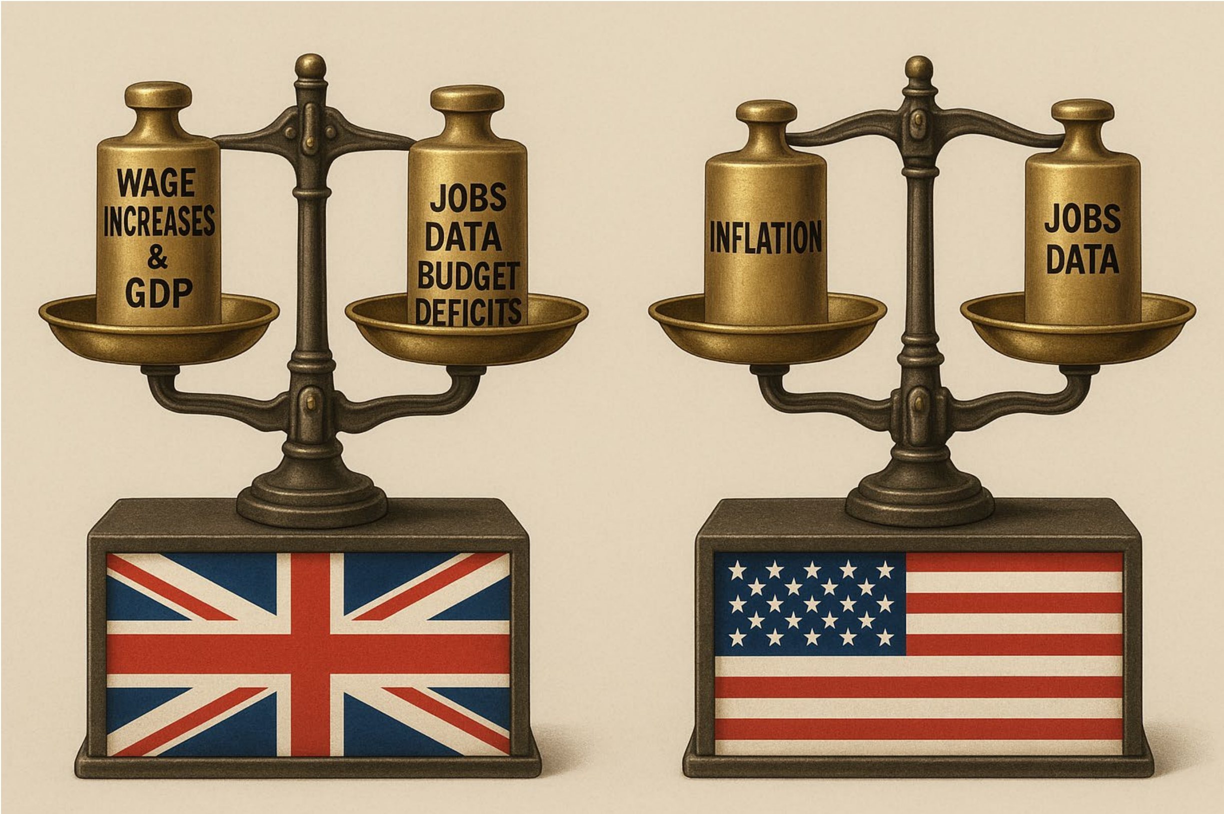
UK and US economies with good and bad data and what on earth are Reverse Tariffs?



There's lots to talk about this week and we're going to start with a focus on the UK data of which there was plenty.

UK GDP grew +0.3% in the second quarter ended 30th June, outperforming both consensus and Bank of England forecasts for growth of +0.1%. Whilst this is a slowdown from first quarter growth of +0.7%, it does represent some relief for the Chancellor Rachel Reeves, given that the headline year-on-year rate is now quoted at +1.2%.

Also encouraging was the month-on-month increase of 0.4% compared to the last reading of -0.1% and a consensus expectation for growth of 0.2%. Growth was driven mainly by services (+0.4%) and construction (+1.2%), while production fell -0.3%.

You do however have to bear in mind that firstly these are preliminary number solely and will be revised over the coming weeks. Secondly, Q1 data was skewed to the upside by the rush by US importers to stockpile goods ahead of the "Liberation Day" tariffs (thereby increasing UK exports).

Nonetheless these are encouraging numbers given the new US trade tariffs and a softer jobs market – see below.

The UK unemployment rate held steady at 4.7% for April to June 2025, matching last month's data. It however remains at its highest point in nearly four years, and the labour market continues to soften.

The number of employees on company payrolls, as measured by tax office data, fell by a provisional 8,000 in July from June. This extended a run of declines to six consecutive months.

