Note: The following is a redacted version of the original report published February 26, 2025 [31 pgs].

Goldman Sachs | Global Macro Research

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TOP of MIND

TRUMP TARIFFS: MOSTLY TALK, OR BIG ACTION?

President Trump's tariff actions since his inauguration have been nothing short of striking. While markets have begun to react to these developments, deep tariff risks are still being underpriced. Whether that will continue to be the case largely depends on if Trump tariffs end up as mostly talk, or action. Trump's former Deputy USTR Jeff Gerrish believes the latter is more likely when it comes to broad tariff action given the President's long-held goal of correcting global trade imbalances. And Wiley Rein LLP's Tim Brightbill argues that Trump likely has the legal authority to implement such a bold reshaping of trade policy. So, GS' Alec Phillips and Joseph Briggs assess the economic implications of a range of potential tariffs and the significant uncertainty surrounding them. And GS' Kamakshya Trivedi assesses the market implications, envisioning even more Dollar strength, further declines in US equities, and an even flatter Treasury curve ahead if Trump indeed walks the walk on bigger and broad tariffs.

"The tariffs President Trump has announced so far—the 10% tariff on imports from China that took effect on February 4 and the 25% tariffs on steel and aluminum set to take effect on March 12—are roughly equivalent to all of the tariff hikes from the first Trump Administration.

- Alec Phillips

Everyone needs to buckle up, because the President is just getting started [on tariffs] and what lies ahead will likely be even more unpredictable than during his first term.

- Jeff Gerrish

The tariffs announced so far are aggressive but arguably within the president's authority. So, while I expect challenges, the recent tariff actions are unlikely to be halted by the courts.

- Tim Brightbill"

WHAT'S INSIDE

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The Goldman Sachs Group, Inc.

Macro news and views

We provide a brief snapshot on the most important economies for the global markets

US

Latest GS proprietary datapoints/major changes in views

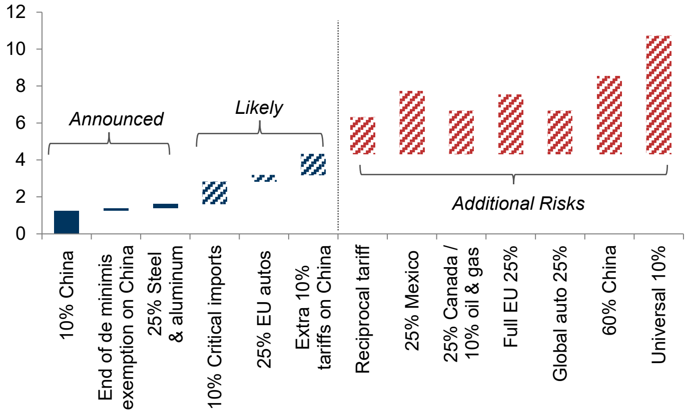
- We now expect the Fed to slow the pace of balance sheet runoff in May (vs. June before) as the Jan FOMC meeting minutes indicated a desire to slow the pace of runoff soon.

Datapoints/trends we're focused on

- US tariffs; we estimate the tariffs we expect in our baseline will raise the effective tariff rate by ~4pp, translating into a 0.4pp boost to yoy core PCE that would leave it at 2.5% in Dec, though the tariff-induced rise should drop out after a year.
- Fed rate cuts, which we still expect in June and December, though we view further cuts this year as a very close call.
- US net immigration, which we expect will continue to slow.
- US consumer confidence, which declined in February.

Trump tariff frenzy

Estimated impact of tariff increases on the effective tariff rate, pp



Source: Goldman Sachs GIR.

Japan

Latest GS proprietary datapoints/major changes in views

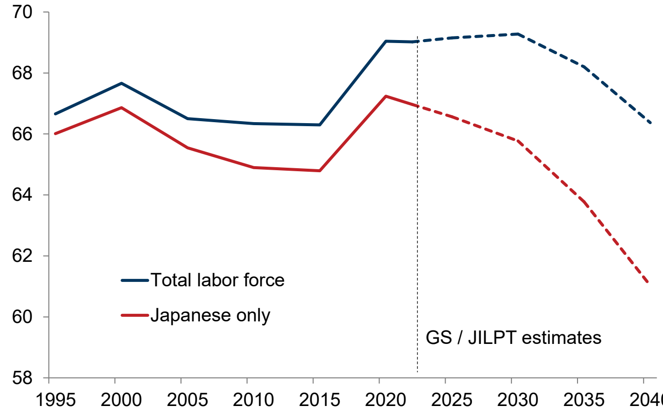
- We raised our 2025 Japan new core CPI forecast to 2.2% yoy (from 2.1%), mainly to reflect sharply rising rice prices.

Datapoints/trends we're focused on

- BoJ policy; we expect the BoJ to continue hiking rates at a pace of two hikes per year, with the next hike in July, though increased political uncertainty after the upcoming Upper House elections could delay the next hike.
- *Shunto* wage negotiations, which we expect to result in a base pay increase above 3% this year.
- Japan's labor shortage, which is expected to worsen ahead, although the continued inflow of foreign workers could keep the aggregate labor force broadly flat.

Japan labor shortage: a foreign worker offset

Japanese labor force, millions of people



Source: Ministry of Internal Affairs and Communications, JILPT, GS GIR.

Europe

Latest GS proprietary datapoints/major changes in views

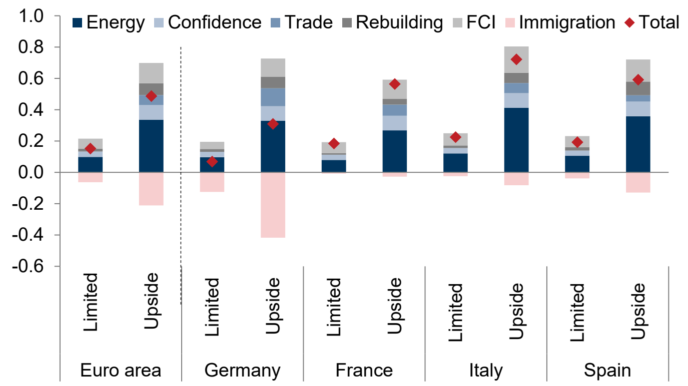
- We recently raised our 2026/2027 Euro area real GDP forecasts to 1.1%/1.3% (from 1.0%/1.1%) to account for likely higher military spending in Europe.
- We raised our 2025 UK real GDP growth forecast to 1% yoy (from 0.9%) after stronger-than-expected 4Q24 GDP data.

