BEHIND THE HEADLINES

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The Week At-a-Glance

- The US exempted smartphones, computers, and related equipment from tariffs, covering about $390 billion in imports globally. However, US-China trade tensions remain high, and further sectoral tariffs (e.g., on pharmaceuticals, semiconductors) are likely.
- US retail sales were strong, as consumers accelerated some purchases ahead of tariff hikes. Sales are likely to weaken as higher prices impact demand, especially for discretionary goods.
- China's March economic data exceeded expectations. Exports surged 12.4% year-on-year (y-o-y), and industrial production and retail sales were better than expected, but much of the upside was likely driven by customers buying goods before the imposition of tariffs. Growth is likely to slow going forward as US tariffs reduce demand for Chinese exports.
- The European Central Bank (ECB) cut rates by 25 basis points (bps) and is likely to cut rates an additional 50 – 75 bps in 2025 as US tariffs weigh on European growth.
- UK inflation in March was lower than expected, with broad-based deceleration in price pressures.
- Upcoming: US trade negotiations with key partners will continue, and global Purchasing Managers' Index (PMI) data releases on 23 April could provide signs regarding the economic impact from the trade war.

The Week Behind

Country	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
China	Exports	13 Apr	March	y-o-y	4.6%	12.4%	-3.0%
	Industrial Production	15 Apr	March	YTD y-o-y	5.9%	6.5%	N/A
	Retail Sales	15 Apr	March	YTD y-o-y	4.3%	4.6%	4.0%
Eurozone	ECB Deposit Facility Rate	17 Apr			2.25%		2.50%
United Kingdom	Headline CPI	16 Apr	March	y-o-y	2.7%	2.6%	2.8%
	Core CPI	16 Apr	March	y-o-y	3.4%	3.4%	3.5%
	Services CPI	16 Apr	March	y-o-y	4.8%	4.7%	5.0%

The Week Ahead

Country	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
Multiple	PMI Data for Key Economies	23 Apr	April				
United Kingdom	Retail Sales Ex-Auto Fuel	25 Apr	March	m-o-m	*		1.0%
	Retail Sales Ex-Auto Fuel	25 Apr	March	y-o-y	*		2.2%

* No estimate available from Bloomberg

The Week Behind

1. **The United States announced global exemptions from tariffs for some consumer electronics.**

   The outlook: The decision to exempt smartphones, computers, and related equipment could end up being a taste of things to come if the US administration fears sizable price increases for goods with no readily available substitutes at lower prices. Over time, I expect tariffs on Chinese exports to the United States to decline materially from the current headline rate of 145%. Unfortunately, the United States and China have yet to engage in meaningful negotiations to reduce tension, suggesting any agreement is unlikely in the near future.

   The details: The United States exempted smartphones, computers, and other related equipment from tariffs globally in a US Customers and Border Protection announcement released on Friday 11 April at 10:30 p.m. The exemption covers approximately $390 billion of imports globally of which about $101 billion come from China.

   As of 16 April, the weighted average effective tariff on goods imports into the United States stands at ~28% according to the Yale Budget Lab. Importantly, with such high tariffs imposed on goods imports from China, companies and consumers are highly likely to find substitute sources for these products or to stop purchasing them altogether to the extent they are discretionary. As a result of substitution and demand destruction, Yale Budget Lab estimates that the longer-term effective tariff rate (using current tariffs but different sourcing) could decline by 10 percentage points to ~18%. Keep in mind that this assumed lower tariff rate still does not include sectoral tariffs on pharmaceuticals, semiconductors, copper, and lumber which are likely to be announced soon.

2. **US retail sales were strong with consumers likely accelerating purchases to avoid tariffs.**

   The outlook: I expect retail sales to weaken in the months ahead as tariff-induced price increases begin to hit consumption. The impact of tariffs will vary significantly depending on whether goods are discretionary or necessary, with the former being particularly hard hit in some cases.

   The details: Headline retail sales matched expectations. Auto sales rose 5.3% month-on-month (m-o-m) and 8.8% y-o-y as consumers raced to buy cars before tariffs were imposed. Gas station sales fell 2.5% m-o-m and 4.3% y-o-y due to lower fuel prices. Core retail sales (which exclude autos, gas stations, food services, and building materials) rose less than expected in March, but the January and February figures were revised upward.