Job vacancies also fell sharply, with the latest Office for National Statistics data showing UK job vacancies fell by 44,000 (5.8%) for the quarter, with a total of 718,000 vacancies for May to July 2025.

This marks the 37th consecutive period of declining vacancies, which now stand at 145,000 lower than one year ago and 77,000 below pre-pandemic levels. Nearly all sectors saw falls, and the decline signals continued employer caution in hiring or replacing staff, undoubtedly an issue accelerated by the increases to Employer National Insurance Contributions and the Minimum Wage.

Somewhat inconsistently however, wage growth remains unusually robust. Regular pay (excluding bonuses) rose +5.0% year-on-year, still well above the 2% inflation target level set by the Bank of England.

This has significantly complicated the Bank of England's deliberations over future rate moves, given the relatively encouraging GDP and pay data but mixed with clear signs of a slowdown in employment data.

On top of this, there is mounting evidence and commentary that the UK's fiscal "black hole" has grown to £50bn. The National Institute of Economic and Social Research (NIESR) has warned that Chancellor Rachel Reeves is set to miss borrowing targets by over £41bn this year and will need to raise taxes or cut spending by £51bn in the upcoming autumn budget just to restore the existing fiscal buffer.

Looking across the Atlantic, US annual CPI remained unchanged at 2.7% for July, but with core inflation rising to a five-month high at 3.1%. This was in due mainly to the month-on-month increase in core CPI of +0.3%

Looking at the component parts of CPI we saw that housing and energy actually eased. We can however now see some increase from the Trade Tariffs coming through especially in sectors such as cars, transportation, and some consumer goods. This is almost certainly going to accelerate through the current quarter.

Indeed, the Producer Price Index numbers revealed today, which measure wholesale prices, saw huge month-on-month increase of +0.9%, the largest monthly increase since June 2022. The annualised rate now sits at 3.3%.

This increase is broad-based, signalling near-term pressure for consumer prices as producers start passing on tariff-related costs.

Here we are now getting into the real-life impacts of Trade Tariffs. The tariffs are presented as an attack on all the countries with whom the US runs a trade deficit, that is the US buys more goods from, than it sells to, a given country.

In Trump's logic the only reason that this happens is because the non-US goods are cheaper than US made goods, which gives them in his view an unfair advantage. He of course ignores the facts that some of the goods are not even available in the US, some of the goods that are made in the US are of inferior quality and some of the goods can't begin to be made in the US because nobody wants the jobs that do the making of those goods.

There is however a common misconception in the mainstream media that tariffs hurt the exporting country and, whilst that may be true in the long run, it is the US consumers and businesses who suffer first, through increased prices on those imported goods.

Trump of course says that the point of tariffs is to make non-US goods less competitive in the US, thereby forcing US consumers and businesses to buy US goods. As noted above however there are other arguments about why a US consumer may not want to buy US manufactured goods.

The very next thing of course is that those US manufacturers capable of manufacturing goods of the required standard for the market suddenly see that their competitors' goods are 15%, 25% or even

50% higher. If you were one of those manufacturers, what would you do? Increase your price by 14%, 24% or 49% - you're still 1% cheaper than your competitor. Of course, it's not that simple either but it makes the point.

It is therefore very hard to see how the tariffs can be anything other than inflationary, which is where the US Federal Reserve finds itself locked in an on-going battle with the President. The US Federal Reserve has 2 objectives laid out for it:

1. Maximum employment: The Fed aims to achieve the highest level of employment possible, not zero unemployment, but a level consistent with a healthy, sustainable economy where everyone who wants a job can find one.

2. Price stability: The Fed works to keep inflation low and stable, officially targeting 2% average inflation over time to ensure that money retains its purchasing power and the economy can grow without disruptive price swings.

With the poor jobs data that was published last week pointing towards requiring a rate cut and the fears about inflation as detailed above pointing to requiring a rate rise, it is almost impossible to see how the Federal Reserve could make a call as to the correct path to follow right now. More developing data is needed as to which issue is more damaging.

Of course, Trump wants a rate cut and the reasons for that are patently obvious. A rate cut reduces the amount of the current account spent on servicing the national debt and therefore funds the promises of his "One Big Beautiful Bill". It also compensates the US consumer for the increased prices that they are paying through tariffs, and it also weakens the US dollar, a clearly stated policy aim in his Mar-a-Lago Accord.

Why, you might wonder, would he want a weaker US dollar? Go back to the tariffs and see that he wants imports into the country to be more expensive than home made goods. On the face of it a weaker dollar does just that helps that cause.

We also saw an incredibly interesting move from Nvidia and AMD this week, a move that we are calling a "Reverse Tariff".