Datapoints/trends we're focused on

- ECB policy; we expect the ECB to continue delivering sequential 25bp rate cuts to a 1.75% terminal rate in July.
- Potential Russia-Ukraine war ceasefire, which we think would result in a limited Euro area GDP boost (+0.2%), unless it entails a comprehensive resolution (+0.5%).

Europe: a (potential) peacetime growth boost

Estimated effect of Russia-Ukraine ceasefire on real GDP, %



Note: "Limited ceasefire" scenario entails a de facto resolution to the war over time. "Upside" scenario entails a comprehensive and credible resolution.

Source: Haver Analytics, Goldman Sachs GIR.

Emerging Markets (EM)

Latest GS proprietary datapoints/major changes in views

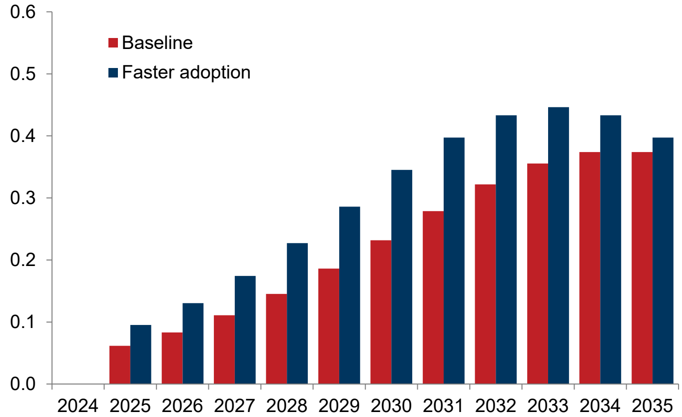
- No major changes in views.

Datapoints/trends we're focused on

- China GDP growth, which we expect to slow to 4.5% this year vs. the "around 5%" target that policymakers will likely set at the upcoming "Two Sessions", though the downside risks have abated somewhat given more-muted-than-expected US tariffs and DeepSeek-induced AI excitement.
- China policy rate cuts, which remain constrained by policymakers' FX stability concerns.
- CEEMEA growth, which faces downside risk from potential US tariffs and Middle East uncertainty, but upside risk from a potential ceasefire in the Russia-Ukraine war.

China's AI upside

AI boost to China's trend real GDP growth, %



Source: Goldman Sachs GIR.

Trump tariffs: mostly talk, or big action?

Tariff action since President Trump's inauguration just over one month ago has been nothing short of striking: the 10% tariff on imports from China that took effect on February 4 and the 25% tariffs on steel and aluminum set to take effect on March 12 are already roughly equivalent to the entirety of tariff action during the first Trump Administration, and many other tariffs have been announced or proposed but not yet implemented. While markets have begun to react to the trade developments, they are still underpricing deep tariff risks. Whether that will remain the case depends largely on whether these tariffs—especially the steep tariffs on Mexico and Canada or, even more importantly, a sweeping reciprocal or universal tariff that would represent a seismic shift in US trade policy—end up as mostly talk, or action.

To help answer this question, we speak with Jeff Gerrish, the President's former Deputy US Trade Representative for Asia, Europe, the Middle East, and Industrial Competitiveness. Gerrish argues that Trump's current trade policy goals largely overlap with those of his first term, including using tariffs to gain negotiating leverage, protect national security, and address unfair trade practices and deep trade imbalances—which Trump has long bemoaned (see pg. 24)—though the goals of addressing non-trade issues and raising revenue via tariffs have taken on greater importance.

With this in mind, Gerrish argues that the threatened Mexico and Canada tariffs, as well as broad auto tariffs, likely fall into the realm of negotiating tactics and therefore seem likely to be avoided if US trading partners make admittedly still-unclear concessions. Steel and aluminum tariffs, however, likely fall on the opposite end of the spectrum, given Trump's deep-seated view that protecting these domestic industries is vital to national security, making implementation quite likely.

But most noteworthy is Gerrish's view that President Trump's long-held goal of correcting global trading imbalances means that he is "no doubt looking to go bold and broad with respect to tariffs". Whether Trump ultimately chooses to do so through an expansive reciprocal tariff or a universal tariff is not yet clear, Gerrish says, but he warns that the market should not interpret the delay in implementing a broader tariff as a lack of resolve to do so. So, Gerrish believes the global trading system is poised for a major shift ahead and advises everyone to "buckle up, because the President is just getting started".

But even if Trump wants to reshape trade policy in such bold fashion, can he legally do so? Tim Brightbill, Co-Chair of Wiley Rein LLP's International Trade practice, believes so, noting that the US president has wide-ranging authorities to impose tariffs, with the courts generally upholding such authorities in the past.

So, what might be the economic implications of Trump's tariff plans? Alec Phillips, GS Chief US Political Economist, estimates that a base case tariff scenario of an additional 10pp tariff on imports from China, sectoral tariffs covering several critical imports, and tariffs on EU autos would weigh on US growth by only a few tenths of a percentage point while boosting year-over-year US core PCE inflation by roughly 0.4pp. This, he says, would still leave the door open for Fed cuts this year—indeed, we continue to forecast rate cuts in June and December—but would "make a close call even closer". And he notes that a more extreme tariff scenario with larger inflation and growth effects could further complicate the outlook for rate cuts as the Fed would need to weigh potentially higher inflation against a potential growth hit from much tighter financial conditions.

GS senior economists Jari Stehn, Alberto Ramos, Hui Shan, and Joseph Briggs then explore the implications for the US' four largest trading partners—Europe, Mexico, China, and Canada—finding that the inclusion of foreign value-added taxes (VATs) in a reciprocal tariff policy would hit Europe's economy particularly hard, US tariffs would likely substantially weigh on growth but be *deflationary* rather than inflationary in China, and Mexico and Canada could suffer significant growth hits if the threatened tariffs on them ultimately come to pass.