March US Retail Sales	Consensus	Actual	Prior Month	Revised
Retail Sales m-o-m	1.4%	1.4%	0.2%	
Retail Sales ex-Auto m-o-m	0.4%	0.5%	0.3%	0.7%
Retail Sales ex-Auto and Gas m-o-m	0.6%	0.8%	0.5%	0.8%
Retail Sales Control Group	0.6%	0.4%	1.0%	1.3%

Source: Bloomberg, U.S. Census Bureau

3. **China macro data was generally stronger than expected.**

The outlook: While the better-than-expected figures are encouraging, some portion of the GDP, export, and industrial production upside surprises likely arose from front-loading of orders from US customers seeking to avoid tariffs. Growth in the second quarter is likely to decelerate materially as US tariffs sharply reduce demand for exports which leads to weaker industrial production.

The details: Exports increased by a surprisingly strong 12.4% y-o-y in March versus the prior month's 3.0% decline and a consensus expectation for growth of 4.6%. Imports, which can be a signal of future exports, fell by 4.3% in March.

Not all of the activity reports were driven by external factors. Retail sales accelerated to 4.6% year-to-date (YTD) y-o-y from the 4.0% rate through February. Auto sales increased by 5.5% y-o-y in March after falling by 4.4% y-o-y in the combined January–February period.

While the new and used home price index data appear to be improving, it is important to recognize that these indexes do not always accurately record the final purchase price and any related concessions that might be included as part of the transaction, e.g., a free parking spot with an apartment purchase. Other indexes suggest that home prices continue to fall, albeit at a decelerating rate, with previously occupied home prices down 5%–15% y-o-y. Across Chinese cities, it is also noteworthy that prices in Tier 1 cities have been rising modestly while Tier 2 and 3 prices continue declining.

March China Economic Data		Consensus	Actual	Prior
Q1-24 GDP	y-o-y	5.2%	5.4%	5.4%
	YTD y-o-y	5.2%	5.4%	5.0%
Exports	y-o-y	4.6%	12.4%	-3.0%
Imports	y-o-y	-2.1%	-4.3%	1.5%
Industrial Production	y-o-y	5.9%	7.7%	**
	YTD y-o-y	5.9%	6.5%	5.9%
Retail Sales	y-o-y	4.3%	5.9%	**
	YTD y-o-y	4.3%	4.6%	4.0%
Fixed Asset Investment	YTD y-o-y	4.1%	4.2%	4.1%
Property Investment	YTD y-o-y	-9.9%	-9.9%	-9.8%
Residential Property Sales	YTD y-o-y	*	-0.4%	-0.4%
New Home Prices	m-o-m	*	-0.08%	-0.14%
Used Home Prices	m-o-m	*	-0.23%	-0.34%

Source: Bloomberg, National Bureau of Statistics
* No consensus estimate available on Bloomberg.
** Data for the individual months of January and February are not reported due to variable Lunar New Year timing.

4. As expected, the ECB cut rates by 25 bps.

The outlook: I expect the ECB to cut rates two-to-three more times in 2025 as inflation slows further and US tariffs reduce European economic activity. The deciding factor between two versus three rate cuts is likely to be the level and scope of US tariffs imposed on European goods exports and the resulting impact on business and consumer confidence. My bull case assumption is that Europe ends up being included in the 10% universal tariff that remains in place well beyond the end of the 90-day pause on reciprocal tariffs. In a bear case, Europe would be subject to a 20% tariff with sector tariffs in some cases taking that rate up to 25%. In either case, the consensus growth expectation for 2025 of 0.8% real GDP growth in the Eurozone in aggregate appears too optimistic.

The challenge for the ECB will be determining whether to raise rates in 2026 when sharply higher defense and infrastructure spending in Germany (well over €100 billion per year) and increased military spending in other EU countries begin to lift growth meaningfully. My operating assumption is that the ECB will hold rates in accommodative territory (below the 1.75%–2.0% I view as neutral) as long as possible to help accelerate growth as long as inflation remains under control.

