

Trade compass

Macroeconomics Team

April 2025



The better the question. The better the answer. The better the world works.

Executive summary: The global economy is at risk of a tariff-induced recession

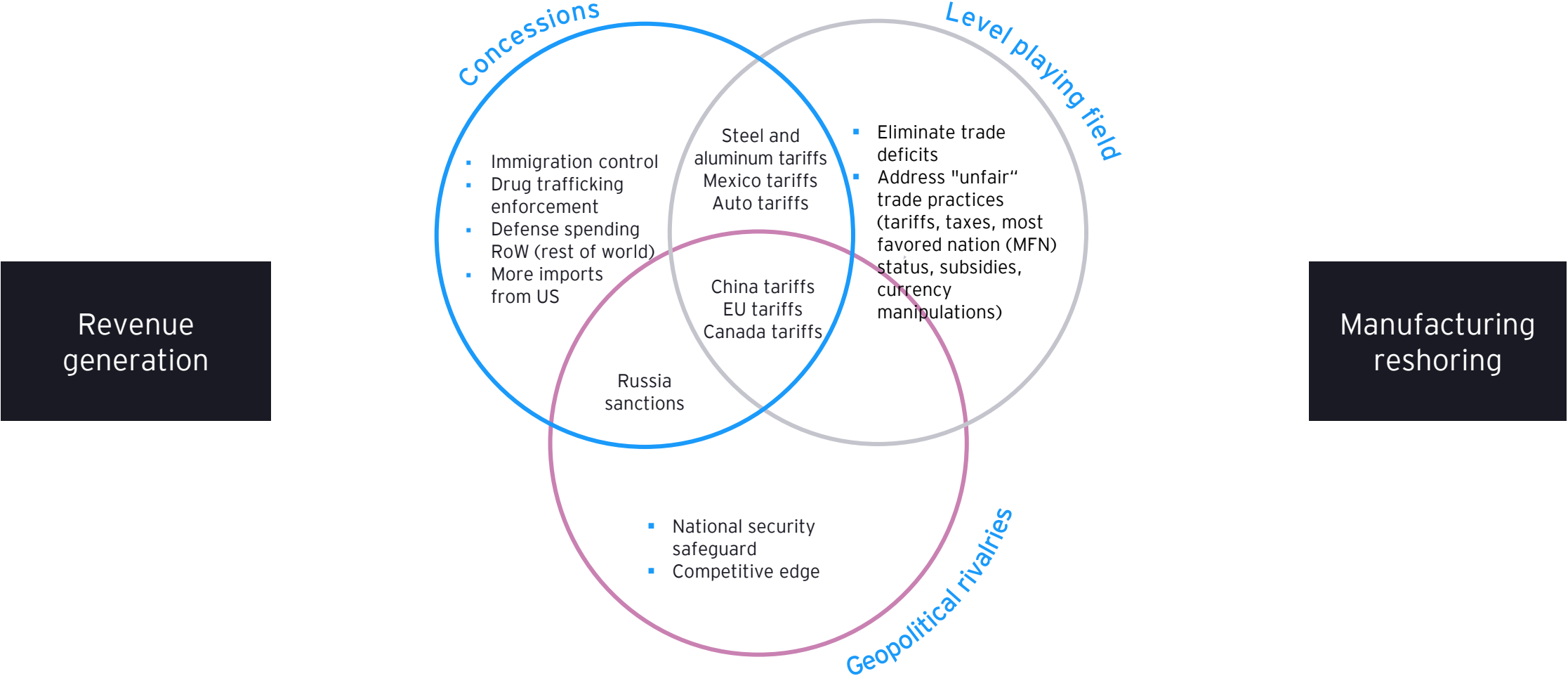
- ▶ Significant ramp-up in US tariffs with the aim of [reducing the US trade deficit to zero](#).
- ▶ [President Trump's Reciprocal Tariff Policy](#) includes country-specific tariffs that are not reciprocal per se, but instead focus on zeroing the US trade deficit.
- ▶ Impact on global economy filters through these three channels:
 - [Confidence](#): Reduced consumer and business confidence leads to “wait and see” for spending and investment.
 - [Financial](#): Increased financial market volatility and depressed stocks lead to negative earnings and wealth effect.
 - [Cost and volume](#): Increased cost of imports leads to higher inflation and reduced economic activity.
- ▶ [Risk to the global economy](#) from universal 10% and country-specific tariffs announced on April 2nd:
 - Drag on US real GDP growth: At least -1.0 percentage point (ppt) in 2025 and -0.4ppt in 2026
 - Drag on global real GDP growth: At least -0.5ppt in 2025 and -0.7ppt in 2026
- ▶ [Stagflation becomes a notable risk](#), with global inflation reaccelerating.
- ▶ [Tariff retaliation and financial market strains](#) represent further downside risks to global growth.
- ▶ New Baseline: [universal 10% and cumulative 54% on China](#) with US GDP only growing 1.1% in 2025 and 0.2% Q4/Q4.
- ▶ [Federal Reserve will likely remain reactionary](#) to data with a hold until June – potentially three back-to-back cuts in H2.

| Agenda

- **US trade policy rationale and trade actions tracker**
- US average tariff rates and baseline assumption
- Country-specific and universal tariffs
- Policy uncertainty and market volatility drag
- Preemptive inflation anxiety
- Auto tariffs
- What does the US trade with major partners?
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A framework to consider the administration's trade policy: revenue generation and manufacturing reshoring with a distaste for trade deficits



President Trump's recent tariff announcements confirm the administration's intent to rapidly adopt a more protectionist stance

Trump's tariff threats and actions

Target	Tariff	Status	Authority
Steel and aluminum	<ul style="list-style-type: none"> 25% on steel and aluminum 	<ul style="list-style-type: none"> Took effect March 12 	<ul style="list-style-type: none"> Section 232 (using the 2018 investigation)
Canada, Mexico	<ul style="list-style-type: none"> 25% on all goods, 10% on Canada energy; 10% on Canada and Mexico potash 	<ul style="list-style-type: none"> Took effect March 4, but only applies to non-USMCA-compliant goods (50% of import value for Mexico and 60% for Canada non-compliant as of 2024) 	<ul style="list-style-type: none"> IEEPA¹
China	<ul style="list-style-type: none"> Two +10% increases on all goods De minimis exemption removal Tariff escalation to 54%, 104%, and 145% announced in early April 	<ul style="list-style-type: none"> Took effect Feb 4 and March 4 Schedule for May 2 Additional 125% tariff in effect as of April 10th 	<ul style="list-style-type: none"> IEEPA
All nations	<ul style="list-style-type: none"> 10% on all - plus higher country-specific tariffs on certain US trading partners 	<ul style="list-style-type: none"> 10% duties took effect April 5 Country-specific tariffs (excluding China) paused for 90-days starting on April 9th 	<ul style="list-style-type: none"> IEEPA
All nations	<ul style="list-style-type: none"> 25% on autos and key parts 	<ul style="list-style-type: none"> April 3 for autos and no later than May 3 for auto parts (exemption for USMCA-compliant goods) 	<ul style="list-style-type: none"> Section 232
All nations	<ul style="list-style-type: none"> Semiconductors, pharmaceuticals, copper, timber, secondary imports of Venezuelan oil, secondary imports from Russia 	<ul style="list-style-type: none"> To be determined 	<ul style="list-style-type: none"> To be determined

1. International Emergency Economic Powers Act (IEEPA).

Source: White House; Trump statements; Bloomberg News Report

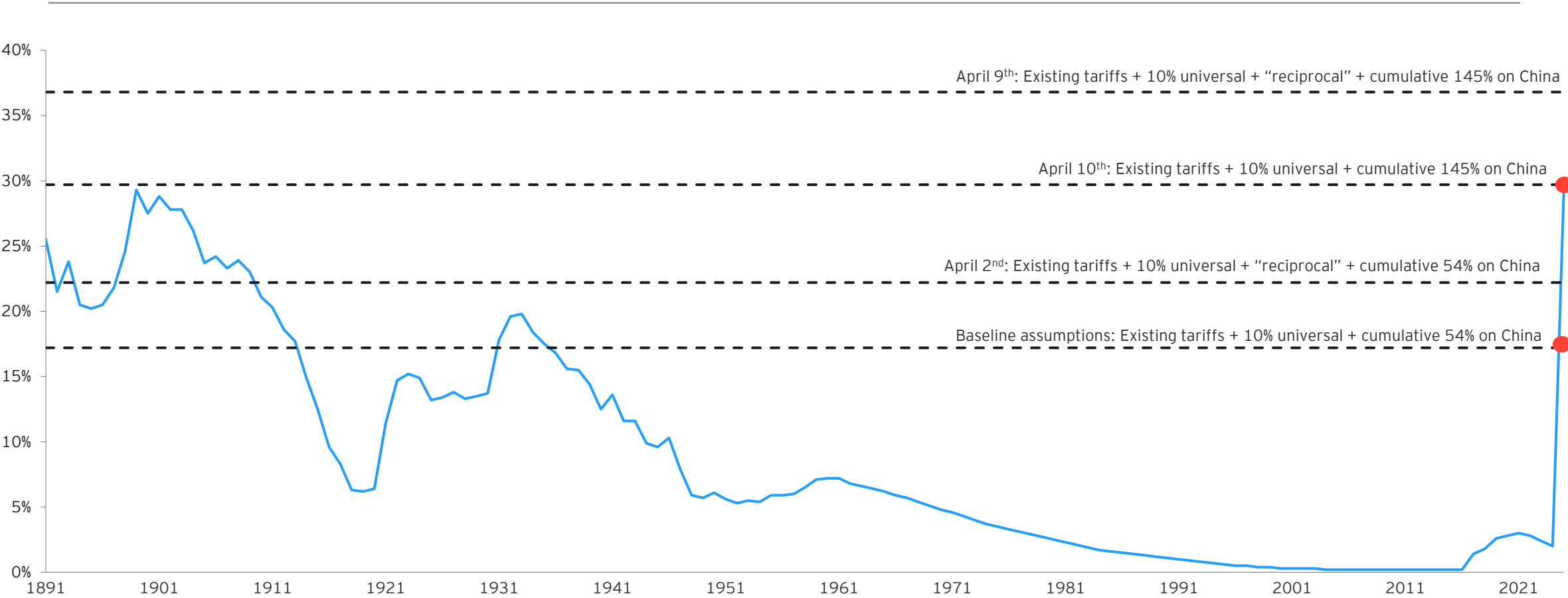
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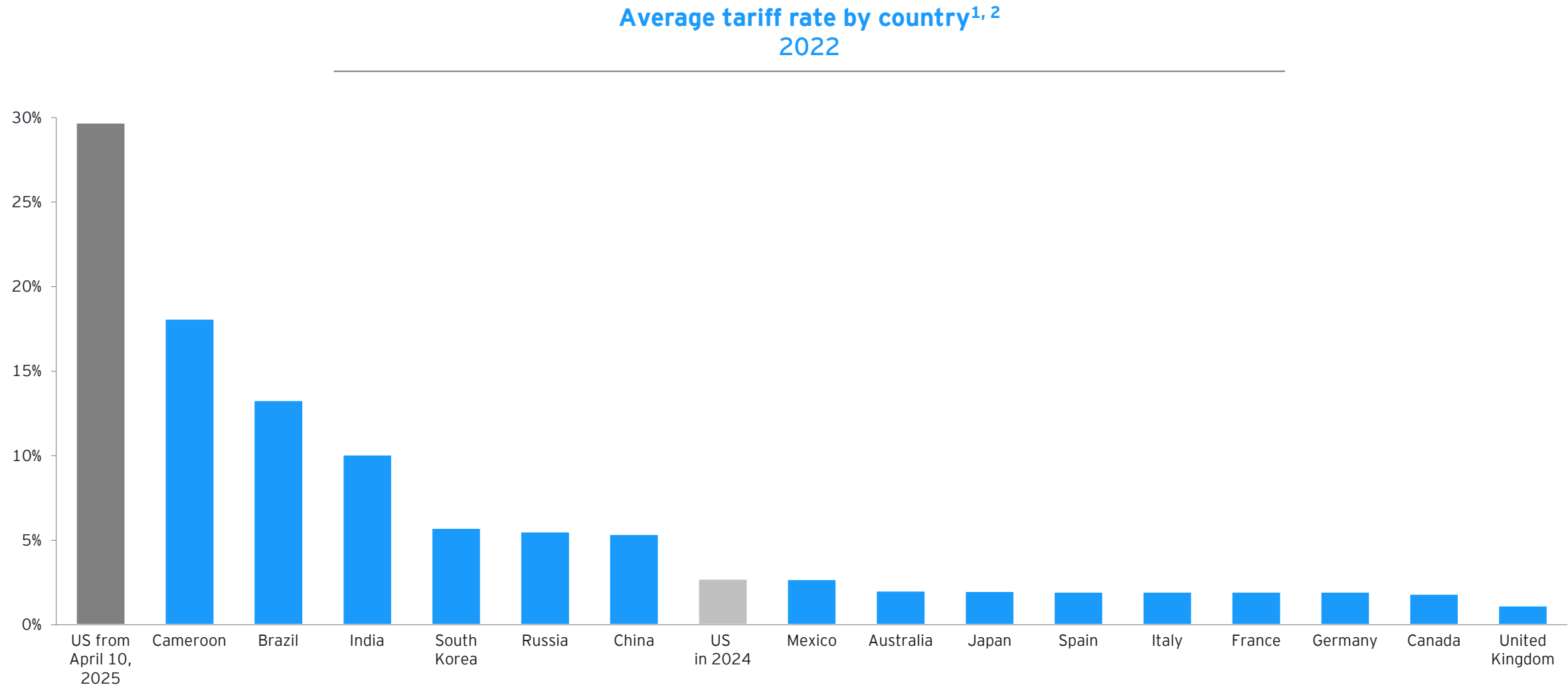
Recently implemented tariffs will increase the average US tariff rate by 27ppt to around 30% - the highest since 1909