Briggs and the Global Economics team also dive into the broader global impacts of various tariff proposals, finding that a global auto tariff would create larger growth headwinds in Korea, Canada, and Mexico while reciprocal tariffs would have the largest incremental growth impact on Vietnam and Hungary relative to our baseline, though tariffs of any nature would have relatively muted impacts on prices outside of the US.

But even if Trump ultimately implements a more benign tariff package than expected, Briggs expects the significant uncertainty around the President's trade agenda in and of itself to weigh on global growth, as was the case during the 2018/19 trade war. This is especially important to note as Gerrish sees no end to the uncertainty in sight, arguing that the Trump Administration welcomes—rather than eschews—such uncertainty, which they view as helpful for achieving their goals of bringing back manufacturing and jobs to the US.

So, what could this all mean for markets? GS Co-head of Global Commodities Research Daan Struyven argues that Trump's pursuit of "US commodity dominance" via the use of tariffs and other policy actions will likely have only limited near-term impacts on commodity markets. And Kamakshya Trivedi, GS Head of Global FX, Rates, and EM Strategy, argues that the still-benign macro backdrop and the relatively moderate tariffs Phillips assumes in his base case point in the direction of a stronger Dollar and higher equities. But he also notes that, with markets still underpricing deep tariff tail risks, scope exists for a stronger move in the Dollar, US equities to fall further, and the Treasury curve to flatten more significantly if Trump indeed walks the walk on bigger and broader tariffs.

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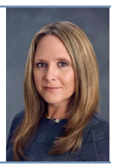
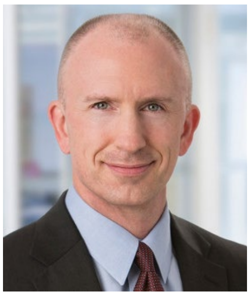


Interview with Jeff Gerrish

Jeff Gerrish is the former Deputy US Trade Representative for Asia, Europe, the Middle East, and Industrial Competitiveness (2018-2020). Currently, he is Partner at Schagrin Associates. Below, he argues that the bulk of President Trump's tariff actions still lie ahead and will likely be even more unpredictable than during his first term.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.



Allison Nathan: You played a key role in trade policy during President Trump's first term. What are his goals regarding tariffs/trade policy and to what extent have these goals shifted from his first term?

Jeff Gerrish: Most of President Trump's current goals with respect to his trade and tariff policies are consistent with his first term. These goals include the use of tariffs to address unfair trade practices and correct significant trade imbalances with other countries, to rebuild the US manufacturing sector and bring back US manufacturing jobs, to protect national security by reducing strategic vulnerabilities related to the US' reliance on imports, and to gain leverage for negotiations with our trading partners.

Two of Trump's trade policy goals, however, have taken on greater importance. The first is the use of tariffs to address non-trade, non-economic foreign policy and geopolitical issues. So far this includes the use of tariffs against Mexico, Canada, and China relating to border security and fentanyl trafficking, as well as the threat of tariffs against Colombia on immigration issues and against Denmark relating to Greenland. The second is the use of tariffs to raise revenues to offset some of Trump's proposed tax cuts.

Allison Nathan: While Trump's goals vis-à-vis tariffs seem clear, the plan to achieve them seems less so given the recent back-and-forth on tariff announcements and implementation. Does Trump have an overarching plan/strategy with regard to his trade agenda?

Jeff Gerrish: The idea that Trump is shooting from the hip on trade and tariff policy is a misperception. Even though the Administration's tariff actions may appear erratic or haphazard at times, Trump has a plan and a strategy to achieve his goals. The President's actions since the inauguration are a testament to his willingness to move forward with tough trade action if concessions aren't made, just as he did with the China tariffs during his first term. And when he pulls back at the last minute, as he did with the 25% tariffs on Mexico and Canada, it's not because he has changed his mind, but because he has secured adequate concessions. If such concessions are not made, it's clear he'll ultimately move forward with trade action.

Allison Nathan: So, are the tariffs on Canada and Mexico just a negotiating tactic then, and, if so, what is Trump aiming to achieve through these negotiations that would prevent those tariffs from going into effect?

Jeff Gerrish: I would say that the 25% tariffs on Mexico and Canada are more likely in the realm of negotiating tactics. While US trade deficits with both countries, but especially Mexico, have risen significantly, these tariff actions are clearly more related to border security, which was a defining issue in the election. So, the President feels the need to take strong action quickly out of the gate to better secure our borders, and the use of tariffs has been a way to achieve this. Trump took similar actions during his first term, when he threatened tariffs on Mexico related to border security issues and ultimately secured actions by Mexico to address his concerns, which enabled him to avoid the actual implementation of tariffs. This experience served as a trial run for the current developments, and I ultimately expect them to resolve in a similar way. The Canadians and Mexicans appear to be trying to do enough to allow Trump to declare victory without actually having to implement tariffs.

That said, the actions Canada and Mexico will need to take to ultimately satisfy the President and avoid tariffs are not entirely clear. I assume those objectives are being more clearly set out in the course of ongoing discussions between the US and these countries, but this remains uncertain for now, which leaves the ultimate resolution uncertain as well.

Allison Nathan: What about the proposed 25% tariff on US auto imports? Is that also just a negotiating tactic?

Jeff Gerrish: I think proposed auto tariffs also likely fall into the camp of a negotiating tactic. Trump used similar tactics very effectively in his first term to increase investment in US auto manufacturing and manufacturing more broadly. So, I can see him doing the same in this context when it comes to the threat of blanket tariffs on auto imports, as well as renewed USMCA negotiations, where the focus will likely be on keeping as much auto manufacturing as possible in North America, but particularly in the US. To that end, tightening up the rules of origin will likely be a key focus of those negotiations. Of course, if the President feels he is not getting the traction and results that he's seeking, he would not hesitate to move forward on tariffs, just as he did in his first term.

Allison Nathan: What about the steel and aluminum tariffs?

