Brewin Dolphin

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# Markets in a Minute

## Key highlights

- **U.S. announces 25% tariffs on cars:** The tariff on finished vehicles will apply from 3 April, while the tariff on parts will be imposed a month later.
- **Japan's exposure to tariffs won't stop interest rates rising:** Around 28% of Japan's exports to the U.S. are cars, but with inflationary pressure persistent, the Bank of Japan will raise interest rates anyway.
- **UK economy gives mixed signals:** The economy seems stronger in the first quarter of 2025, but inflation is persistent. Utility bills are set to rise, but the Bank of England will hope to see other inflation categories slow.

Watch the latest Markets in a Minute video

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"During the final quarters of 2024, the saving rate in the UK reached nearly 12%, the highest figure since 2010."

Last week was supposed to be the calm before the storm of U.S. President Donald Trump's self-styled 'Liberation Day', when tariffs will be imposed on a range of the country's trading partners.

The week saw plenty of information and disinformation over when the tariffs will come, before seeing a surprise announcement on Wednesday relating to taxes on car imports.

## U.S. announces 25% tariffs on cars

President Trump imposed 25% trade tariffs on vehicles and car parts last week. According to the White House, the move was made in the interest of national security, for which the automotive industry is a vital component. The tariff on finished vehicles will apply from 3 April, while the tariff on parts will be imposed a month later.

President Trump has consistently expressed his frustration over the practice of building cars in other countries before selling them in the U.S. This new policy aims to encourage more car manufacturing in the U.S. instead. The president hopes this will increase U.S. employment and reduce the U.S. trade deficit.

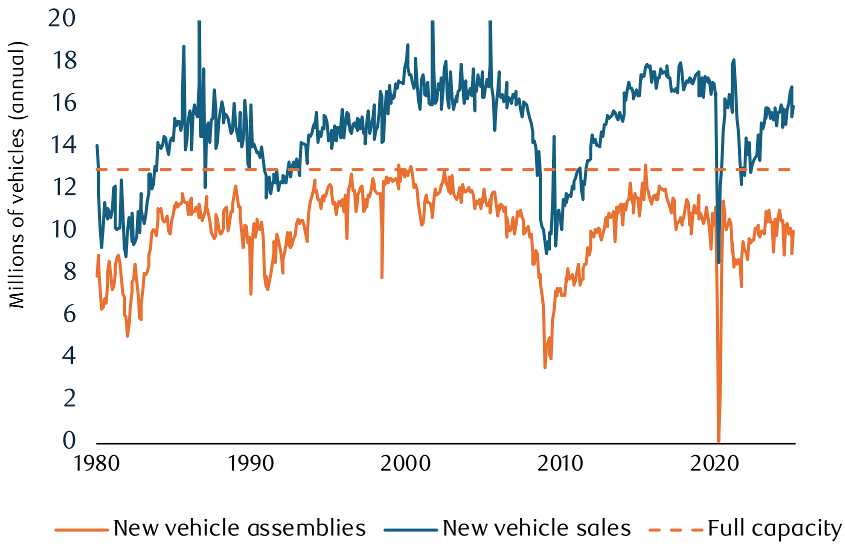
Continued overleaf

## Figure of the week

# £9.9bn

The headroom the chancellor has left against her most demanding fiscal rule.

**U.S. could produce c. three million fewer cars than it buys**




Source: LSEG Datastream

The U.S. sells around 15 million vehicles per year, with some demand having probably been brought forward in anticipation of tariffs.

The U.S. currently produces around 10 million vehicles annually and, at a stretch, it appears to have capacity for 13 million. Over time, the shortfall can be met through additional investment in auto plants, which take a couple of years to build.

There are two important questions to be asked:

- How long will the tariffs need to remain in place to make executives willing to commit to expensive new plants in the U.S.; and
- By the time the plants are erected, how long will be left of President Trump's term, at the end of which policies may be different?

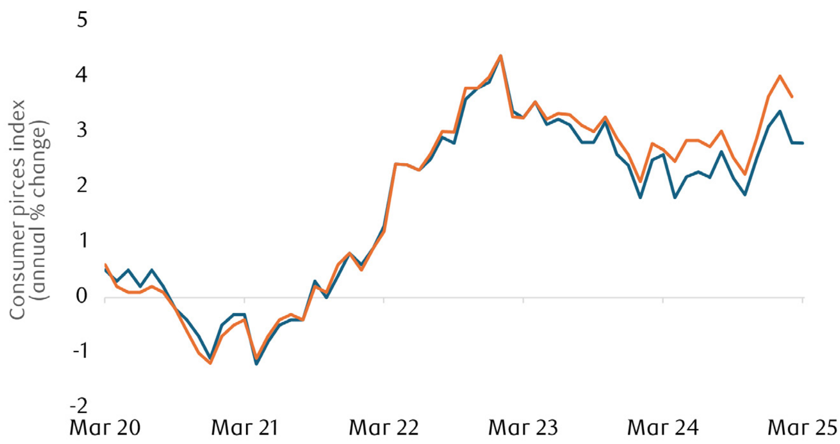
## Japan ponders retaliation against auto tariffs

Around 28% of Japan's exports to the U.S. are cars, so the country will be impacted by this latest tariff announcement. Japanese Prime Minister Shigeru Ishiba insists that all options are on the table when it comes to retaliation.

