BEA 東亞銀行

Economic Research

March 2025

Market Monitor – United States

The Trump administration imposed escalating tariff measures

- Trump imposed a series of tariff measures in early March, namely a 25% tariff on Mexico and Canada and another 10% additional tariff on China.
- Consumer spending was down on a monthly basis in January, and PMIs showcased mixed results.
- PCE inflation cooled in January.

Trump escalated tariff measures in early March

Trump implemented a new set of tariff measures. Following his additional 10% tariff imposed on Chinese imports on 4th February, Trump imposed an additional 10% tariff on Chinese imports effective 4th March. In response, China hit back with tariffs of 10-15% on a range of US agricultural products. The 25% tariff on Mexico and Canada that Trump had initially delayed went into effect on 4th March. Canada imposed reciprocal 25% tariffs on CAD 30 billion of imports from the US, with another CAD 125 billion of goods subject to the tariff hike after 21 days. Mexico also revealed it would respond with tariffs soon. In the meantime, Trump decided to exempt US automakers from the newly imposed tariffs on Mexico and Canada for one month. Then on 6th March, Trump decided to grant temporary tariff exemptions to some Canadian and Mexican goods that are compliant with the United States-Mexico-Canada Agreement (USMCA) until 2nd April. According to a White House Official, those goods amount to about 50% of Mexican and 38% of Canadian imports.

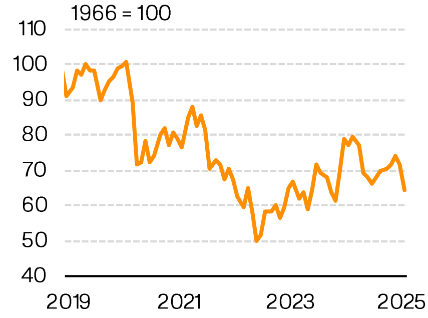
Trump's Tariffs	
Date	**Measure**
04-Feb	Additional 10% tariff on all imports from China
10-Feb	Announced 25% tariffs on all steel and aluminum imports to go into effect 12 March
04-Mar	Additional 10% tariff on China, bringing total to 20%
04-Mar	25% tariff on Canada and Mexico
05-Mar	Temporary exemptions for US automakers importing from Canada and Mexico for 1 month
06-Mar	Temporary exemptions to around 50% of Mexican and 38% of Canadian imports until 2 April

Earlier in February, Trump announced 25% tariffs on all imports of steel and aluminium into the US that would go into effect on 12th March and threatened to impose tariffs on Europe. All in all, the tariffs are a part of Trump's 'America First' agenda, intended to reduce dependence on foreign countries, boost American manufacturing, secure the border, and cut down on wasteful spending to lower the deficit. In his address to Congress, Trump acknowledged that tariffs will cause a "little disturbance", which signals that the new administration is determined to enforce its trade policy agenda and is willing to accept negative impacts from tariffs.

Worries over the strength of the economy arise

Consumer spending retreated in January. Consumer spending was down 0.2% month-on-month (MoM) in January, the first monthly drop in almost two years. Goods spending sank sharply by 1.2% MoM, from a 1.2% growth in December. This could be linked to the front-loading of goods purchases before the new year. After adjusting for price influences, real consumer spending even fell by 0.5% MoM. Meanwhile, underlying consumption drivers remained steady, as personal income surged by 0.9% MoM, higher than expected. The savings rate also went up from 3.5% in December to 4.6% in January, the highest since June 2024.