Average US tariff rates
Duties collected as a share to total imports 1891-2025



Source: U.S. International Trade Commission; EY-Parthenon analysis

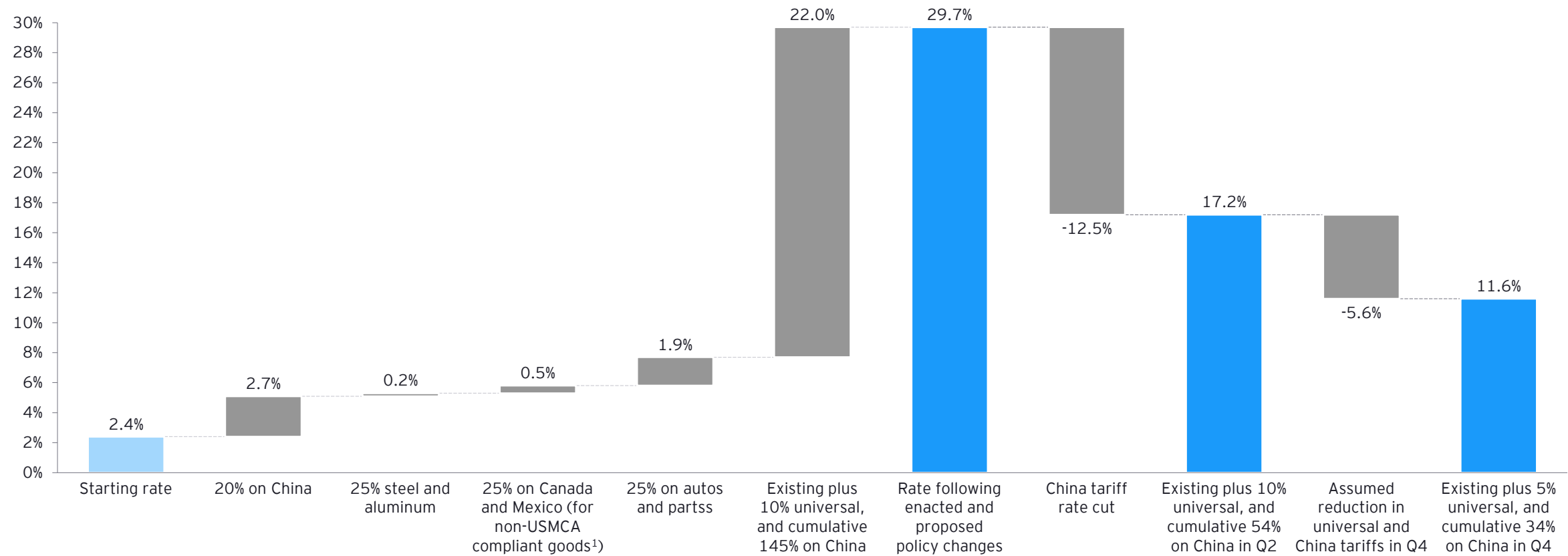
The US average tariff rate was below that of major emerging economies in 2024, but above that of most developed economies; it could rise to one of the highest in the world



1. Tariff rate, applied, simple mean for all products.
2. The Bahamas is listed by the World Bank as the economy with the highest average tariff rate, as of 2022, at 26.3% with no other economies with higher rates as of that year.
Source: World Bank

Decomposing the increase in the US average tariff rate into specific policy actions

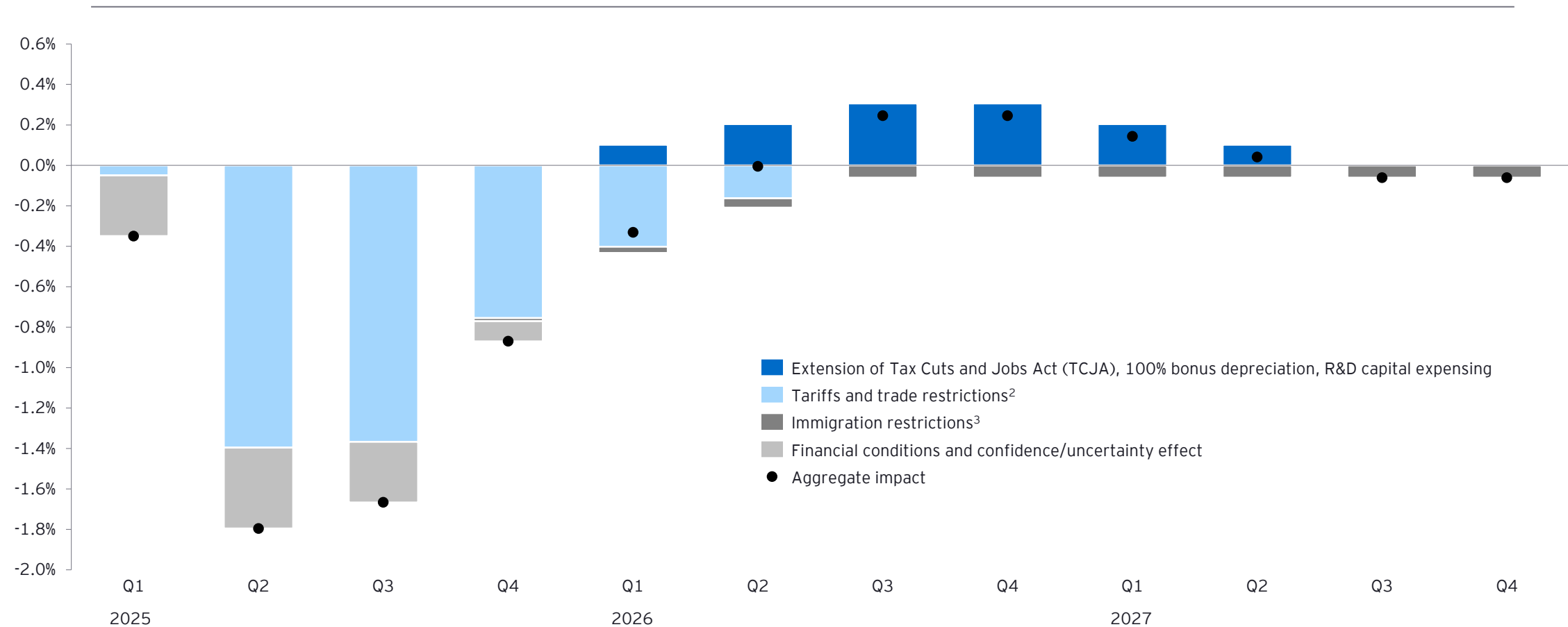
US average tariff rate under proposed policy measures



1. We assume that eventually 95% of merchandise imports from Mexico and 90% from Canada will be United States-Mexico-Canada Agreement (USMCA) compliant.
Source: EY-Parthenon

Higher tariffs and trade uncertainty will pose a notable drag on US economic growth this year while looser fiscal policy should provide a modest positive impulse next year

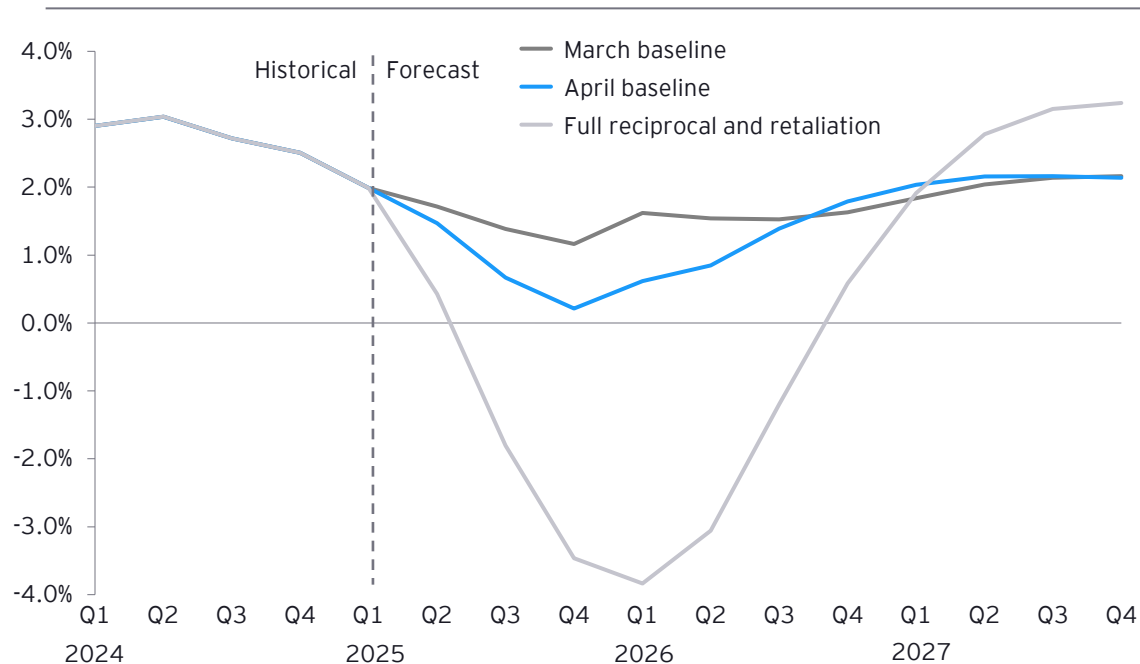
Impact of policy assumptions on baseline forecast for US real GDP¹
Quarterly, annualized, Q1 2025F-Q4 2027F



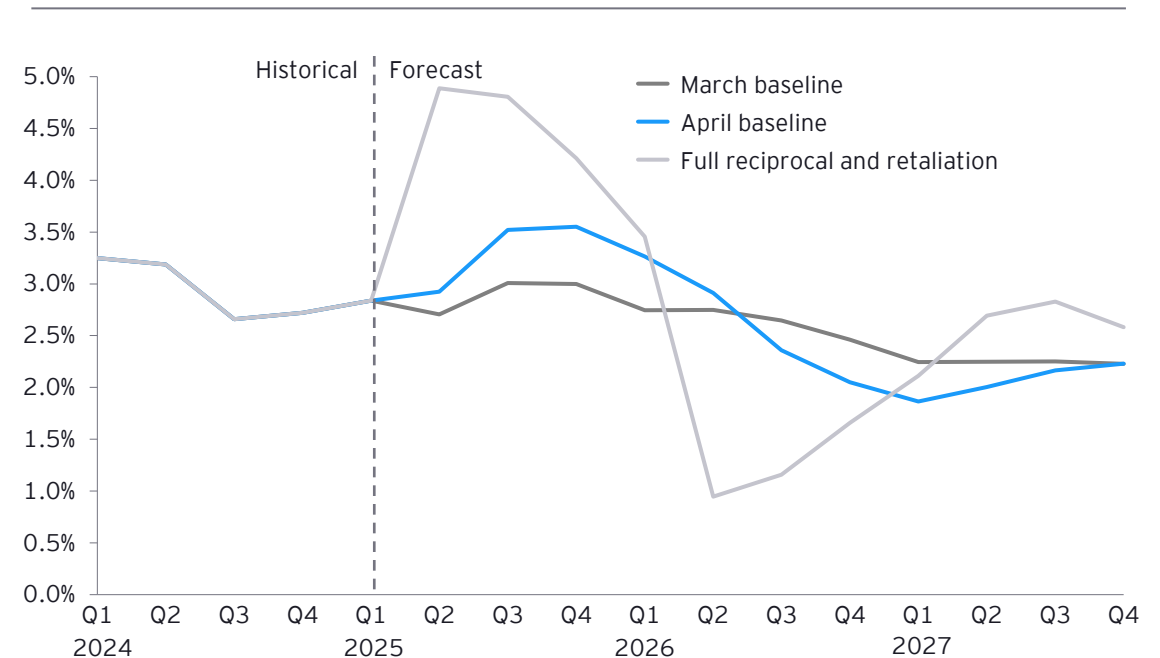
1. The full extension of the TCJA leads to a 1% boost to GDP, but our pre-election baseline had anticipated a partial extension of the TCJA for families earning \$400,000 or less.
2. Assumes 21ppt increase in average US tariff rate until Q3 and then 50% reduction in universal and country-specific tariffs along with retaliation from trading partners.
3. Assumes a reduction in net migration from ~1.1m to ~0.9m per year.