Jeff Gerrish: In contrast to the other tariffs we've been discussing, the President is clearly committed to taking strong action on steel and aluminum. During his first term, Trump recognized the importance of the US steel and aluminum industries to national security and implemented tariffs to stop the flood of imports that were severely harming our domestic industries, as evidenced by low capacity utilization and losses. Those tariffs substantially aided our industries, leading to additional investments in domestic capacity, and Trump will almost certainly view such measures as paramount ahead.

Although the Section 232 tariffs on steel and aluminum that Trump originally implemented remain in place, numerous exclusions and country exemptions have significantly weakened them, leading to renewed industry losses. So, Trump is committed to putting the bite back into these measures by removing such exclusions and exemptions and raising the aluminum tariff to match the higher steel tariff. Such actions will likely provoke pushback from downstream industries and their representatives on Capitol Hill, but, right now, the President is very focused on strengthening the implementation of these tariffs and extending them to derivative products.

Allison Nathan: The million-dollar question is whether the President will implement more sweeping tariffs in the form of a reciprocal or universal tariff. What's your view?

Jeff Gerrish: The President is no doubt looking to go bold and broad with respect to tariffs to address the overall problem of the global trade imbalance. Although the US trade deficit with China has declined since the imposition of the Section 301 tariffs during Trump's first term, our trade deficits with many other economies have exploded. So, Trump seems committed to taking expansive actions to address this imbalance. Whether he does so through a global baseline tariff, which would be a minimum across-the-board tariff on all products from all countries, or a reciprocal tariff, which would match the tariff rates other countries impose on us, remains unclear; Trump spoke about the former quite a lot during the campaign, but the Administration is currently studying the latter. It's also unclear whether reciprocal tariffs would take the place of a global baseline tariff, which they very well might. But both would be a major, fundamental change to the global trading system. That's especially the case as a reciprocal tariff would likely attempt to reflect not only the different tariff rates set by countries around the world but also value-added taxes (VATs) and non-tariff barriers, which can be as big of a problem as the tariffs themselves. Determining tariff levels that reflect tariff and non-tariff barriers, particularly in countries with relatively opaque systems, will be challenging. But I do think the Administration will attempt to do so if they go the reciprocal tariff route.

Allison Nathan: The market seemed relieved that Trump's reciprocal tariffs announcement did not include more direct action. Was the delay more likely another negotiating tactic, or rather an acknowledgement that the Administration will need more time to figure out the correct implementation given the complexity?

Jeff Gerrish: It's more likely the latter. Again, implementing a reciprocal tariff that captures both tariff and non-tariff barriers is exceptionally complicated, and Trump will want the full complement of his trade and economics team in place before he takes this on. Howard Lutnick was recently confirmed as the Commerce Secretary and doesn't yet have his full team in place, and Jamieson Greer was just confirmed as the US Trade Representative. These and other teams need to be in place to conduct the necessary analyses and to ensure that the Administration has the legal authority required to implement these tariffs. So, the market should not take the delay as a reason to believe that these tariffs won't happen.

Allison Nathan: So, it sounds like you think Trump will do something very big on tariffs, but the market doesn't really seem to believe that. Why do you think that is?

Jeff Gerrish: Perhaps it's because the market doesn't believe that the President will ultimately take such bold action. But that's a miscalculation because Trump, especially with regard to trade and tariffs, tends to do what he says he's going to do, and hawks in his administration will want to take bold action with him. Of course, like his first term, the Administration has a range of perspectives on trade. I would put Jamieson Greer, Peter Navarro, and probably Howard Lutnick in the trade hawk camp while Treasury Secretary Scott Bessent and other economic officials are somewhat less hawkish on trade issues. But even Bessent tends to lean more in favor of tariffs than many past Treasury secretaries.

Allison Nathan: With that in mind, where do you think tariffs and trade policy more generally is headed with regard to China?

Jeff Gerrish: What the President and some of his trade team may be seeking on the US-China trade front might differ. The trade team seems more inclined to continue strong action and selective decoupling from China using tariffs and other policies given the existential threat they believe China presents due to its investment- and export-led economy and its efforts to use unfair trade practices and industrial policies to dominate strategic industries around the world. Trump shares these concerns, but still seems open to doing a deal with China, and with President Xi in particular, as he did successfully during his first term. Whether another deal is possible is a big unknown, but it seems unlikely because China has not complied with the Phase 1 trade agreement and likely won't be willing to make concessions on the issues that will be important for the US in the areas of industrial subsidies, overcapacity, disciplines on state-owned enterprises and many others. But, with Trump, you never know what might be possible.

I would also note that China is not the only country with which Trump may try to pursue a deal; in his recent meeting with Indian Prime Minister Modi, Trump also raised the prospect of a deal with India. Trump is keen on developing his relationships with world leaders like Xi and Modi, and those sorts of relationships can drive action in the trade and tariff space.

Allison Nathan: Given all we've discussed, are the bulk of tariff actions now most likely behind us, or still ahead?

Jeff Gerrish: I am confident that the bulk of tariff actions still lie ahead. We'll see what happens with the 25% tariffs on Canada and Mexico in early March. But I am most closely watching the outcomes of the comprehensive reviews of several different trade and tariff actions that will be issued on April 1 pursuant to the America First Trade Policy Memo that Trump issued on Inauguration Day, which could lead to a whole host of tariff actions. Everyone needs to buckle up, because the President is just getting started and what lies ahead will likely be even more unpredictable than during his first term.

Allison Nathan: Trump presumably understands that businesses don't like uncertainty, but he seems to be stoking and even embracing it. What do you make of that?

Jeff Gerrish: The President and his Administration are indeed embracing uncertainty because they can use it to help them achieve their goals. In their view, such uncertainty will help bring back manufacturing and jobs to the US, where the operating climate is more certain. So, I wouldn't expect an end to uncertainty anytime soon.

A chronology of a new era of tariffs

Back and...

1/20/25 · 1/27/25 · 2/3/25 · 2/10/25 · 2/17/25 · 2/24/25

January 20
- Trump is inaugurated as the 47th president.
- Trump says he might impose a 25% tariff on imports from Canada and Mexico starting Feb 1.
- Trump issues a presidential memorandum which instructs the USTR to make recommendations on US participation in the USMCA and to review China's compliance with the Phase One agreement by April 1, 2025.