However, Japan has moved a lot of its car manufacturing to America, and so a portion of its sales will be protected. Economic consultant Capital Economics estimates that around 70% of sales by Japanese firms to U.S. companies are already manufactured in the U.S.

So, despite the considerable threat from the imposition of tariffs, interest rates are still expected to rise in Japan. Members of the Bank of Japan's Monetary Policy Board seem concerned that food price inflation could be persistent, and there have been signs from the latest shunto (annual spring wage negotiations) that companies are willing to countenance higher payments.

### Japanese inflation remains persistent



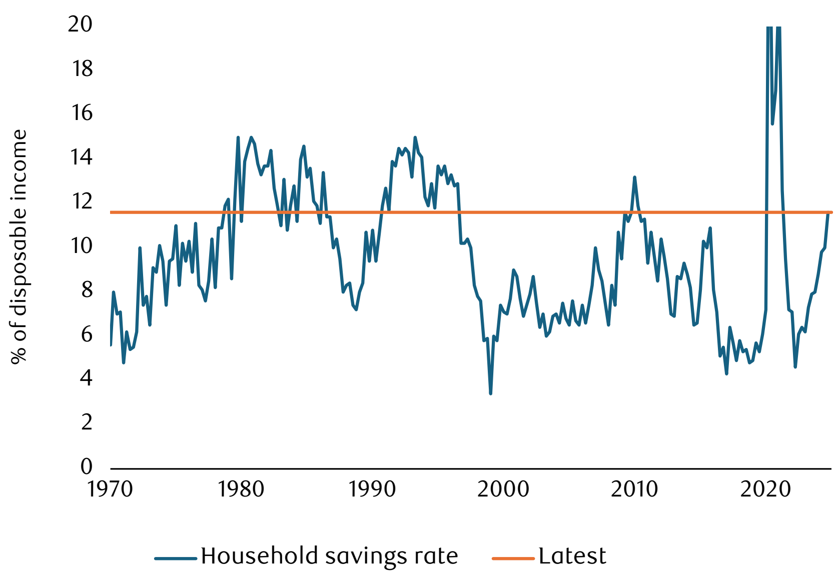

Source: LSEG Datastream

At a time when other countries are pondering how fast to cut their interest rates, Japan is poised to continue hiking, especially since consumer prices in Tokyo on Thursday remained stronger than anticipated, which will therefore be true of the equivalent nationwide inflation measure, too.

## UK economy gives mixed signals

Friday saw the full release of the UK's 2024 gross domestic product (GDP) numbers. The economy grew by just over 1% last year, despite some pre-election giveaways by the outgoing administration. The new government shone a light on the fiscal situation, and in doing so cast a shadow over UK consumer confidence.

### UK consumers have been saving the most since 2010




Source: LSEG Datastream

Whilst Friday's numbers show just how turgid the second half of 2024 was, they do reveal that during the final quarters, the combination of growing real wages and cautious spending led the saving rate to reach nearly 12%—the highest figure since 2010—indicating that UK consumers have been saving.

The benefit of that was felt in January and February; retails sales figures seem to suggest that the UK consumer headed back to the shops in the first months of the year. The benefit was also seen in the UK services purchasing managers index (PMI), but below the surface of a strong rebound lies some gloom in the form of contracting employment, which is a response to rising employment costs.

The increase to Employers National Insurance contributions, which was announced in the 2024 Autumn Budget, will take effect from this April. The new tax year will also see first-time buyers paying Stamp Duty Land Tax (SDLT) when buying a home, ending a preferential treatment that saw them exempt from paying any SDLT on properties worth up to £425,000.

Inflation was below forecasts, but this was mainly due to a few volatile items. We know that utility bills will be back on the rise in April, which means inflation will be back above 3% for the rest of the year.

The economy seems stronger in the first quarter of 2025, but inflation is persistent. The Bank of England's Monetary Policy Committee seems keen to cut interest rates at least twice over the next year, but it will be banking on a slowdown in inflation (excluding utility bills).

In the Spring Statement on Wednesday, the chancellor confirmed that government spending was on track to break one of her fiscal rules. The government had been on track to spend £9.9bn less than it was receiving in 2029/30, but rising interest rates meant that this headroom had been lost.

Over the previous week, the government announced welfare cuts that will take effect from April next year, in addition to further economic measures. By extraordinary coincidence, the £9.9bn headroom was restored but as the last six months have shown, such a small margin means that every time interest rates seem to rise, the prospect of more taxes or spending cuts in autumn will rise.

## Coming up this week

- **Global PMIs:** The temperature of most major economies will be taken this week with the S&P Global PMI (and the Institute of Supply Managers surveys in the U.S.)
- **U.S. employment:** The U.S. is expected to announce on Friday that 135,000 new jobs were created during March.
- **'Liberation Day':** President Trump will announce reciprocal tariffs on trading partners on Wednesday.

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