Higher tariffs and trade uncertainty will pose a notable drag on US economic growth this year while looser fiscal policy should provide a modest positive impulse next year

Y/y real GDP growth
2024 Q1-2027 Q4



Y/y consumer price index (CPI) inflation
2024 Q1-2027 Q4



- ▶ The "March baseline" factored additional 20% China tariffs, 25% tariffs on steel and aluminum, 25% tariffs on non-USMCA-compliant goods from Canada and Mexico, and 3% average tariff rate increase on most US trading partners with limited retaliation.
- ▶ The "April baseline" incorporates a 15ppt increase in average US tariff rate until Q3 and then a 5ppt average tariff rate reduction along with partial retaliation from trading partners.
- ▶ The "full reciprocal and retaliation" scenario incorporates a 34ppt increase in average US tariff rate, including the full set of 'universal' and 'reciprocal' tariffs, a cumulative 145% tariff on China and retaliation from China with 125% tariff on the US, and all other trading partners retaliating by imposing a 10% additional tariff on US imports.

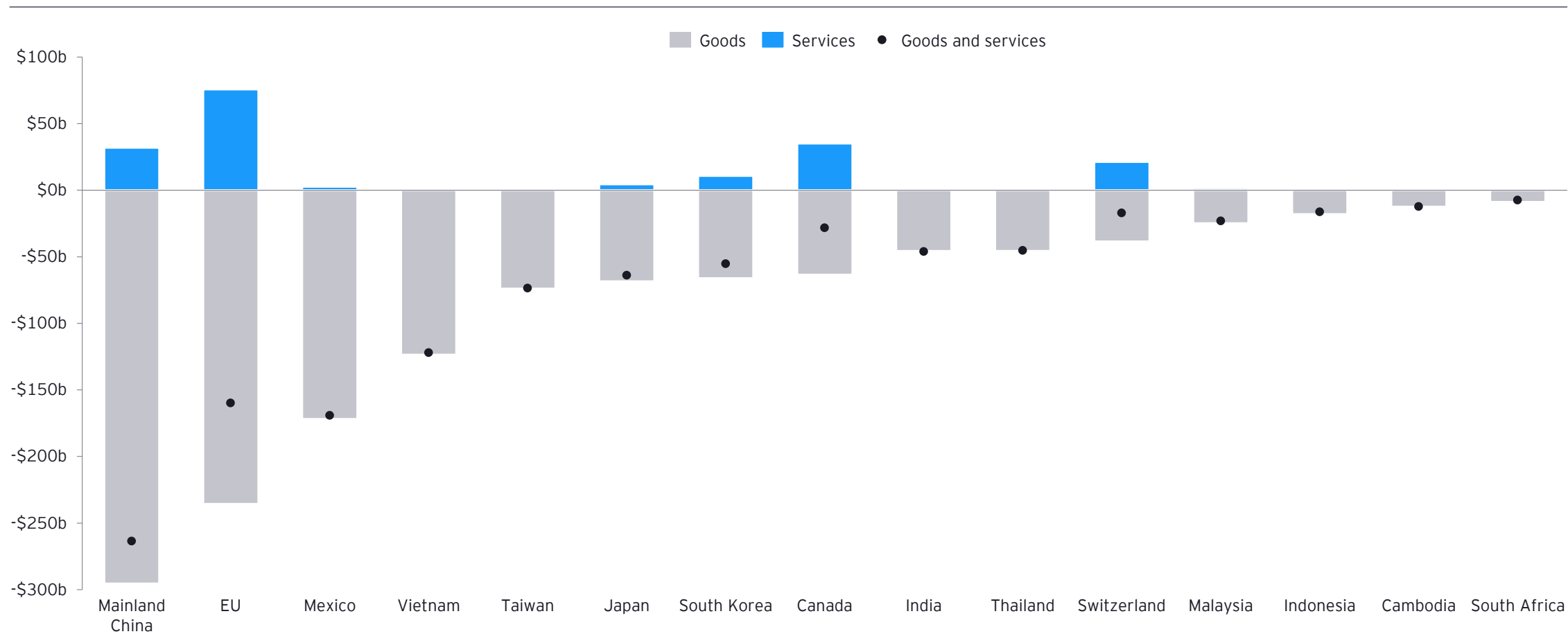
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Some of the economies with the largest merchandise trade deficit will face the largest tariffs according to the administration's formula for country-specific tariffs

US trade balances in goods and services with select countries
2024



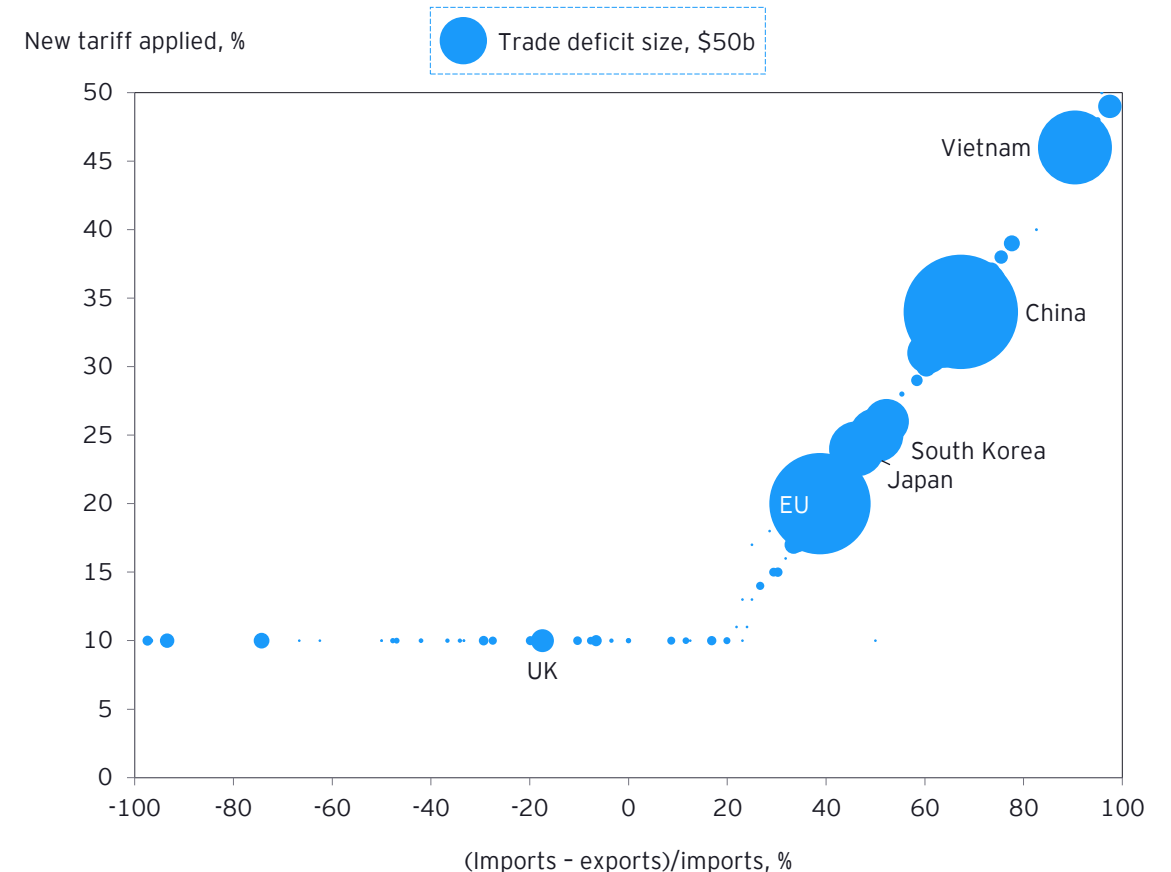
Newly announced tariffs are proportional to the US goods trade deficit with each country, with a minimum rate of 10% – the aim is to reduce the deficit to zero

U.S. Trade Representative (USTR) country-specific tariff calculations 2025

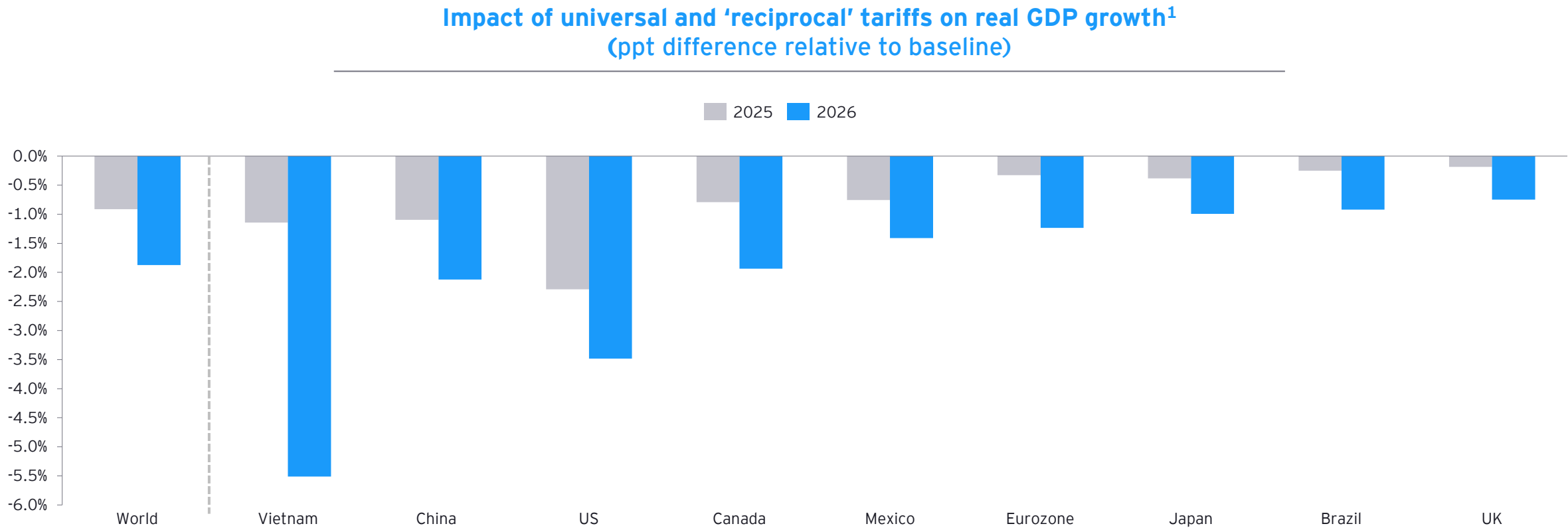
$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

- $m_i > 0$ represents total imports from country i
- $x_i > 0$ represents total exports to country i
- $\varepsilon < 0$ represents the elasticity of imports relative to import prices – set at 4
- $\varphi > 0$ represents the pass-through from tariffs to import prices – set at 0.25
- Assumes that offsetting exchange rate and general equilibrium effects are small enough to be ignored

Goods trade balance as a proportion of imports vs. announced tariffs 2024



Assuming these tariffs remain in place indefinitely without exemptions or exclusions, our modeling shows that such a scenario would lead to stagflation



► The universal and 'reciprocal' scenario reflects the impact of US imposition of 10% universal tariff plus country-specific 'reciprocal' tariffs in Q2 2025, the US escalation of tariff on China imports to a cumulative 145% and the retaliation from China with 125% tariff on US imports, and all other US trading partners retaliating by imposing a 10% additional tariff on US imports.