January 30
- In response to questions from the press, Trump indicates that he will announce 25% tariffs on Canada and Mexico.

February 1
- Trump signs executive orders that impose a 25% tariff on imports from Mexico, a 25% tariff on imports from Canada apart from energy, which faces a 10% tariff, as well as a 10% tariff on imports from China effective February 4.
- Trump says that EU-focused tariffs will "definitely happen."

February 1
- Canadian Prime Minister Justin Trudeau says Canada will impose retaliatory 25% tariffs on $155 billion worth of US goods, although these tariffs are not ultimately implemented.

February 2
- Trump says there could be "some pain" ahead from tariffs.

February 3
- Trump delays Canada and Mexico tariffs until March 4 as leaders of both countries commit to send 10,000 troops to their respective borders with the US and increase cooperation on organized crime, fentanyl, and other issues.

February 4
- 10% tariff on imports from China takes effect.

February 4
- The Chinese government announces a combination of retaliation measures, including tariffs on US goods, export controls on critical minerals, and non-tariff barriers on US companies operating in China. China also files proceedings against the US with the World Trade Organization.

February 5
- Trump says he will formally announce a 25% tariff on all steel and aluminum imports the next day.

February 7
- Trump tells reporters that he will be announcing reciprocal tariffs next week, "so that we're treated evenly with other countries. We don't want any more, any less."

February 7
- Trump suspends tariffs on low-cost packages—those worth less than $800—from China.

February 10
- Trump announces the removal of exclusions to the existing 25% steel tariff and an increase in the aluminum tariff to 25%, effective from early March.
- Trump directs U.S. Customs and Border Patrol to "dramatically increase its oversight" to prevent tariff circumvention.

February 10
- Trump says he would consider a tariff exemption on Australian steel and aluminum imports given the US' trade surplus with the country.

February 13
- Trump signs a memorandum proposing reciprocal tariffs and orders his staff to develop a "Fair and Reciprocal Plan" for trade, which would match other countries' tariffs, taxes, and non-tariff barriers (regulatory requirements, subsidies, and exchange rate policies). The memo implies the plan would not come before April 1 and no later than August.

February 14
- Trump indicates he will unveil tariffs on autos "around April 2".

February 24
- Trump says that the delayed 25% tariffs on Canada and Mexico "will go forward" on schedule.

February 25
- Trump signs an executive order directing his commerce secretary to launch a Section 232 investigation into copper imports, which White House officials say could lead to copper tariffs.

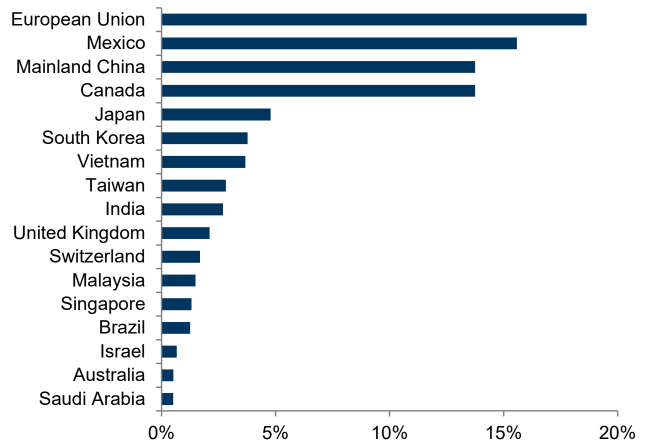
...forth on tariffs

Note: This does not constitute an exhaustive list of all tariff-related developments.
Source: White House, Truth Social, Bloomberg, various news sources, compiled by Goldman Sachs GIR.

The who, what, where of US tariffs

Many of the tariff actions so far have targeted the US' largest trading partners, including Mexico, Mainland China, and Canada…

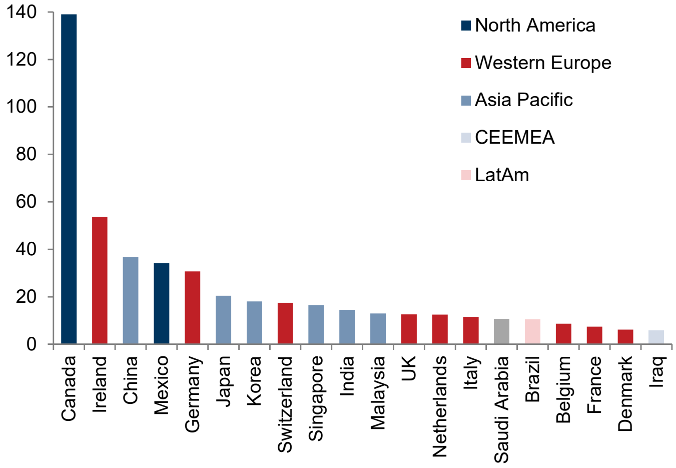
2024 US imports by major trade partner, % of GDP



Source: US Bureau of Economic Analysis, Goldman Sachs GIR.

…with Canada in particular also highly exposed to a critical goods tariff if one materializes as we expect…

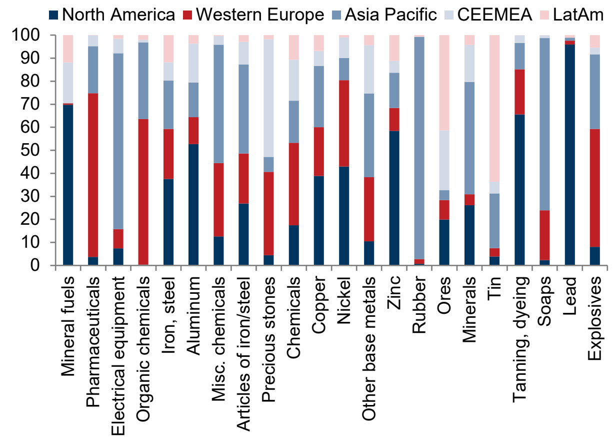
Exports of critical goods to the US, 20 largest exporters, $bn



Source: United Nations Comtrade Database, Goldman Sachs GIR.

