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Thoughts on short- and medium-run tariff effects

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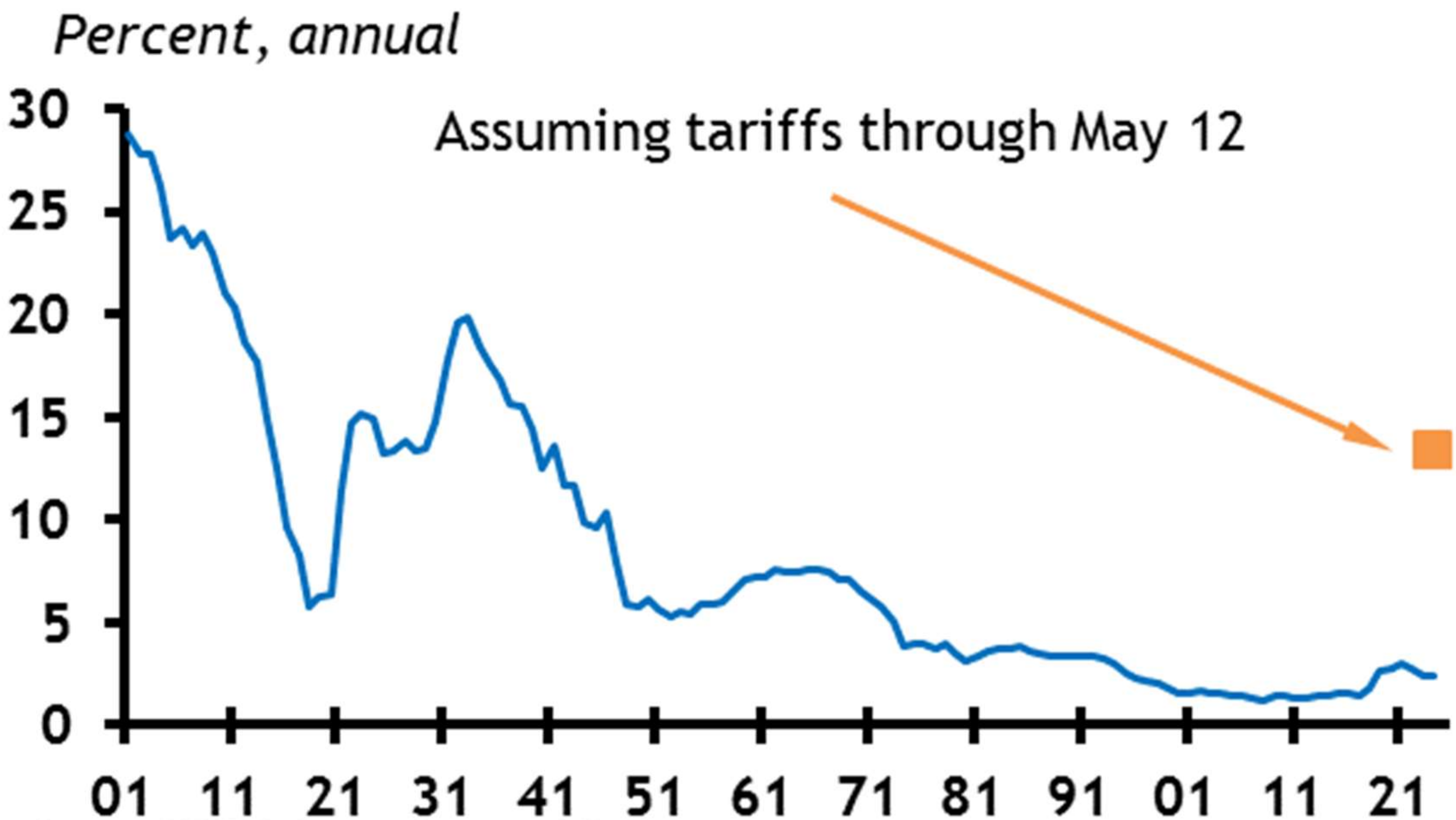
Average effective tariff rates: the ’25 story so far