1. These scenarios reflect the impact of US imposition of 10% universal plus country-specific tariffs in Q2 2025.
Source: EY-Parthenon

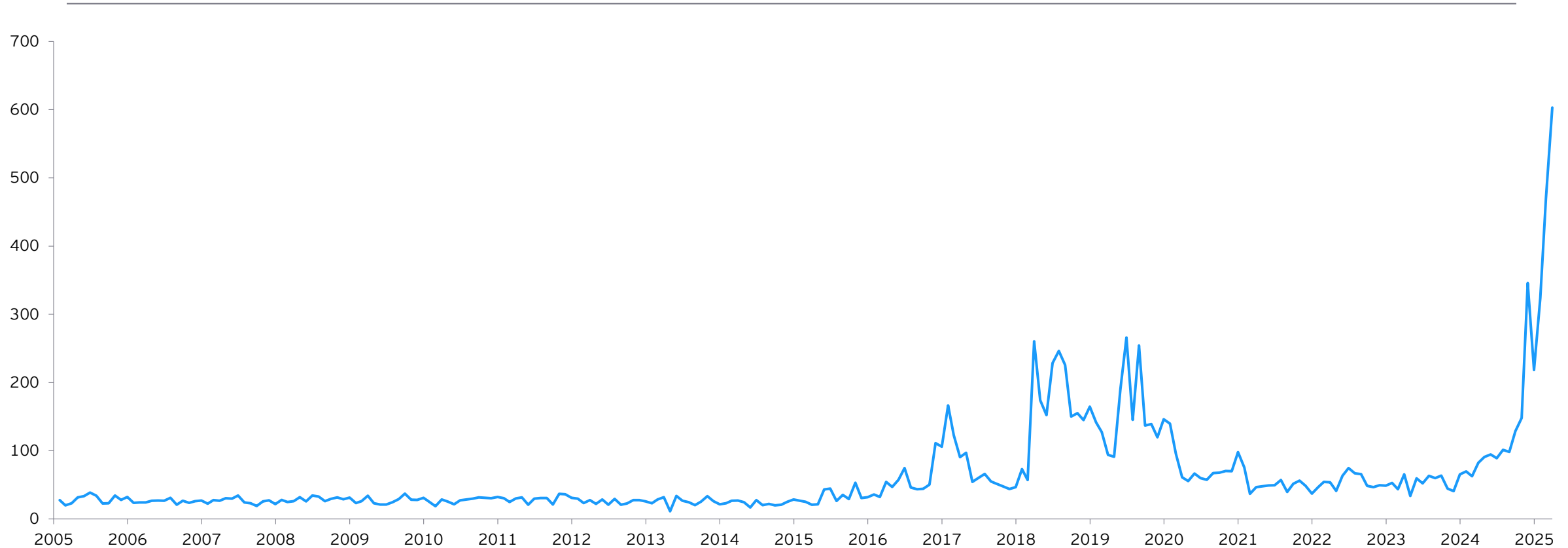
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Much uncertainty remains as to the duration and potential exemptions and exclusions from recent US tariffs, favoring a wait-and-see approach from businesses

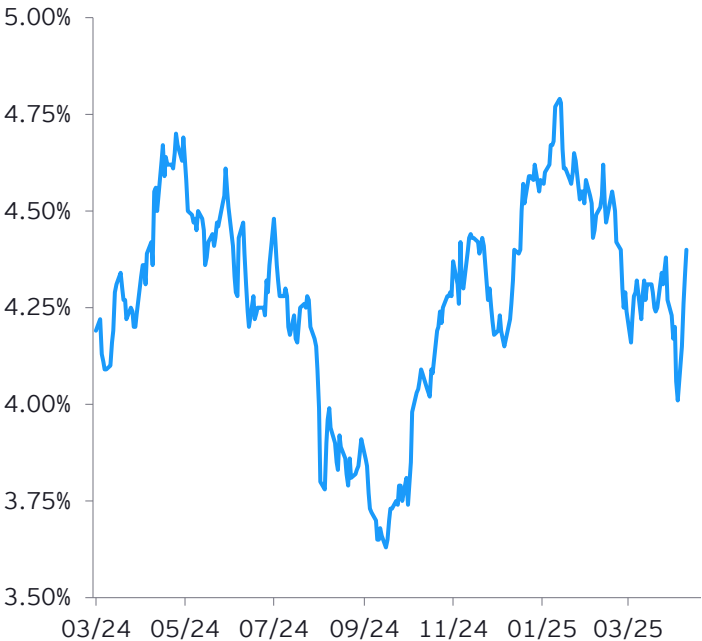
Trade Policy Uncertainty Index¹
January 2005–March 2025



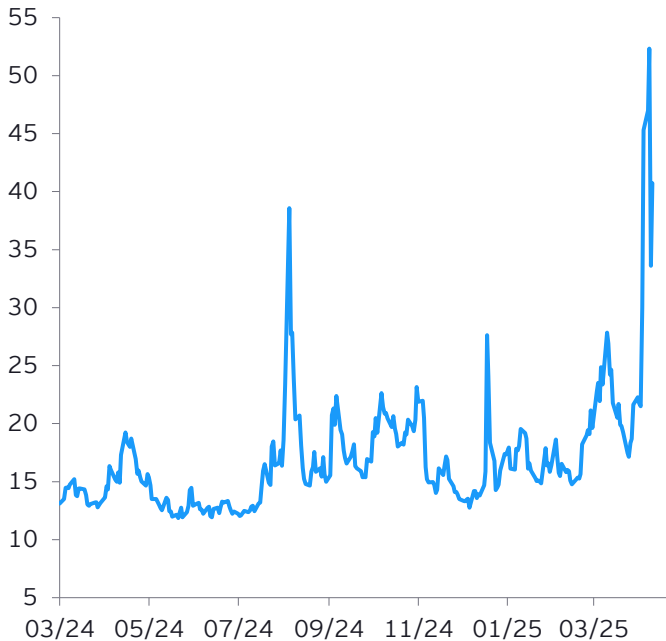
1. The Trade Policy Uncertainty Index is based on automated text searches of the electronic archives of seven newspapers: *The Boston Globe*, *Chicago Tribune*, *Guardian*, *Los Angeles Times*, *The New York Times*, *The Wall Street Journal* and *The Washington Post*. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a 1% article share.

A significant financial market reaction could exacerbate the tariff shock by restraining capex and hiring as well as weighing on Main Street's morale, wealth and spending

10-year treasury note yield
March 1, 2024-April 10, 2025



CBOE Volatility Index (VIX)¹
March 1, 2024-April 10, 2025



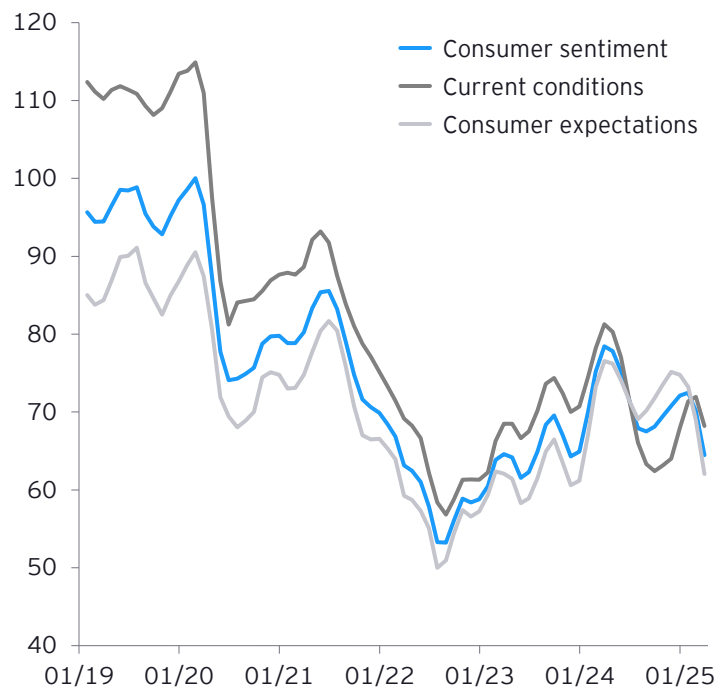
S&P 500 index
March 1, 2024-April 10, 2025



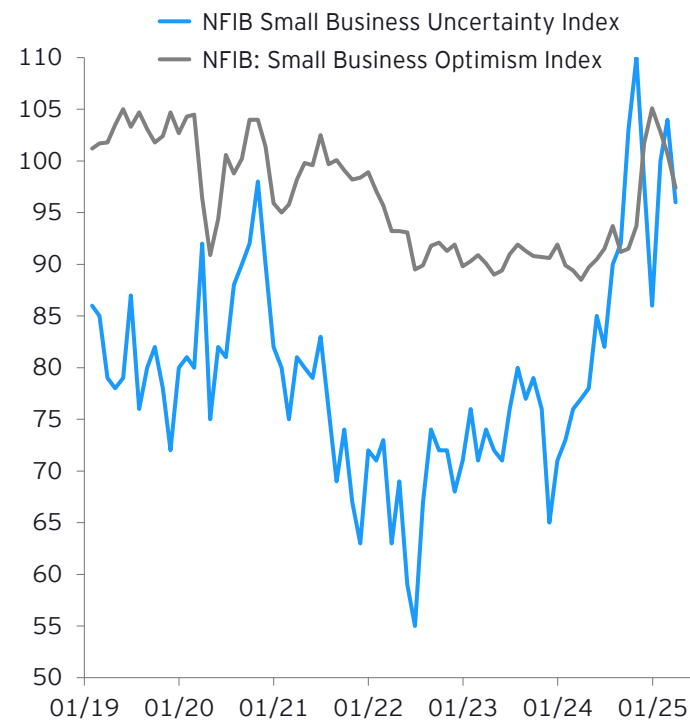
1. The new CBOE Volatility Index is based on the prices of eight S&P 500 index put and call options.
Source: Federal Reserve Board; EY-Parthenon analysis; Chicago Board Options Exchange

Consumer sentiment has plunged across all demographics due to policy uncertainty, inflation fears and labor market concerns while businesses are in wait-and-see mode

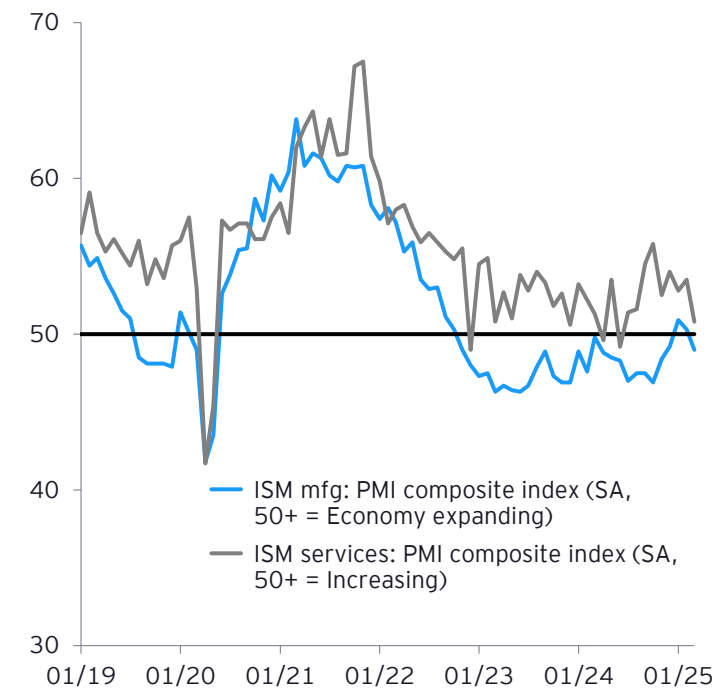
University of Michigan consumer sentiment index (1966Q1=100)
January 2019-March 2025



NFIB Small Business Optimism and Uncertainty Indexes (1986 = 100)
January 2019-March 2025



