Danske Bank

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Research US

Trump's 'Liberation Day' – what to expect?

- **We take a look at tariffs enacted so far, what is expected to come into effect on April 2nd and what could be on the menu next. We provide an overview of the expected direct impact on US GDP without retaliation or sentiment effects.**
- **While tariffs on individual countries or product groups have usually only limited effect on a macro level, small changes add up.**
- **Fully enacting the expected tariffs on China, Canada, Mexico, cars & car parts as well as steel & aluminum could lift the effective average tariff rate above 13% and weigh on US GDP by 0.5%.**
- **The reciprocal measures remain the most difficult to predict. We cannot rule out first EU-specific tariff announcements already next week.**

Trump has so far enacted tariff changes that have lifted the trade-weighted average tariff rate on all US imports by around 5.5-6.0%-points. While re-rerouting of trade will decrease the effectiveness of tariffs over time, the current level is already close to the highest since the second world war. This means that the changes enacted so far have already had a much more pronounced impact on the economy than all the changes from Trump's 1st term had combined (they lifted the rate by only around 1.5%-points).

Trump has so far enacted a 20%-point increase to tariffs against China. In addition, Trump has set up a 25% tariff on steel and aluminium imports as well partial tariffs against Mexico and Canada. The rate for Canadian energy and potash imports is 10% and 25 % for all other imports. Part of the increase for so called USCMA-compliant goods has been delayed until next week, which means only around 50% and 60% of respective Mexican and Canadian imports have been affected thus far. USCMA compliance requires a product to, for example, have a certain percentage of its value originated from North America.

Next week, markets will be paying close attention to both expanding the existing tariffs as well as the introduction of the first, so-called reciprocal tariffs.

What is set to take effect next week?

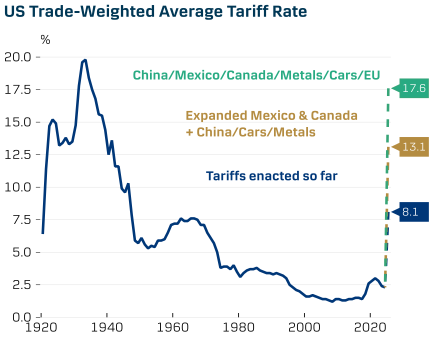
The largest expected tariff increases next week come in the form of **ending the exemptions for Mexican and Canadian imports**, which would levy tariffs on USD428bn worth of new goods. Trump also announced that **25% tariffs on cars and car parts** will take effect from April 2nd. Domestic value added to USCMA-compliant car and car part imports would be exempted from the tariffs, but otherwise the measures would target all imports and stack on top of any other measures. Mexico, which accounts for around half of all US car imports, would be affected the worst.

All car and car part imports are worth USD286bn and together with the expansion of other tariffs, the **effective average tariff rate could increase by another 5%-points to around 13%.** *The Tax Foundation* has estimated that fully enacted tariffs on China, Mexico,.

We discussed how Trump's policy mix is weighing on US structural growth outlook earlier this week

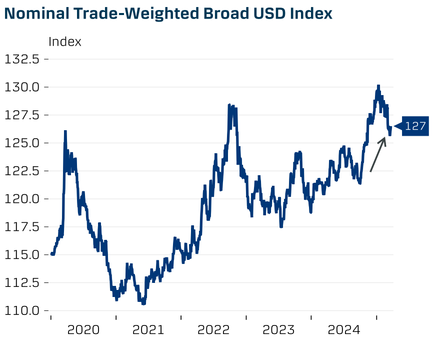
- *RtM USD – Structural growth concerns*, 25 March

Tariffs are rising at a historic pace



Sources: Macrobond Financial, U. S. International Trade Commission, U. S. Census Bureau, Danske Bank calculations. Scenarios do not include dynamic effects on demand and trade re-routing, and thus reflect 'maximum' potential increases

Trade-weighted USD has appreciated less than the effective tariff rate has increased



Sources: Macrobond Financial, The Fed

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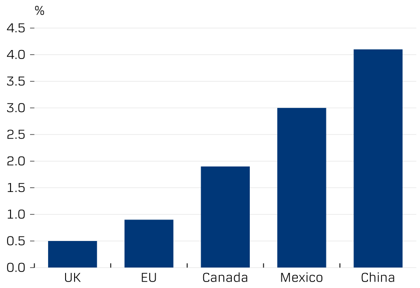
Canada, steel and aluminium as well as car and car parts would weigh on US GDP by a total of 0.5%.

