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Economic and Tariff Update

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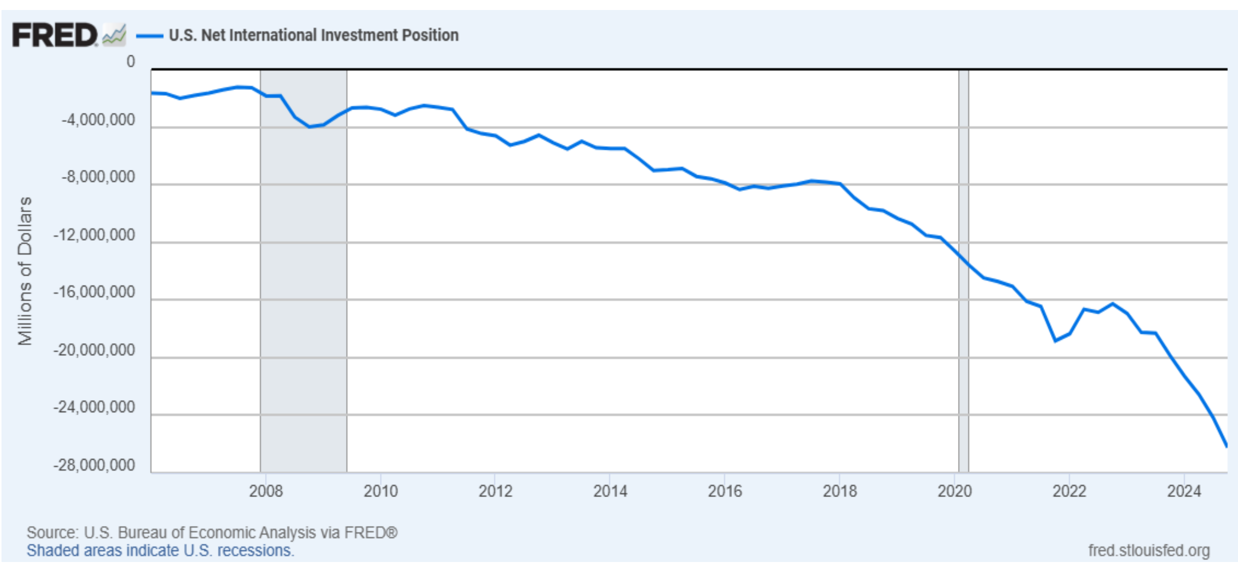
The Bureau of Economic Analysis (BEA) released a preliminary estimate for real GPD during the first calendar quarter of -0.3% (annualized). The decline in GDP was primarily due to an increase in imports as companies accelerated orders in advance of tariffs. Government spending showed a small decline. The negative impact of higher tariffs was offset by an increase of 3.0% in real final sales to private domestic purchasers (consumer spending + gross private fixed investment).

Since President Nixon ended the conversion of US dollars into gold by central banks in 1971, the US dollar has been the world's reserve currency. This allowed the United States to have large trade deficits as other countries sought to increase their foreign reserve holdings or needed US dollars for international transactions. In recent years, foreign central banks have been reducing US Treasury debt as a reserve asset and buying more gold.

The net international investment position (NIIP) measures the difference between the external financial assets and liabilities of a country. As of the end of 2024, the US net international investment position stood at $-26.2 trillion. Since 2020, the negative balance has accelerated, nearly doubling during the last five years.



It has become clear that the status quo of international trade and finance has been breaking down and most countries want to reduce their reliance on US dollar assets. Perhaps, President Trump and his team realized this, and their tariff proposal was an effort to reduce the trade deficit in short order. However, people quickly realized that replacing all those imports with US-manufactured goods would require time to build capacity. Furthermore, the US currently has an unemployment rate of 4.2% and 7.19 million job openings according to the Bureau of Labor Statistics. So, where will all the workers come from to fill all those new US factory jobs?

On April 21, the CEOs of Walmart, Target, and Home Depot met with President Trump at the White House. Prior to the meeting, President Trump told reporters, “We’ll also talk to companies. You know, you have to show a certain flexibility. Nobody should be so rigid.” After the meeting, the CEOs described the meeting as “productive” and “constructive.” According to Forbes, Walmart has 33% of their products sourced internationally, while Target imports about 50%, and Home Depot imports 50% from outside North America. Higher tariffs will have a considerable impact on their businesses.

Investopedia has dedicated a page to tracking the status of the various tariffs. It is a work in progress and there have been many changes within a short period of time. Tariff Tracker: Where Do President Trump's Trade Proposals Stand?

Higher tariffs with frequent changes have put a damper on economic activity due to uncertainty. Capital investment decisions are based on many variables which require some degree of confidence. Many corporate executives will delay strategic decisions until they feel that we are on solid ground for future economic and tax policy.

If you have any questions or comments, please contact me.

Sincerely,
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