accounted for nearly 30% of the total CPI increase
- Supercore services (excluding housing and energy) jumped 0.8%

### Notable Contributors

- **Shelter:** Despite being a significant contributor, rent and homeowners' equivalent costs rose less than in recent months
- **Transportation:** Used car prices increased 2.2%, while car insurance rose 2.0%
- **Food:** Egg prices surged 15.2% month-over-month due to avian flu
- **Other services:** Increases in airfares, recreation, prescription drugs, and internet services

### Market Reaction

- Treasury yields rose, with the 10-year yield increasing by 9 basis points
- Odds for a June 2025 rate cut decreased by 10 basis points

### Analysis

- Idiosyncratic factors:** Many price increases appear to be due to specific circumstances rather than broad inflationary pressures
- Seasonal effect:** January often shows higher inflation, which tends to fade throughout the year
- Potential tariff impact:** Some price increases, especially in the auto sector, might be anticipating future tariffs
- Wildfire-related distortions:** Possible effects on hotel, insurance, and car rental prices
- Supercore inflation:** Unusual contributors like auto insurance and entertainment services accounted for a large portion of the increase

### Fed Implications

The Federal Reserve is likely to maintain its current stance, remaining on hold for the foreseeable future. This single report is unlikely to significantly alter the Fed's outlook, as they will likely wait for more data to confirm any trend changes.

### Conclusion

**While the January CPI report came in higher than expected, various factors suggest this may not indicate a persistent inflationary trend. The Fed is expected to continue its cautious approach, waiting for more evidence before making any policy changes.**

Citations:

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[2] <https://www.nbc.com/2025/02/12/cpi-january-2025.html>

[3] <https://vegaeconomics.com/consumer-price-index-summary-january-2025>

[4] <https://www.bostonfed.org/publications/current-policy-perspectives/2024/a-faster-convergence-of-shelter-prices-and-market-rent-implications-for-inflation.aspx>

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## Consumer Spending

Recent consumer spending trends show a mixed picture, with some positive indicators from late 2024 but a significant downturn in January 2025, which is to be expected the month following holiday season. We will keep our finger on the pulse over the coming months to determine if this trend is becoming pervasive:

- Improved financial health:** The Resonate Spring 2025 Outlook report indicated that more Americans were debt-free and in better financial shape compared to the previous year
- Shifting priorities:** Consumers were focusing on home improvements and major purchases, with about 40% planning "staycations" for the summer
- Persistent economic concerns:** Despite improved finances, many Americans expressed worries about healthcare costs and government issues
- Cautious outlook:** Over 75% of global consumers expected to reduce or maintain overall spending in 2025, according to a December 2024 report
- January 2025 retail sales decline:** New data released today shows a sharp 0.9% drop in retail sales for January, much worse than the expected 0.2% decrease. This represents the largest monthly decline in a year
- Broad-based decline:** Nine out of thirteen retail categories saw decreases, including automotive, sporting goods, and furniture
- Potential economic cooling:** The unexpected retail sales drop raises questions about whether this is a temporary disruption or the start of a more prolonged economic slowdown
- Factors influencing the decline:** Persistent inflation, elevated borrowing costs, and rising credit card delinquencies may be contributing to the tightening of consumer spending

**This recent data suggests that while there were some positive indicators in late 2024, the start of 2025 has seen a significant pullback in consumer spending, potentially signaling economic challenges ahead.**

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[1] <https://www.morningstar.com/news/pr-newswire/20250211ph16786/resonate-unrvels-spring-2025-outlook-consumer-trends-report>

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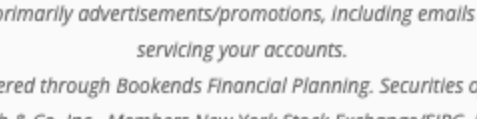
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