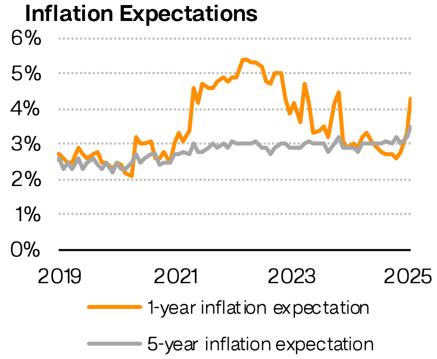
University of Michigan Consumer Sentiment Index



Source: Bloomberg

Consumer surveys indicated tariff anxieties. The University of Michigan (U-Mich) Consumer Sentiment Index declined to 64.7 in February from 71.7 in January, falling across all groups by age, income, and wealth. Additionally, the Conference Board consumer confidence index fell sharply in February, to 98.3 from 105.3 in January. Regarding inflation outlook, U-Mich consumer inflation expectations jumped in February, with the 1-year and the 5-year inflation expectation indices rising by 1 percentage point (ppt) and 0.3 ppts to 4.3% to 3.5%, respectively. These readings reflected weakening consumer optimism amid growing worries over the impacts of tariffs on prices and growth.

University of Michigan Consumer Inflation Expectations



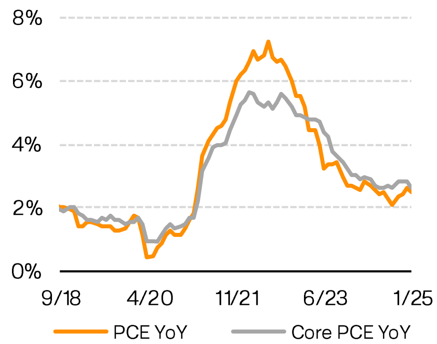
Source: Bloomberg

Business surveys indicated a mixed growth picture. In February, the Institute of Supply Management (ISM) and the S&P Global PMIs showed diverging trends, underscoring an uneven underlying growth pattern. The ISM manufacturing PMI declined from 50.9 in January to 50.3 in February, while the S&P Global series increased from 51.2 to 52.7. On the contrary, the ISM services PMI picked up from 52.8 in January to 53.5 in February, whereas the S&P Global series fell markedly from 52.9 to 51.0. Overall, these PMIs indicated a continued expansion across sectors.

Inflation trended sideways

PCE inflation showed stalled progress in returning to the target level in January. Headline and core personal consumption expenditures (PCE) inflation slowed to 2.5% year-on-year (YoY) and 2.6% in January 2025, from 2.6% and 2.9% in December 2024, respectively. However, on a month-on-month (MoM) basis, headline PCE inflation remained steady at 0.2% MoM in January, and core PCE inflation edged up to 0.3% in January, from 0.2% in December. The report aligned with the Fed's position to hold off further rate cuts until more progress on disinflation emerges. At present, futures markets priced in that the Fed is set to hold rates unchanged in its next FOMC meeting on 18-19 March, with the next rate cut likely in June.

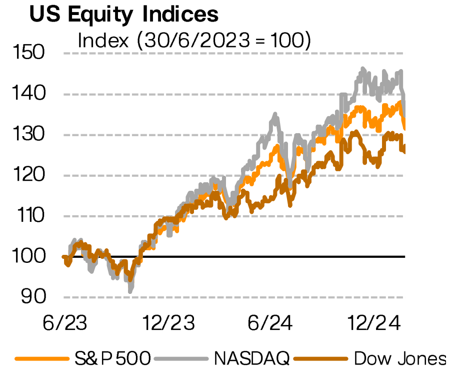
US PCE Inflation



Source: Bloomberg, data as of 28/02/2025

Major US equity indices struggled in February

Major US equity indices declined in February. The S&P 500 reached its record high during February but ended the month down 1.4% MoM, while the Nasdaq and Dow Jones Industrial Average were down 4.0% and 1.6% MoM, respectively, in February. 10-year treasury yields continued to drop, falling to 4.209% at the end of February, compared to 4.541 at the end of January. Stock market volatility and falling treasury yields could be attributed to various factors such as uncertainties of Trump's economic policies, the US economic outlook, and the profitability of technology stocks. Meanwhile, the US dollar index fell by 0.7% MoM to 107.614 in February.



Source: Bloomberg, data as of 28/02/2025

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