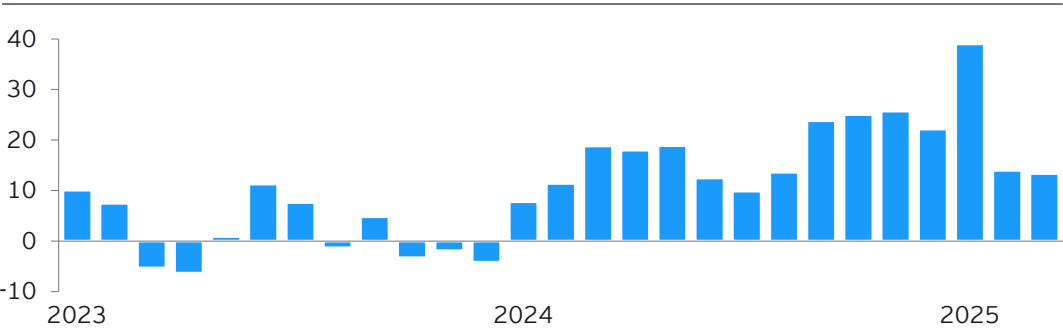
US ISM manufacturing and services PMI composite index
January 2019-March 2025



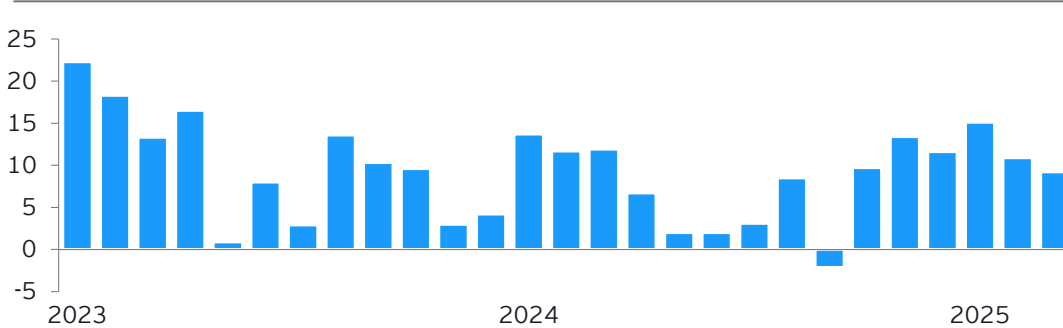
Policy uncertainty around tariffs is leading many firms to put their investment and hiring plans, key drivers of economic growth, on hold

Manufacturing capex spending expectations six months ahead¹
January 2023-March 2025

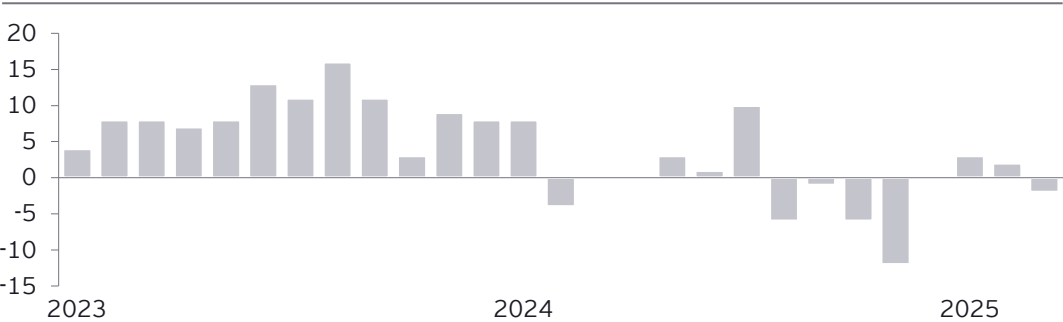
Federal Reserve Bank of Philadelphia



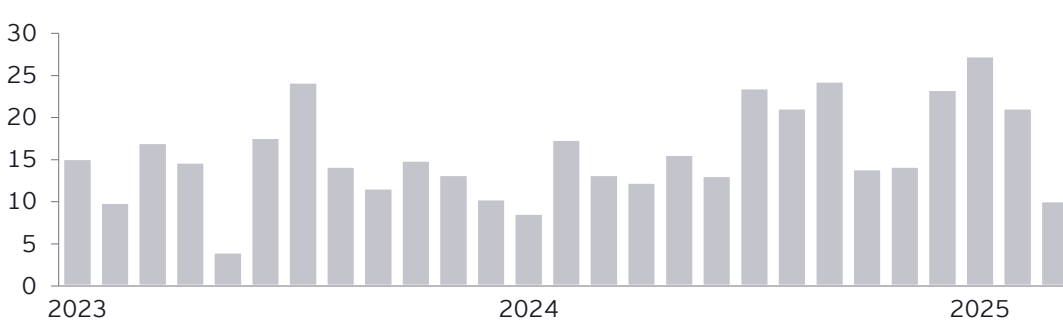
Federal Reserve Bank of New York



Federal Reserve Bank of Richmond



Federal Reserve Bank of Dallas



1. Diffusion indexes. Each diffusion index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Readings above zero indicate growth.
Source: Federal Reserve Banks of Philadelphia, New York, Richmond and Dallas

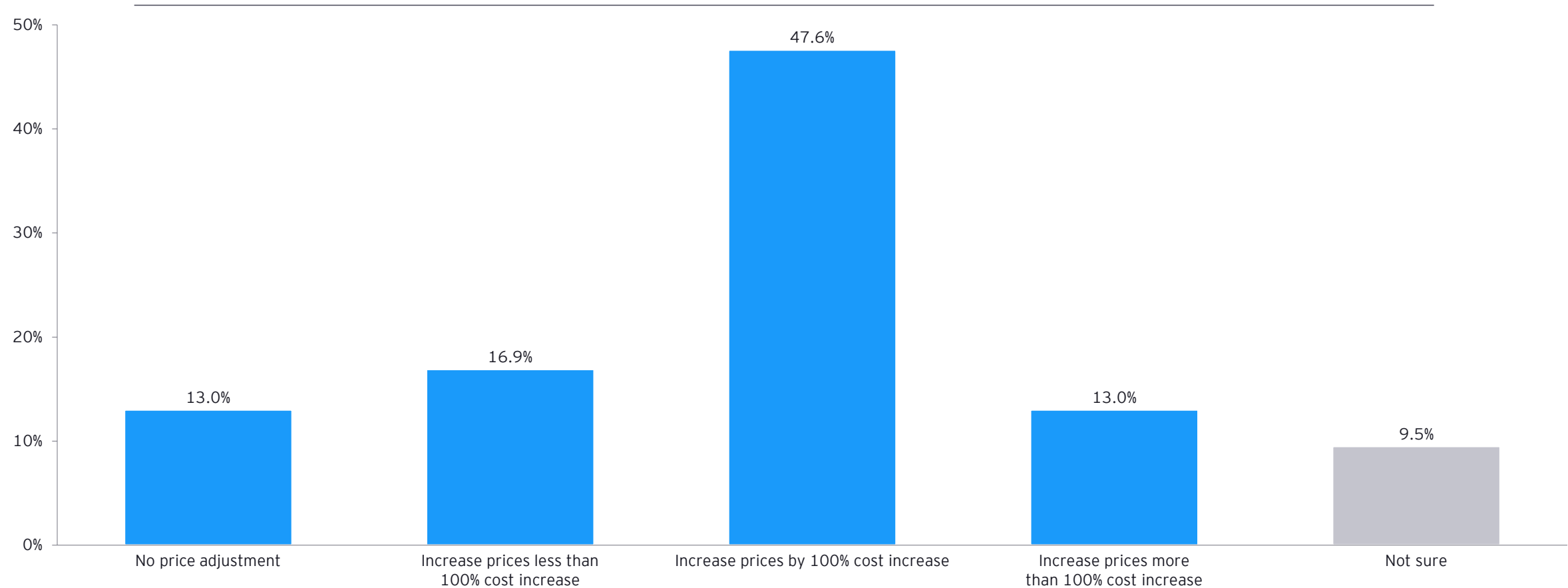
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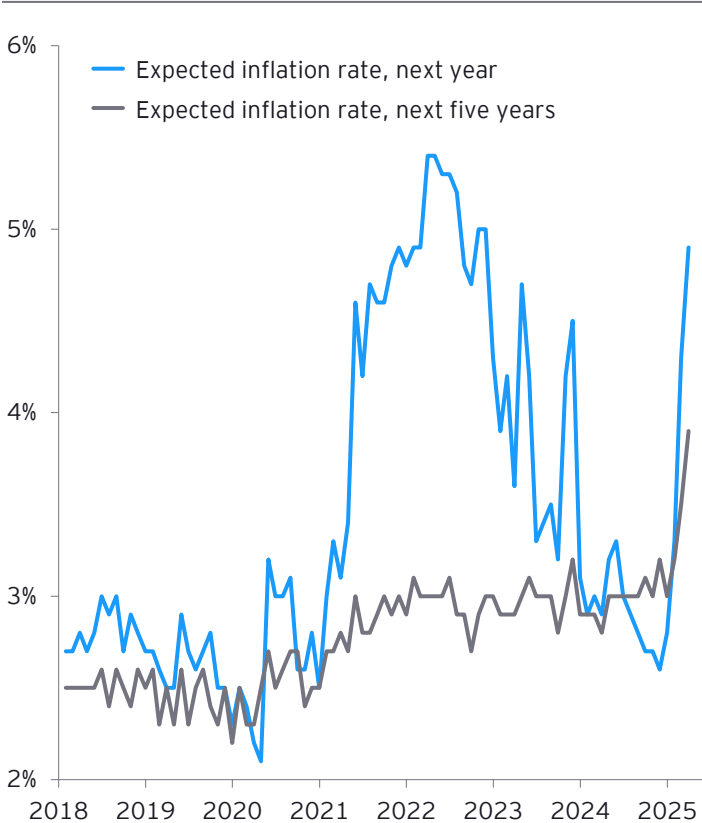
Many businesses are suffering from preemptive inflation anxiety (PIA) with a desire to rapidly pass on higher prices resulting from tariffs

If your input costs increase more than anticipated,
how would your company adjust the prices you charge to customers? (n=231 firms)
February 2025

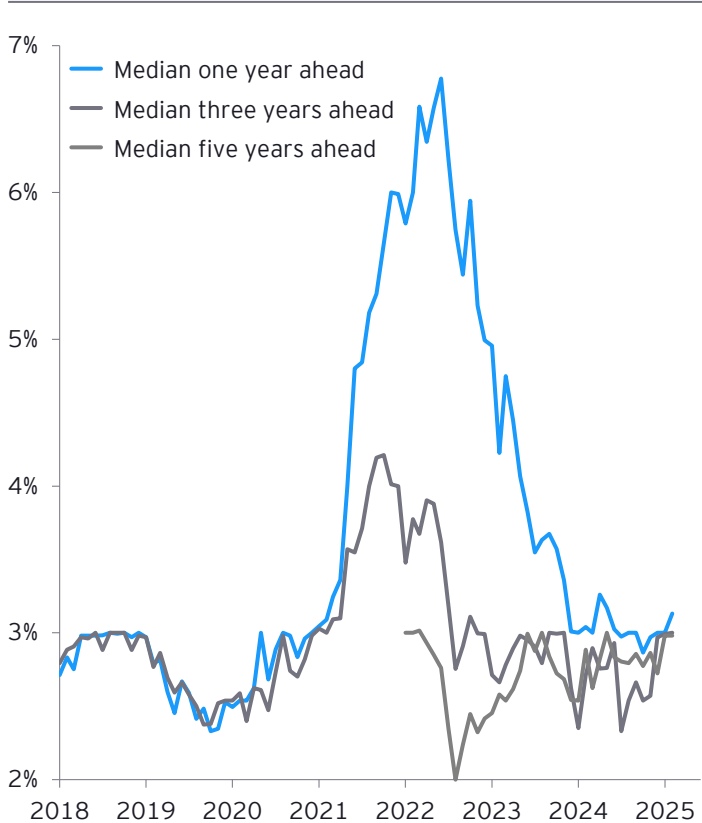


Some consumer inflation expectations gauges have moved sharply higher amid preemptive inflation anxiety, creating a conflicting headache for Fed policymakers