…largely through oil exports, while Europe faces exposure through pharma exports, and Asia through electronics exports

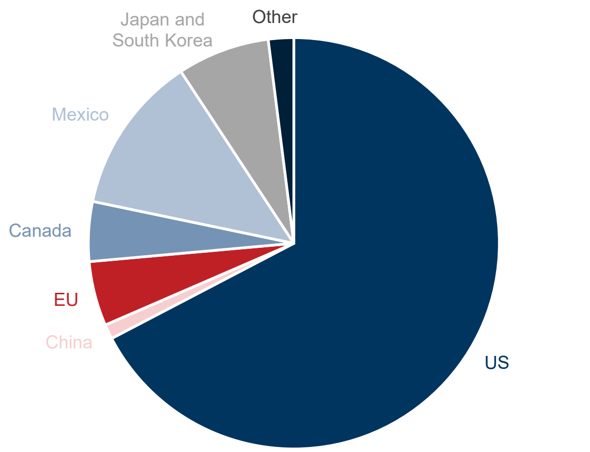
Contribution to US imports of key critical import categories, %



Source: United Nations Comtrade Database, Goldman Sachs GIR.

A global auto tariff also remains a risk, but we think more targeted tariffs on EU autos are more likely, which would affect only a modest share of US vehicle consumption

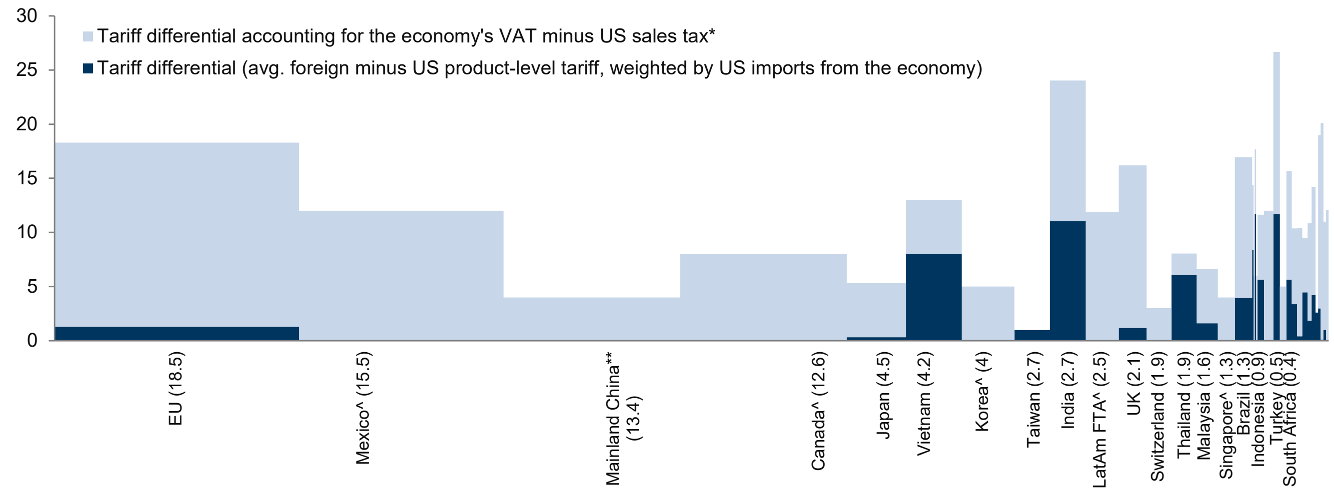
Where US-consumed vehicles and parts are produced, %



Source: US Dept of Commerce, International Trade Administration, GS GIR.

The scope of reciprocal tariffs remains uncertain, and while economies with large tariff differentials account for a small share of US imports, the Administration could consider value-added taxes (VATs), which nearly every economy has, in reciprocal tariff calculations

US trading partners by tariff differential scaled by US import share, %



Note: Width of the bars represents share of US imports from each economy; share of US import figures in parentheses.
**We assume an average 5% US sales tax. **As a result of the Sec. 301 tariffs, US tariffs on Mainland Chinese exports exceed Mainland China's tariffs on US exports. ^Economies with free trade agreements with the US impose no tariff on nearly every import category; for simplicity, we assume no tariff differential.*
Source: World Bank, OECD, Goldman Sachs GIR.

Special thanks to the US and Global Economics Research teams for charts.

Interview with Alec Phillips

Alec Phillips is Chief US Political Economist at Goldman Sachs. Below, he argues that the tariffs so far represent only a fraction of the tariffs that will ultimately be implemented.

Allison Nathan: How does the recent trade policy action compare to that of President Trump's first term?

Alec Phillips: The tariffs President Trump has announced so far—the 10% tariff on imports from China that took effect on February 4 and the 25% tariffs on steel and aluminum set to take effect on March 12—are roughly equivalent to all of the tariff hikes from the first Trump Administration. At that time, the effective tariff rate on goods from China increased by roughly 10pp, and smaller tariffs on steel/aluminum (there were many exceptions to the steel tariffs, and the aluminum tariff was set at 10% rather than 25%). But two big differences exist between that experience and today. First, those tariff increases came over a year after Trump took office—and the passage of an important tax cut—and were spread over a couple of years. Second, during Trump's first term, financial markets treated relatively small tariff increases—compared to the tariffs proposed now—as big news. This time around, despite a similar tariff increase, the market reaction has been much smoother, perhaps because the economic fallout from the prior tariffs proved manageable and because market participants have been anticipating higher tariffs since the election.

Allison Nathan: How would you rank the recent trade actions in terms of their potential importance/impact?

Alec Phillips: The proposed 25% tariff on Canada and Mexico is probably the most important single tariff action that President Trump has threatened so far, in that it would affect two countries where the US accounts for 75-80% of exports and a meaningful share of GDP, and where US production is more integrated than with any other trading partner. It would also represent a substantial departure from existing US policy, as the United States-Mexico-Canada Agreement (USMCA) is by far the US' most important free trade agreement. Like the China-focused tariffs and steel and aluminum tariffs, these tariffs are also a throwback to the first Trump Administration (Trump threatened Mexico with tariffs over immigration issues in 2019, but not Canada). Similar to that experience, these tariffs don't look likely to take effect and, if they do, they likely would not last very long.

