

## **Trump's latest tariffs are about to hit you where it really hurts**

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President Donald Trump's new tariffs on Chinese goods will drive up costs on many everyday products.

President Donald Trump's newest round of tariffs on \$200 billion worth of Chinese goods adds a new element to the trade war.

For the first time, consumer goods are going to be directly hit by the new 10% duty, likely causing an immediate increase in prices for US shoppers.

The increase in inflation from the new trade war attack "will be meaningful," economists say.

President Donald Trump's latest round of tariffs added a new dimension to the trade war with China: US consumers are going to get hit directly.

The previous round of tariffs imposed by the president on \$50 billion worth of Chinese goods focused almost exclusively on industrial goods and intermediate parts on final goods that are then sold to consumers.

This led to an indirect hit to consumers. As businesses faced higher costs for input goods, the companies were forced to either cut back in other areas - such as laying off workers - or pass along the price increase to consumers.

While the effect on consumers has trickled down previously, the latest round of tariffs on \$200 billion worth of Chinese goods constitutes a direct hit.

Many of the 5,745 items on the newest tariff list are consumer goods or things that Americans buy every day: fruit juice, furniture, air conditioners, and more.

The consumer goods affected represents a dramatic increase from the previous round of tariffs, according to a breakdown of a previous version of the list of goods

affected. (Many of those items made it to the final list.) Chad Bown, Euijin Jung, and Zhiyao Lu of the Peterson Institute for International Economics say the reason for the shift is simple: There were only so many goods left to hit.

"Consumer goods made up only 1% of the products of the first \$50 billion of imports from China subject to his announced tariffs. The rest affected intermediate inputs and capital equipment," the economists wrote. "The explanation for this shift lies in the fact that there are fewer and fewer such supply chain elements left to target. Consumer products are much of the imports from China that were left."

The sellers could choose to eat those new duties and see their margins decline. But based on price changes for goods hit with tariffs in previous rounds, it is likely that at least some of the cost increase will be handed to consumers.

Many members of the Trump administration have argued that the increases will be minor and most Americans won't notice.

"Well, you can do the numbers this way if you have a 10% tariff on another \$200 billion, that's \$20 billion a year. That's a tiny, tiny, tiny fraction of 1% total inflation in the US, because it's spread over thousands and thousands of products," Commerce Secretary Wilbur Ross said Tuesday. "Nobody's going to actually notice it at the end of the day."

But many economists disagree, since businesses that sell the same goods but don't source the product from China may see an opportunity to grow their profits by matching the price increase. Ultimately, this will lead to price increases for consumers and a boost to inflation, economists say.

Ian Shepherdson, chief economist at Pantheon Macroeconomics, argued in a note to clients on Tuesday that while the real danger lies in the tariffs' increase from 10% to 25% at the start of 2019, the initial hit will be significant, too.

"The inflation hit is harder to quantify, but it will be meaningful," Shepherdson wrote. "Most items of clothing and furniture are exempt from the tariffs but many food items are included. We don't know for sure how quickly importers will raise wholesale prices of the affected items, or how quickly manufacturers of substitutes for Chinese products will lift their prices."

Based on Shepherdson's rough math, the new tariffs could add another 0.5 percentage points to the current consumer price index - which, based on the latest CPI release, would boost the inflation gauge to 3.2% year-over-year. Such an increase would not go unnoticed by policymakers or American families.

"That's enough to matter, both to the Federal Reserve and to the public, who will notice when prices in Walmart start to jump," Shepherdson said.



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