These 2 companies, using "The Art of the Deal" reached agreement with Trump for them to continue selling their chips to China in exchange for them paying 15% of their Chinese revenues in a voluntary tax to the US Government.

This is a "reverse tariff" because whilst on the face of it, it is a US company paying the tax, the reality is that it's not the US consumer or business that ends up paying it but the Chinese businesses and consumers, as Nvidia and AMD will surely (maybe over time) increase their prices by 15% to compensate.

From Trump's point of view this reduces the trade deficit with China, generates similar revenues to the tariffs for the US Government, all without the attendant inflationary increase of tariffs.

It also probably indicates that the value of revenue from China for Nvidia and AMD is so huge that it is worth paying 15% of the revenue anyway.

We have a feeling that this could become a new blueprint for US trade policy moving forward.

Finally, we see that Trump and Putin are holding a summit in Alaska for talks about ending the war in Ukraine.

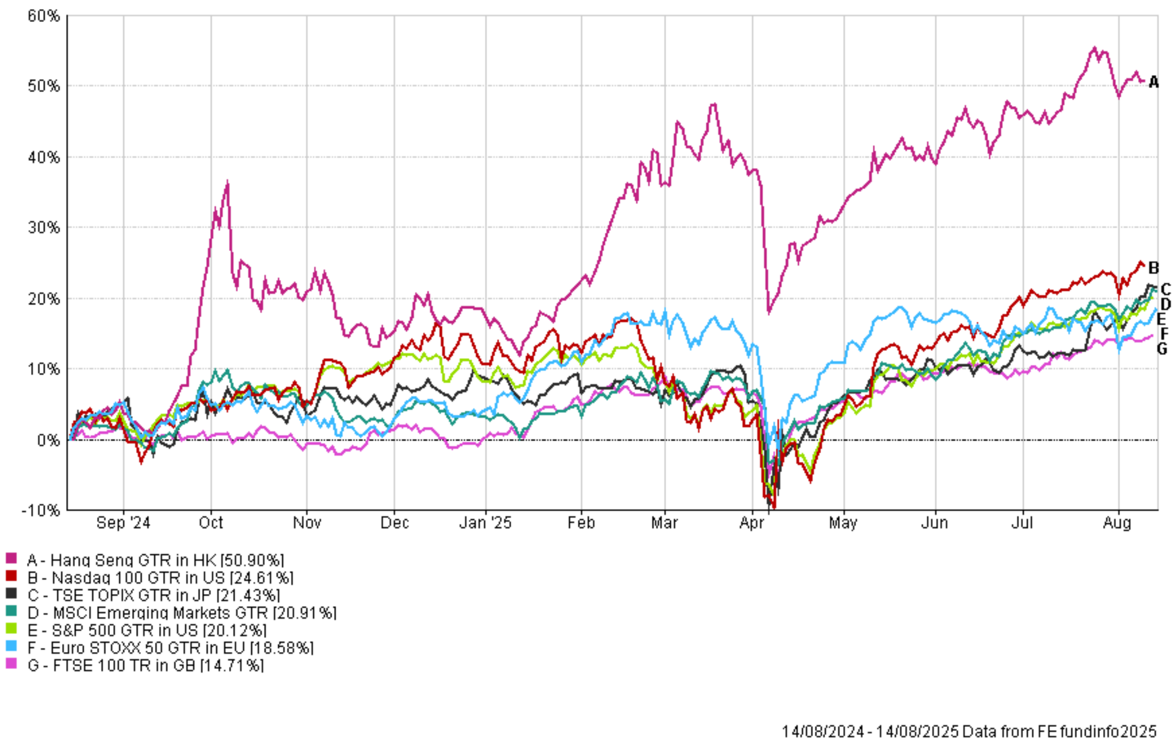
In Trump's usual bombastic style, Ukrainian and European leaders are excluded from the discussions. This no doubt will encourage Russia to seek what most people would consider to be unreasonable demands, such as Ukraine forgoing plans to join NATO and surrender parts of its territory, for example in the Donbas, in return for partial territorial reversions elsewhere and softer sanctions.

Ukraine currently insists that there can be no territorial concessions, while European leaders urge Trump not to weaken the West's position.

Recent comments from Trump suggest that the summit's format reflects his desire to make bilateral deals with Moscow, sidelining Ukraine and Europe in pursuit of a swift settlement and new trade channels. Don't be surprised to hear the phrase "Sell out" by the end of the weekend.

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:



Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.34%	+0.82%	+3.51%	+4.20%
Balanced	+0.54%	+1.28%	+4.92%	+6.24%
Adventurous	+0.71%	+1.32%	+5.63%	+7.29%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.