Effective tariff rates, static estimates

	Total		Ex China	
	Change	**Level**	**Change**	**Level**
2024		2.3		1.0
China +20%	2.6	5.0	0.0	1.0
Canada/Mexico (ex steel/aluminum/autos)	1.5	6.5	1.8	2.8
Steel and Aluminum 25%	0.9	7.4	0.9	3.7
Autos (no CA/MX parts) 25%	2.4	9.8	2.6	6.3
Apr 2: Reciprocal tariffs	13.3	23.1	7.8	14.1
Apr 9: China +125% , others ex CA/MX +10%	4.2	27.3	-3.4	10.7
Apr 11 Electronics exclusions	-4.1	23.2	-0.6	10.1
Apr 29: Adjustment to auto tariffs (parts rebates, unstacking)	-0.4	22.8	-0.4	9.7
May 8: UK deal announced	-0.1	22.7	-0.1	9.6
May 12: China reciprocal tariff back to 10%	-9.3	13.4	0.0	9.6
If EU tariffs raised to 50%	3.9	17.3	4.5	14.1

Source: J.P. Morgan

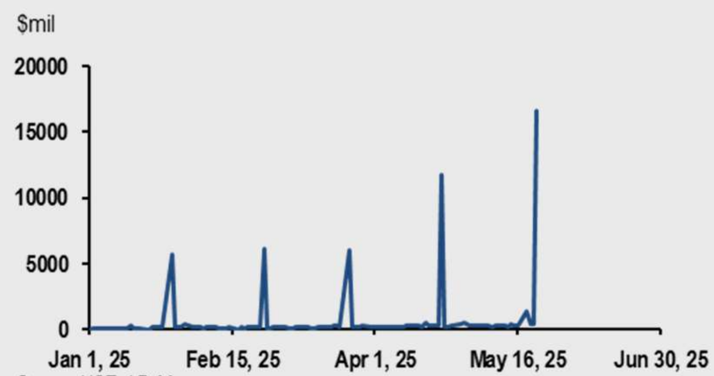
Average effective tariffs, the longer history



Source: US ITC, Census Bureau, J.P. Morgan

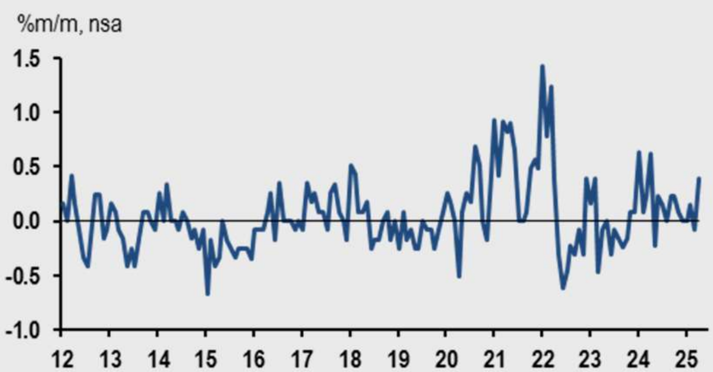
Impact on consumer spending

Daily customs and excise taxes



Source: UST, J.P. Morgan

Nonfuel import price index

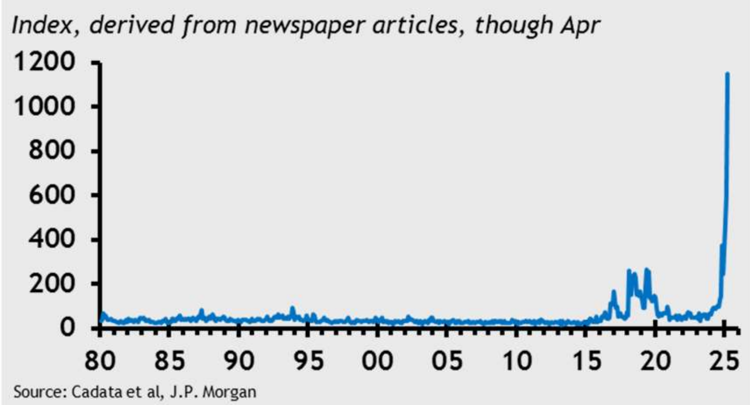


Source: BLS, J.P. Morgan

- First full month after Liberation Day import duty collections running around ~$300bn a.r., up from ~$100bn prior.
- Consistent with average effective tariff rate of ~10%
  - Lower than static estimate:
    - Substitution across countries
    - Substitution across time
    - Some tariffs phased in
- Import prices measured before any duties
  - Imperfect pass-through would imply lower import prices, as measured
  - Very preliminary evidence consistent with perfect pass-through, as in 2018
- Split between domestic businesses and consumers uncertain
  - We assume consumers bear majority of incidence