The most important proposed tariff action in terms of potential economic impact is the broad-based tariffs Trump has mentioned. A reciprocal tariff might raise the average effective tariff rate by 1-2pp if it only takes tariffs into account, as high-tariff trading partners supply a small share of US imports. However, if a reciprocal policy also accounted for value-added taxes (VATs), as Trump has said it would, the rise in the US effective tariff rate could top 10pp. And accounting for non-tariff barriers (NTBs) to trade could increase tariffs further.

Trump has also talked about sectoral tariffs on several occasions, which would likely target various "critical imports" like pharmaceuticals, semiconductors, and other electronic components, and possibly the auto sector and oil/gas imports. A tariff on critical imports would probably affect a smaller share of imports than some of the other tariffs mentioned—the categories Trump has mentioned frequently account for imports of around $600bn/year, or around 20% of total imports, but this is still more than imports from China, for example.

Allison Nathan: Are the bulk of tariff developments most likely now behind us, or still ahead?

Alec Phillips: We've likely only seen a fraction of the tariffs that will ultimately be implemented—we're only about 5 weeks into a four-year term, after all. And the tariffs seem likely to come in stages. The earliest tariffs Trump threatened on Canada and Mexico were likely proposed to create leverage in negotiations on immigration policy and in the upcoming USMCA review. It also seems likely that the tariffs Trump has mentioned in a less detailed way related to the EU and other trading partners fall in the same category.

A second set of tariffs relate to protecting domestic industry and economic or national security. The main example would be the steel and aluminum tariffs. Sectoral tariffs more generally fall into this group, as do China-focused tariffs, though in both cases one could argue that they straddle the line between the negotiation and security categories, as we might see negotiated exceptions to sectoral tariffs and Trump might have an eventual deal with China in mind.

The third category, which Trump has discussed but we have not yet seen, is tariffs that are aimed at rebalancing trade more generally or raising revenue. During the campaign, Trump called for a "universal baseline" tariff of 10-20%, though the reciprocal tariff seems to have supplanted this more recently. Tariffs in this third category could have the greatest impact, as they would likely apply broadly across trading partners but at somewhat lower levels that make them more credible.

So far, Trump seems to be operating mainly in the first and second categories, which are more familiar territory from his first term. He has opened the door to the third, but has not gotten there yet.

Allison Nathan: So, what does the range of possible outcomes for tariffs look like from here, and what are you assuming in your macro forecasts?

Alec Phillips: The most extreme tariff scenario is that Trump simply follows through on what he promised during the presidential campaign: steep tariffs of up to 60% on imports from China, reciprocal tariffs, and a 10-20% baseline tariff. The most benign scenario is that Trump focuses on using tariffs to win other concessions, leading to the opposite outcome—a decline in trade barriers over time. Neither of these scenarios seem particularly likely, as the hit to growth, inflation, and financial markets might dissuade Trump from the most aggressive approach, while it is unclear what a second trade deal with China, for example, would look like.

We're assuming an outcome in the middle: another 10pp tariff on imports from China and sectoral tariffs, which include the upcoming steel and aluminum tariffs, as well as tariffs on EU autos. Trump's proposed reciprocal tariff also appears to be a serious proposal with a good chance of implementation in some form, but it is far from clear at this point what form it would take so, for now, we don't include it in our assumptions.

Allison Nathan: What would be the growth, inflation, and Fed policy impacts under those baseline assumptions?

Alec Phillips: The tariffs we assume would raise the average effective tariff rate by 4-5pp, roughly triple the 1.5pp rise in the first Trump Administration, and modestly higher than the 3pp we assumed soon after the election. As a rough rule of thumb, each 1pp rise in the tariff rate is worth ~0.1pp on the core PCE price level, so these baseline tariff assumptions would boost core year-over-year inflation by ~0.4pp later this year, assuming they are implemented within a few months of each other.

The GDP impact would be somewhat smaller. We expect these tariffs would weigh on growth by a few tenths of a point later this year and in early 2026, although this depends in part on how much financial conditions tighten in response. Equity market reactions to tariff announcement so far this year suggest the reaction could be smaller than in the 2018-2019 experience. But while the more benign reaction might reflect less concern about the fundamental impact of tariffs, it might also simply suggest that market participants have already discounted some of this (e.g., China-focused tariffs) and still view others (e.g., Canada and Mexico tariffs) as a negotiation tactic, even when they are only hours from implementation.

Even with the tariff increases in our baseline, the door is still open for Fed cuts this year, though it would make a close call even closer. In 2018-2019, Fed officials appeared to be more concerned about the hit to growth from tariff hikes than about the rise in prices, and it looks likely that the FOMC would largely look through one-time price increases clearly linked to tariffs. That said, the further core inflation is from the Fed's target, the more likely it is that the Fed postpones cuts until there is greater certainty. We continue to forecast two rate cuts this year, in June and December, and one more in 2026 to a terminal rate range of 3.5%-3.75%.

Allison Nathan: How would the more extreme tariff scenarios impact growth, inflation, and Fed policy?

Alec Phillips: The reciprocal tariff, which we don't include in our baseline at this point, would raise the tariff rate by 1-2pp more, though more aggressive versions of such a tariff would go much further. If the postponed tariffs on Mexico and Canada are eventually implemented, they would raise the tariff rate by nearly the same amount as all of the tariffs in our baseline combined, or nearly 6pp. Using the same rule of thumb as before, this would add around another three-quarters of a point to core PCE inflation, and a further hit to growth by a similar but slightly smaller amount. Fed policy becomes more uncertain in such a scenario. Fed officials would likely still be inclined to look through a one-time price level shift driven by higher tariffs, but core inflation would be far enough from the Fed's target that it could argue for delaying cuts. However, while the hit to financial conditions from tariff announcements thus far has been smaller than expected, that is less likely to be the case in the event of a more extreme tariff scenario that goes well beyond what market participants are expecting, and could still allow for additional cuts this year.

Allison Nathan: What could the USMCA review and renegotiations in 2026 look like? Are there any other trade deals that we should pay attention to ahead?