Trump has also threatened to apply tariffs on agricultural products next week, but has refrained from specifying the exact scope or size of the measures. He has also pre-announced plans to sanction imports of pharmaceuticals and semiconductors with a rate of '25% or higher' but has not specified the timing or other details for now. We discussed the potential FX impact of the former in *FX Strategy - CHF, EUR and DKK at biggest risk from a US pharma tariff*, 26 March. Finally, Trump announced 25% 'secondary' tariffs on countries buying oil and gas from Venezuela from April 2nd. In the past, China has been by far the largest buyer of Venezuelan oil, but as the extent of these measures remains highly uncertain, their impact is not included in the figures presented in this paper.

Average tariff rates charged by US trading partners are generally low and in line with pre-Trump US rates

Averare Tariff Rates US Non-agricultural Exports Face (2024)



Sources: WTO

Where is the uncertainty?

The largest uncertainty relates to the threatened reciprocal tariffs. At the beginning of his term, Trump ordered *a comprehensive study* into unfair trade practises against the US. The results are due to be published next week, and they will provide a guideline for the reciprocal measures.

We have previously flagged that the reciprocal approach should not automatically lead to large increases in tariffs against the most important trading partners of the US (see *RtM USD*, 11 February). For instance, the latest *WTO data* suggests that the trade-weighted average tariff rate that the EU charges for non-agricultural goods exports from the US is only 0.9% (vs. 1.4% the other way around). That said, the basis of the reciprocal measures remains unclear. As an example, Trump has previously likened EU's value added taxes to discriminatory tariffs against the US, as the average EU VAT rate (21.6%) is higher than the average US sales tax (6.6%). While the idea makes little economic sense given that the sales tax can be charged several times on the full price of a product during its value chain, it highlights how difficult it is to make firm predictions on the level of future tariffs.

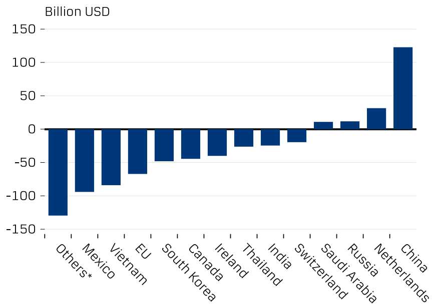
Recent *media sources* have suggested that the administration is looking to – at least initially – take a more narrow focus on only the countries with the largest trade imbalances. This is in line with earlier comments from the Secretary of Commerce Howard Lutnick, who said back in February that the measures would be applied on a country-by-country basis.

Looking at economies which have the largest absolute trade surpluses against the US, and which have not yet been hit with tariffs, **EU and Vietnam are high up on the list**. Looking at countries which have seen the largest increases in trade surplus against the US since Trump's 1st term, **South Korea** also stands out. Finally, when looking at countries which have both a sizable trade surplus against the US as well as relatively high existing tariffs against US exports, **India is looking vulnerable** (a position the local authorities have been quick to realize, according to *Reuters*).

All together, we cannot rule out that Trump announces first EU-specific tariffs already next week. A 25% tariff on all EU imports would lift the effective average tariff rate by another 4.5-5.0% all the way to 17-18% - the highest since early 1930s. We also do not think that another 10%-point increase on Chinese tariffs is out of the question.

EU, Vietnam and South Korea have seen their trade surpluses with US rising after Trump's 1st term tariffs diverted trade away from China

Change in US Trade Balance since 2018 (USD)



Sources: Macrobond Financial, U. S. Census Bureau

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