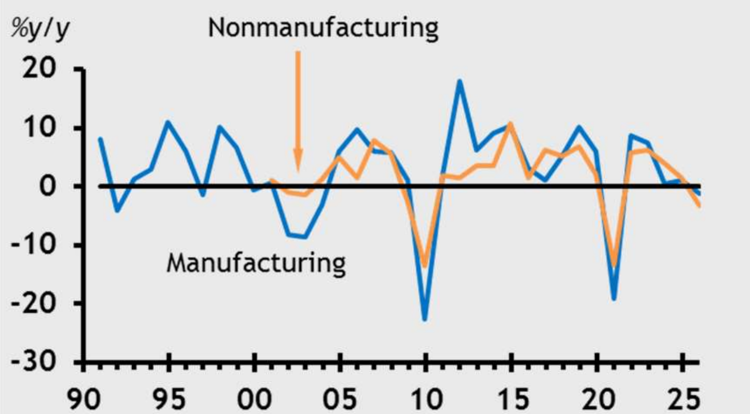
Impact on capital spending

Trade policy uncertainty is back



Source: Cadata et al, J.P. Morgan

ISM survey of predicted capex for the year

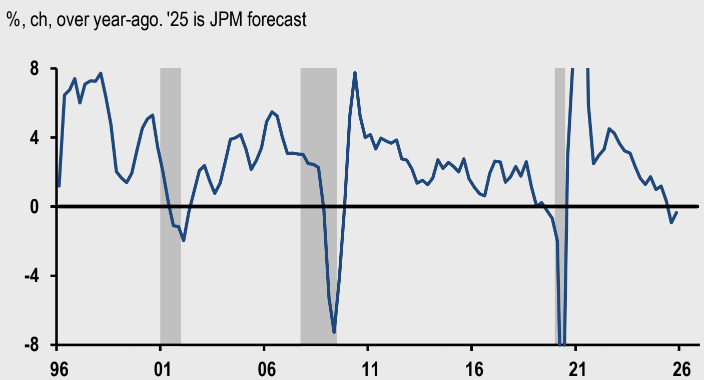


Source: ISM, J.P. Morgan

- Trade policy uncertainty should be a headwind to capex, in theory
- Caldera et al. provide quantitative estimates of how much of a headwind
  - We haven't found these estimates particularly robust
  - Increased reliance on survey, for better or worse
- We also have some reservations about 1H equipment spending data
  - Quarterly commodity-flow estimates don't adjust for inventories

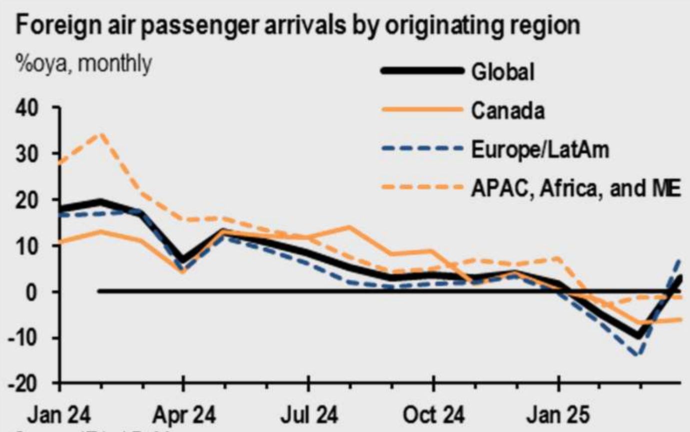
Impact on gross exports

Trade-weighted foreign GDP growth



Source: J.P. Morgan

Foreign air passenger arrivals



Source: ITA, J.P. Morgan

- Formal retaliation—often a big part of modeled drag—so far has been limited
- Likewise, expected positive response on the dollar hasn't materialized
- However, exports could be held down by weaker global growth
  - We expect recessions in both Canada and Mexico
- Informal retaliation—e.g. boycotts—could be an issue
  - Tourism is a high-profile export, but perhaps not that critical (0.7% of GDP), or weak (dollar may be helping)

Concluding thoughts

- Big picture, and using round numbers, we see tariffs boosting core inflation this year by about 1% and lowering real GDP growth by about 1%
  - Upside inflation risks:
    - Inflation expectations are precarious
    - Domestic producers could also increase prices (e.g. dryers)
  - Downside inflation risks:
    - Wide margins give scope for firms to absorb tariffs
    - Phillips curve could comeback (again)
  - Upside growth risks:
    - Expenditure switching
  - Downside growth risks:
    - Supply chain disruptions
    - Reallocation costs
- To quote the president: Thank you for your attention to this matter!