The details: The ECB cut the three key interest rates by 25 bps. It reiterated its prior language regarding monetary policy not being on a set path, but instead being set on a meeting-by-meeting basis. The ECB also reaffirmed the data-dependent approach to setting policy.

In the press conference after the announcement of the rate reduction, ECB President Christine Lagarde indicated that inflation has declined as expected, highlighting the slowing pace of services inflation. She referenced moderating wage growth and other factors such as lower energy prices and a stronger euro as helping to moderate inflation. She also acknowledged the negative effects of the trade war on business and consumer confidence and the dampening effect the trade conflict is likely to have on growth.

The rate cut decision was unanimous. Options were debated, but no one argued in favor of a 50-bps cut. The ECB eliminated its reference to rates being restrictive. Lagarde explained that the ECB's view is that the neutral rate is a concept that works for a shock-free world. As a result, describing policy as restrictive, neutral, or accommodative is meaningless given the magnitude of uncertainty facing the global economy.

5. **UK Consumer Price Index (CPI) inflation was lower than expected in March.**

   The outlook: I expect UK inflation to continue to subside. The UK inflation outlook is cloudier, however, given still-strong wage growth and stubbornly high services inflation. This month represents welcome progress that should allow the Bank of England to continue easing policy.

   The details: Stable prices for recreation and culture as well as education helped put a lid on services inflation, but notwithstanding these factors, the deceleration in price pressure appears to have been broad-based. Goods inflation slowed to 0.6% from 0.8% y-o-y with increases in food prices at 3.0% y-o-y and alcoholic beverages at 5.3% being offset by an 8.3% decline in energy prices. Prices for nonenergy industrial goods (core goods in US terms) rose 1.15% y-o-y.

UK March CPI

	Consensus	Actual	Prior Reading
Headline m-o-m	0.4%	0.3%	0.4%
Headline y-o-y	2.7%	2.6%	2.8%
Core y-o-y	3.4%	3.4%	3.5%
Services y-o-y	4.8%	4.7%	5.0%

Source: Bloomberg, UK Office for National Statistics

The Week Ahead

1. **US trade negotiations will continue.**

   The outlook: Japan's Finance Minister Katsunobu Kato will meet with US Treasury Secretary Scott Bessent next week in Washington, D.C. This meeting with be one of multiple discussions as trade counterparts strive to reach new trade agreements with the United States before the 90-day pause on reciprocal tariffs expires on 9 July.

   A key challenge facing negotiators from other countries is the absence of a clear set of demands from the United States. This lack of clarity could be part of a US strategy to force trade partners to offer as much as possible, but it also likely complicates and extends any negotiating process. For Japan, the likely first offer will include increased liquefied natural gas (LNG), weapons, and agricultural purchases from the United States. The question is whether that will be enough.

   I expect the Trump administration to be eager to seal some initial deals to calm markets and deliver evidence of political wins. Japan, the United Kingdom, and other close allies are likely to be the first to reach agreements.

2. **PMI data will be released for multiple countries.**

   The outlook: The Eurozone, France, Germany, Japan, United Kingdom, and United States release PMI data next week on 23 April. Manufacturing PMIs were below the 50 level that indicates contraction in activity for all of these countries except the United States which was only a whisker above 50 at 50.2. Services readings have been more erratic lately though more frequently in expansionary territory. The April data could give investors a sense of how the initiation of broad-based tariffs is affecting new order activity, employment, and prices paid, among other factors.

3. UK retail sales are expected to weaken.

The outlook: UK retail sales will be reported on 25 April. I will be watching for signs of how consumers are weighing trade tensions versus encouraging inflation and economic data in recent weeks from the United Kingdom. Consensus expectations are for a decline from February to March both including and excluding volatile auto fuel sales.

March UK Retail Sales	Consensus	Prior Month
Retail Sales including Auto Fuel m-o-m	-0.4%	1.0%
Retail Sales including Auto Fuel y-o-y	1.8%	2.2%
Retail Sales excluding Auto Fuel m-o-m	-0.6%	1.0%
Retail Sales excluding Auto Fuel y-o-y	2.0%	2.2%

Source: Bloomberg, UK Office for National Statistics

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