Why Trump's Tariffs Are Rattling Even Meta

Meta, which owns Facebook, Instagram and WhatsApp, would not seem to be in the line of fire from tariffs. But President Trump's trade actions are hitting even social networking businesses.

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When President Trump announced sweeping tariffs this week, some of the biggest tech companies had obvious reasons for worry.

Apple, Dell and Oracle — which rely on hardware and global supply chains that are in the direct line of fire from tariffs — saw their shares go into free-fall. But there was another big tech company whose stock took a pummeling even though its core business has little to do with hardware: Meta.

Shares of the company, which owns Facebook, Instagram and WhatsApp, fell $52 to $531.62 on Thursday and were down again on Friday. In total, Meta shed a whopping 9 percent of its market capitalization on Thursday.

The reasons for Meta's slide are less obvious. But close watchers of the social networking and metaverse company know it is just as vulnerable to Mr. Trump's trade actions as some of its Silicon Valley peers, even if the details are more complicated. Here's why.

What gives with Meta? It isn't in the same hardware businesses as Apple or Nvidia.

That's not entirely true, but for our purposes let's look at Meta's main business: digital advertising.

Meta rakes in billions of dollars in revenue by selling ads across Facebook and Instagram. Some of those advertisers are large brands, including Procter & Gamble, L'Oreal, McDonald's and Nestlé. Those companies buy ads on Facebook for so-called brand awareness campaigns. Think of it as a way of nudging people to buy a specific product like Q-Tips instead of generic cotton swabs the next time they go to the store.

But a vast majority of Meta's advertisers are small and medium-size businesses.

Those companies buy a different kind of ad, called "direct response advertising." These ads typically encourage an action of some sort, like downloading a company's app or buying a kitchen gadget featured on an Instagram video.

E-commerce transactions like these make up an enormous amount of Meta's very successful online advertising business. Susan Li, Meta's chief financial officer, said in an earnings call this year that online commerce ads were the "largest contributor to year-over-year growth" to the company's advertising revenue.

So what does that mean?

The effect of tariffs on Meta's ad business is simple. Many of its small and medium-size advertisers are from all across the world. President Trump's tariffs will instantly make it more expensive for them to sell their products to customers in the United States.

That is likely to lead to a pullback in overall purchases from consumers and fewer people buying products from Facebook and Instagram. That could, in turn, lead brands to spend less on advertising across those apps.

This seems somewhat hypothetical. Could that really lead to such a big stock drop for Meta?

Meta has additional complicating factors that may affect its business more than other advertising companies.

Last year, the company disclosed that 10 percent of its revenue in 2023 was from Chinese companies spending heavily on advertising across Facebook and Instagram, an ad blitz aimed at garnering a foothold in lucrative Western markets.

Much of that growth was fueled by the explosive expansion of the fast-fashion company Shein — which is based in Singapore but has a supply chain that is largely in China — and the e-commerce app Temu, a low-cost, Amazon-like company owned by the Chinese e-commerce conglomerate Pinduoduo. Temu was estimated to have spent $3 billion in marketing costs in 2023 alone, according to estimates from Bernstein Research.

Chinese companies and goods have been hit hard by President Trump's tariffs. In addition, Mr. Trump eliminated the "de minimis exemption," which had exempted exporters sending goods valued at or less than $800 from having to pay duties. The exemption was essential to the Temu and Shein business model of selling low-cost goods to Americans.

If Mr. Trump's tariffs stick, they could drastically hurt these exporters of cheap Chinese goods, which means they could slash their advertising on Facebook and Instagram.

Just how exposed is Meta?

In an investor call last year, Ms. Li defended the company's exposure to any fluctuation in spending by Temu and Shein.

She said two-thirds of Meta's Chinese ad revenue came from advertisers "outside the top 10 spenders in that country in 2023." Her point being: Even if Temu and Shein pulled back, many other Chinese advertisers were still buying Facebook and Instagram ads.

Unfortunately for Meta, that broad base of advertisers is no hedge against Mr. Trump's tariffs, which will affect all Chinese ad buyers.

"Because their Chinese ad revenue is so evenly distributed, it's actually worse for them now," said Eric Seufert, an independent mobile advertising analyst who follows Meta. "They don't just have to worry about Temu or Shein dropping off. They have to worry about everyone."

Meta did not respond to requests for comment.

Oof.

To be fair, Meta isn't alone. E-commerce tech companies like Shopify and Stripe could face headwinds if global trade slows. Google and Amazon also have enormous ad businesses that could be hampered by a pullback in Chinese companies' spending.

We will hear Meta's defense soon enough. The company is expected to answer investors' questions when it reports quarterly earnings this month.

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