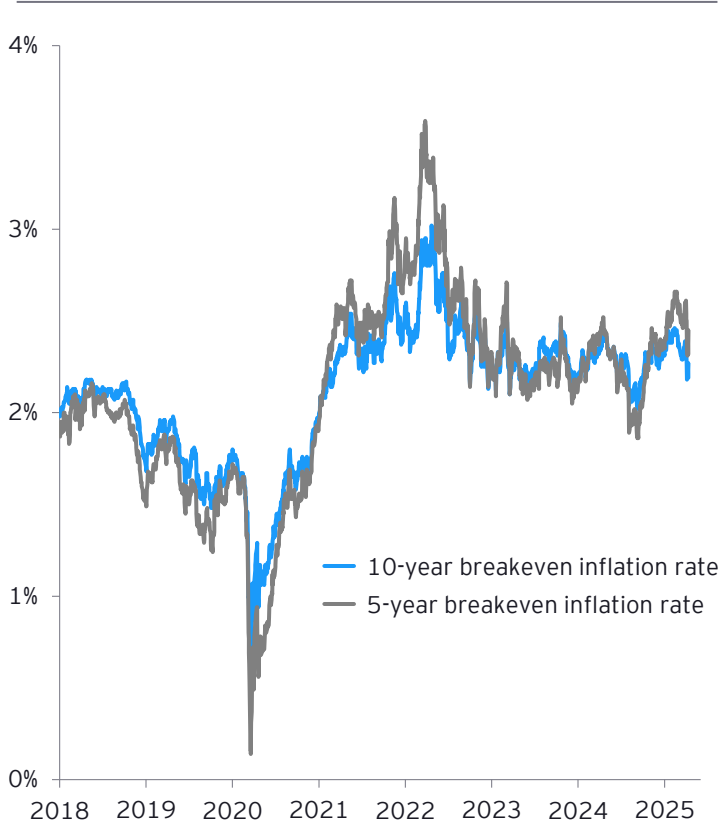
University of Michigan inflation expectations
January 2018-March 2025



NY Fed consumer inflation expectations
January 2018-February 2025



Treasury breakeven inflation rates
January 2, 2018-April 10, 2025



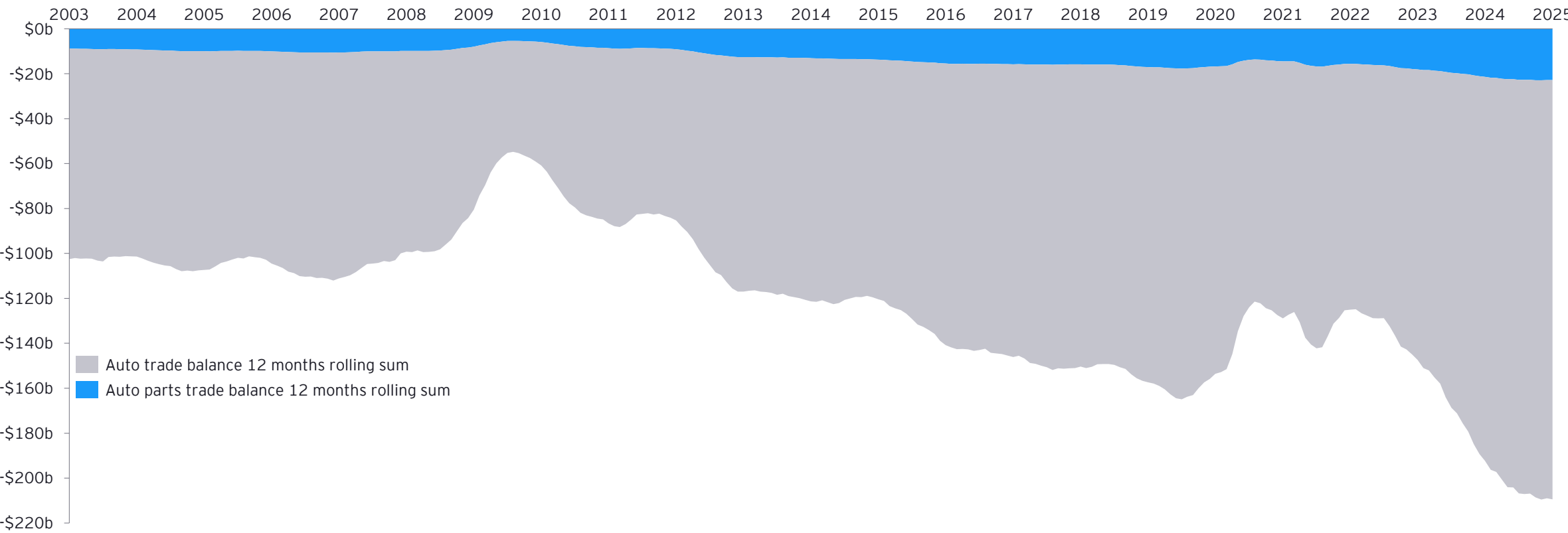
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The US runs a notable trade deficit for autos and parts with the imports-to-exports ratio around 3.2 in 2024

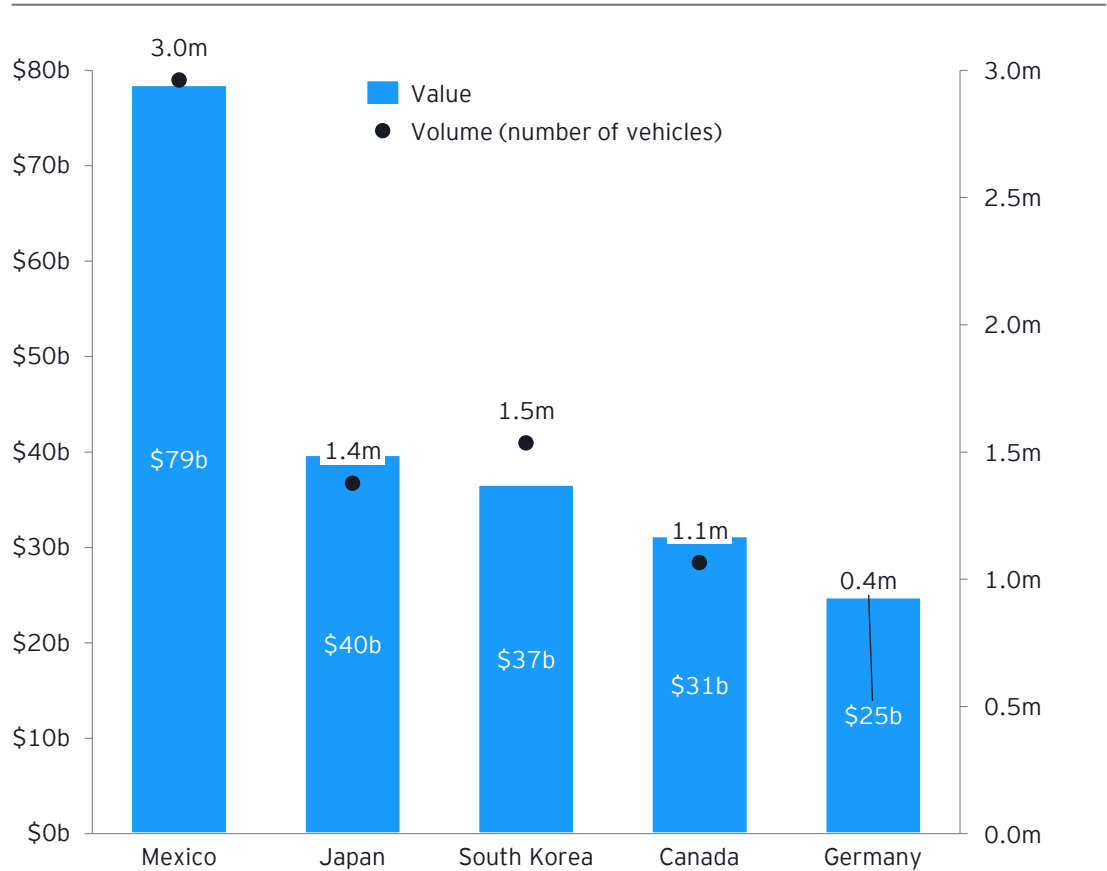
US auto¹ and auto parts total trade balance
Jan 2003-Jan 2025



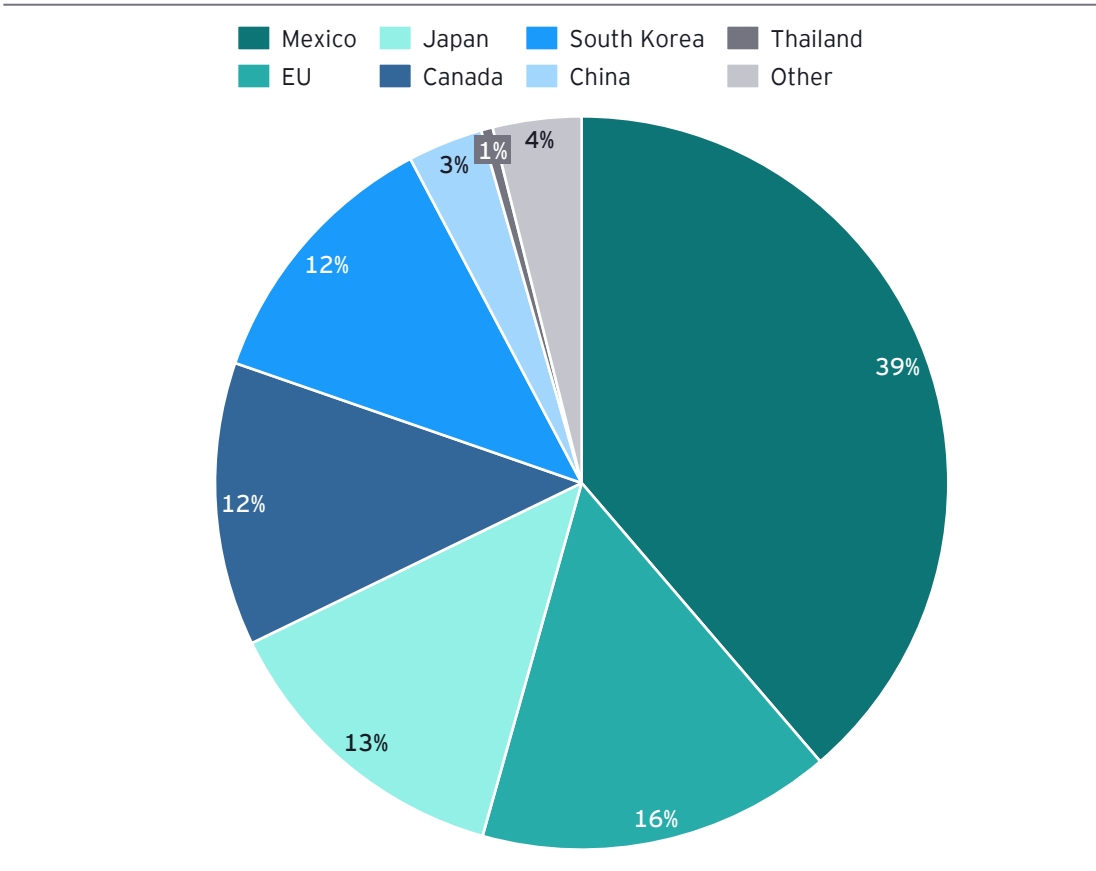
1. Classified as "Autos/light duty motor vehicles including chassis" by U.S. Census Bureau.
Source: U.S. Census Bureau

The US imported a total of US\$247b of motor vehicles in 2024 plus US\$143b of automotive parts with 80% coming from Mexico, EU, Japan and Canada

US auto import value and import volume by market^{1, 2}
2024



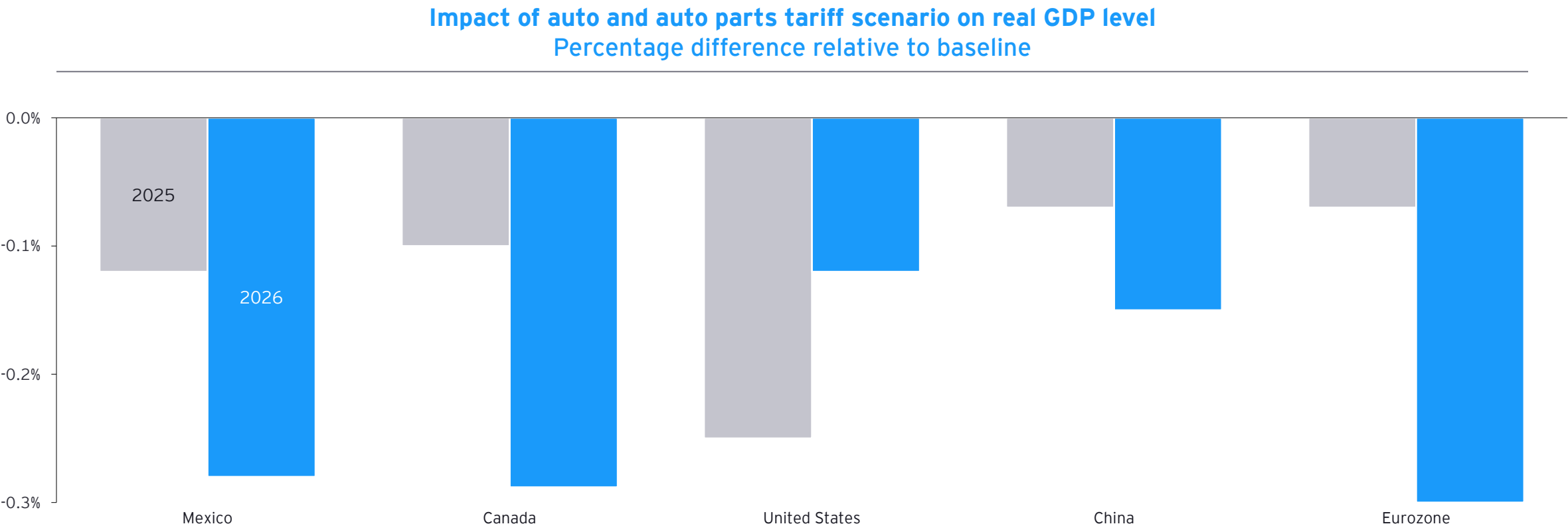
US auto and auto parts total import value^{2, 3}
Share by market, 2024



1. Top five countries for US auto imports shown, accounting for ~86% of total auto import value.
2. Classified as "Autos/light duty motor vehicles including chassis" by U.S. Census Bureau.
3. Total import value of \$396b.

Source: U.S. Commerce Department's International Trade Administration; U.S. Census Bureau

Automotive tariffs carry a major risk for the US, Canada and Mexico, but one that could be alleviated if USMCA-compliant goods are exempt from the tariffs



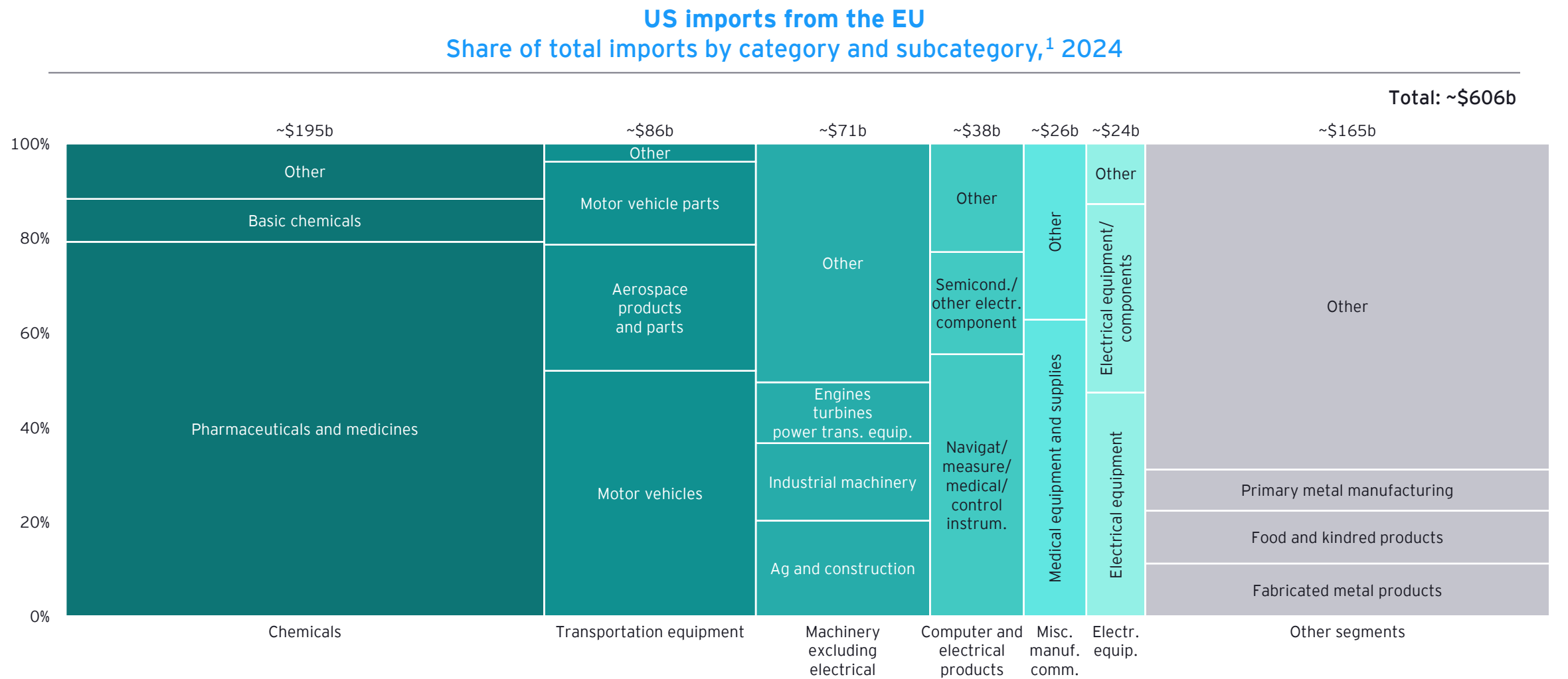
- ▶ This scenario reflects the US imposing 25% tariffs on autos and parts from April 3, 2025. The 25% tariff affects imported passenger vehicles, including sedans, SUVs, crossovers, minivans and cargo vans, and light trucks. Key automobile parts such as engines, transmissions, powertrain parts and electrical components also fall under the tariff.
- ▶ The US imported a total of US\$247b of motor vehicles in 2024 plus US\$143b of automotive parts. Assuming 90% of Canadian auto imports would eventually become USMCA compliant and 95% of Mexican auto imports would become USMCA compliant, that would represent a total of nearly US\$300b.

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US imports from EU are concentrated in chemicals, transportation equipment, machinery, and computers and electronics

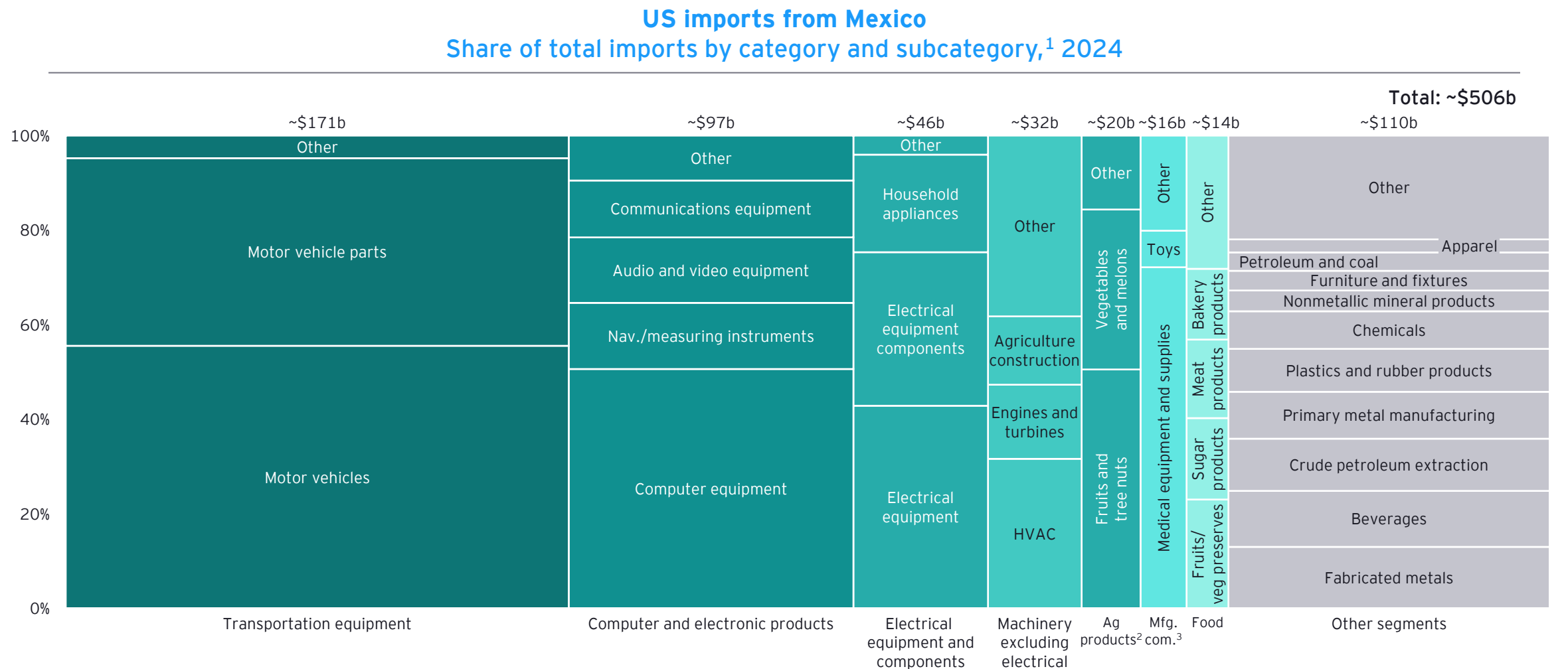


1. Categories (columns) are represented by three-digit North American Industry Classification System (NAICS) codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the "Other segments" column, where each row represents a unique three-digit NAICS code.

Source: U.S. Census Bureau; EY-Parthenon

EY Parthenon 29

US imports from Mexico are concentrated in transportation equipment, computers and electronics, electrical equipment, and machinery

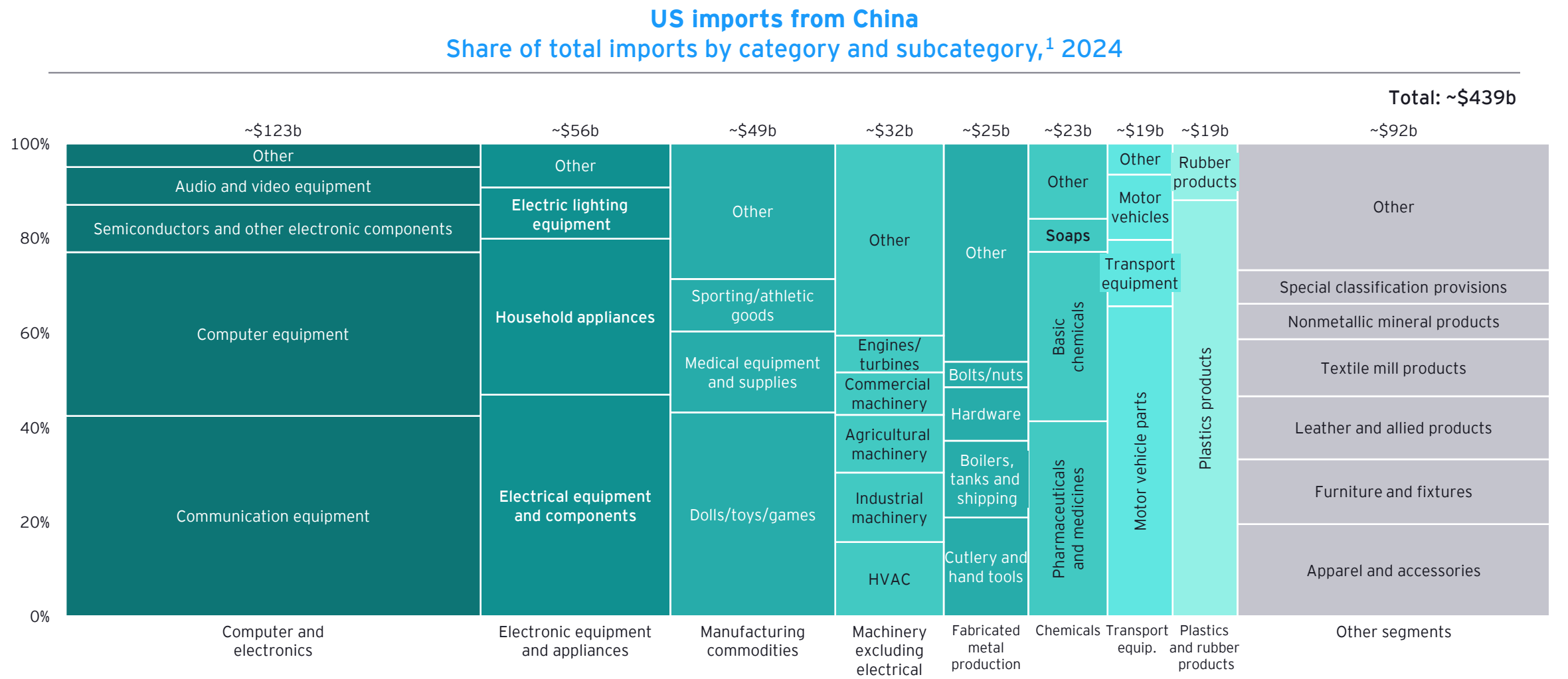


1. Categories (columns) are represented by three-digit NAICS codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the "Other segments" column, where each row represents a unique three-digit NAICS code.

2. Agricultural products.

3. Manufacturing commodities.

US imports from China are concentrated in computers and electronics, electrical equipment, manufacturing commodities, and machinery

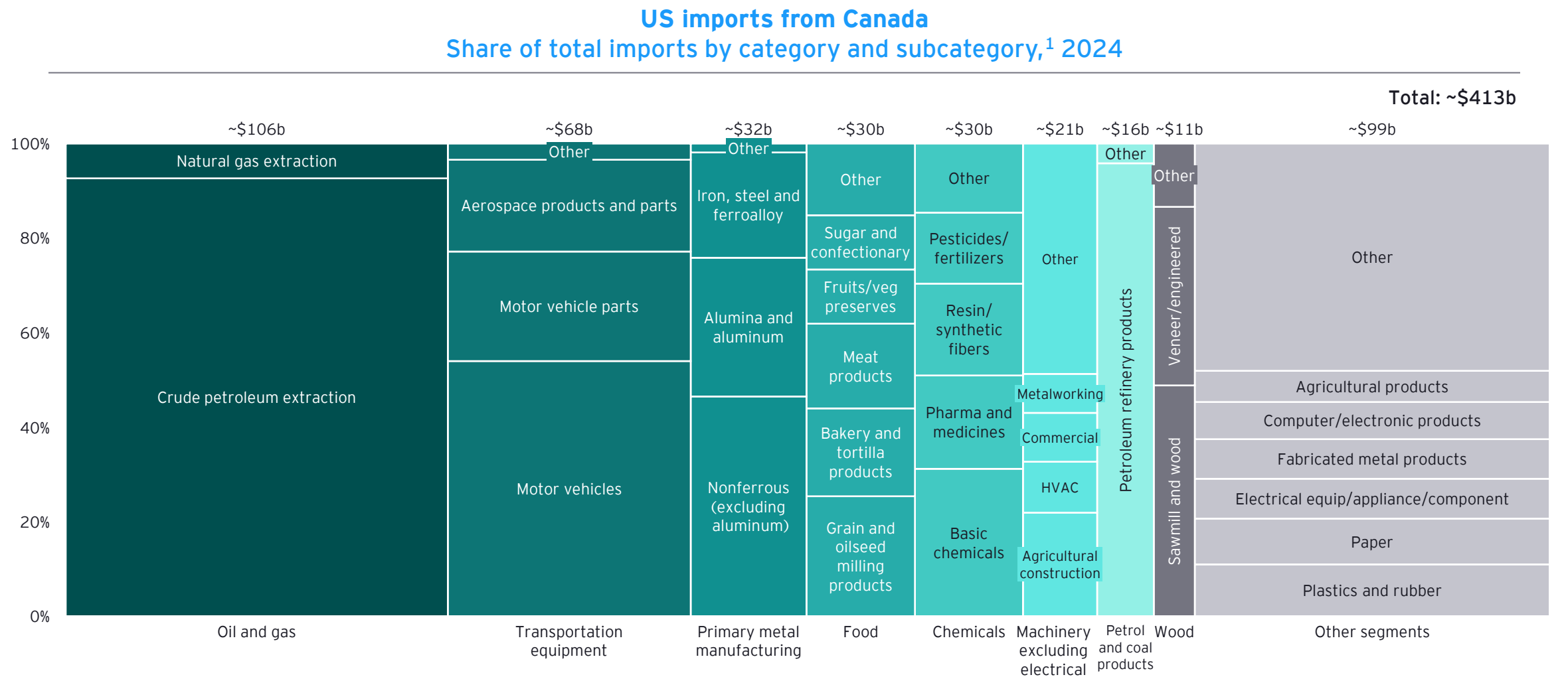


1. Categories (columns) are represented by three-digit NAICS codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the "Other segments" column, where each row represents a unique three-digit NAICS code.

Source: U.S. Census Bureau; EY-Parthenon

EY Parthenon 31

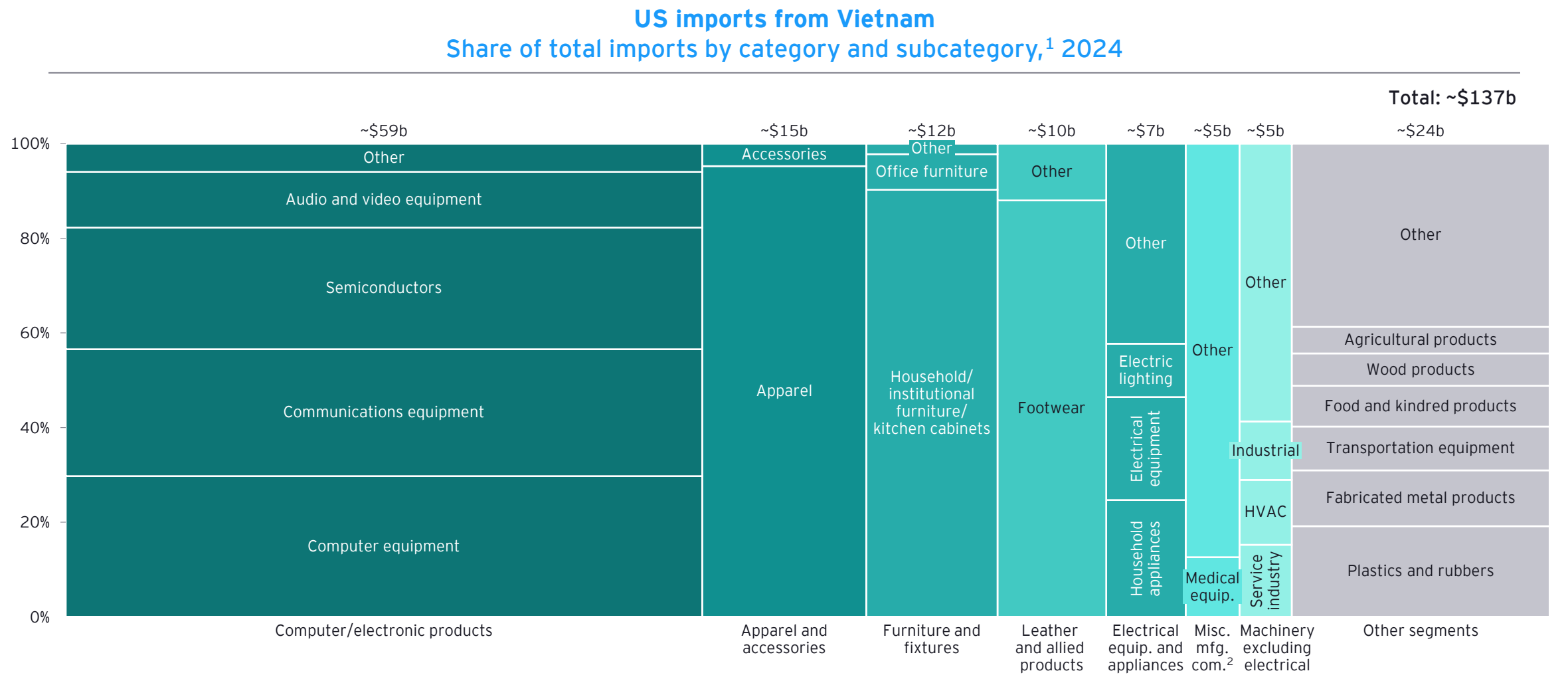
US imports from Canada are concentrated in oil and gas, transportation equipment, primary metals, food, and chemicals



1. Categories (columns) are represented by three-digit NAICS codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the "Other segments" column, where each row represents a unique three-digit NAICS code.

Source: U.S. Census Bureau; EY-Parthenon

US imports from Vietnam are concentrated in computers and electronics, apparel, furniture, and footwear

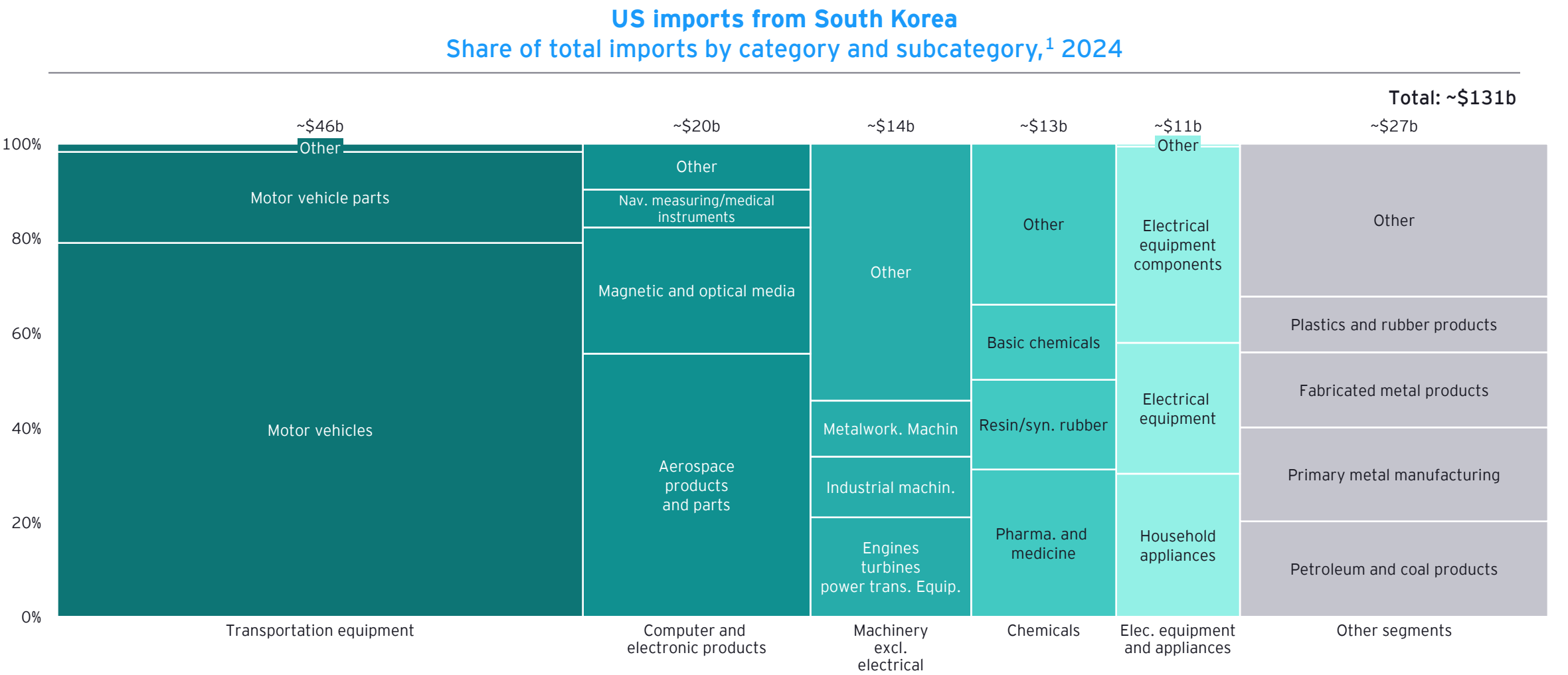


1. Categories (columns) are represented by three-digit NAICS codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the “Other segments” column, where each row represents a unique three-digit NAICS code.

2. Miscellaneous manufacturing commodities.

Source: U.S. Census Bureau; EY-Parthenon

US imports from South Korea are concentrated in transportation equipment, computers and electronics, machinery, and chemicals



1. Categories (columns) are represented by three-digit NAICS codes, whereas subcategories (rows) are denoted by four-digit NAICS codes. The only exception is the "Other segments" column, where each row represents a unique three-digit NAICS code.

Source: U.S. Census Bureau; EY-Parthenon

EY Parthenon 34

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