Alec Phillips: The near-term tariff threat facing Canada and Mexico suggests that President Trump is apt to push for more substantial changes in the USMCA during the review due by July 2026. Two of the most important issues are likely to be the auto sector, where the first Trump Administration pushed for tighter regional content and labor rules, and treatment of goods manufactured by Chinese companies in Mexico. The auto sector, in particular, presents challenges as some Mexican-produced vehicles are imported outside of USMCA rules, paying the standard 2.5% tariff instead, making it hard to tighten rules further while the standard auto tariff remains low.

Outside of USMCA, President Trump appears interested in revisiting a deal with China, though it is far from clear at this early stage what might be achievable. Another interesting question will be whether a reciprocal trade policy, if it occurs, would lead to renegotiation of tariffs with some high-tariff trading partners. Trump has focused on India in this regard.

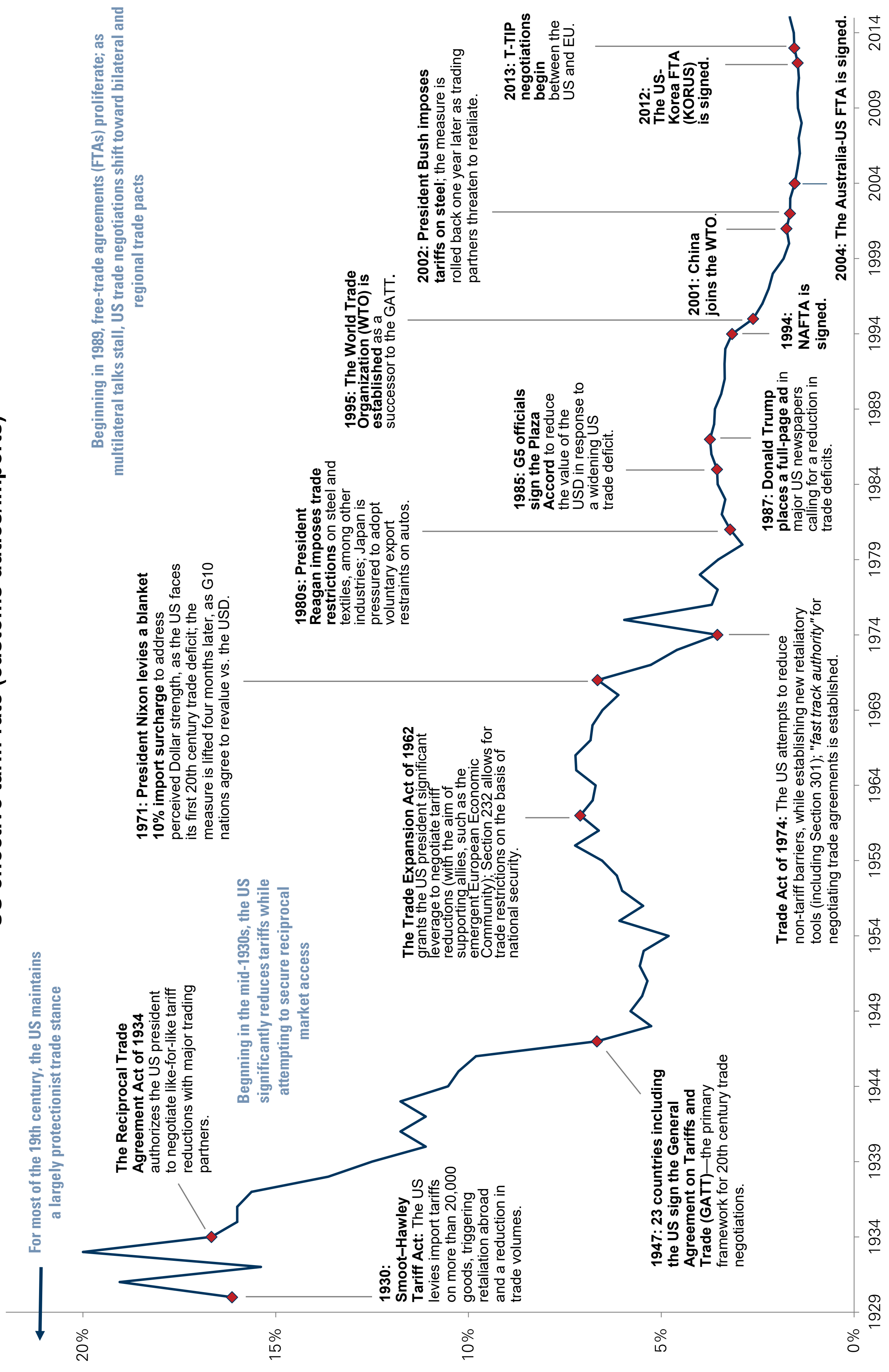
Allison Nathan: What should investors be watching most closely over the coming weeks and months?

Alec Phillips: In the very near term, the main question is how Trump deals with the Canada/Mexico deadline on March 4. We assume that he announces additional concessions from the two countries and that tariffs are not implemented at that point. Trump has pushed the deadline multiple times, and the best bet seems to be that he will do so again. The risk is that, to preserve credibility, he imposes the tariffs at least briefly. Also, steel and aluminum tariffs are due to take effect March 12. It would be surprising if they did not, but it will be worth watching whether the Trump Administration makes exceptions for certain trading partners, which Trump recently ruled out.

While trade policy uncertainty has already risen substantially over the last several weeks, it seems likely to rise even further by early April. The presidential memo on trade policy that Trump signed on January 20 also calls on trade-related agencies (primarily Commerce, Treasury, and USTR) to make recommendations by April 1 to deal with the trade deficit in general, potentially through a "global supplemental tariff", unfair trade practices of specific countries, currency policies, reevaluation of free trade agreements including but not limited to USMCA, unfair foreign taxation of US businesses, China's compliance with the Phase One trade agreement, an updated investigation on China's economic policies and circumvention of previously imposed tariffs, outbound investment restrictions, and export controls. The same agencies are due to make recommendations regarding a reciprocal tariff around the same time, and President Trump has mentioned that a global auto tariff could also be imposed then.

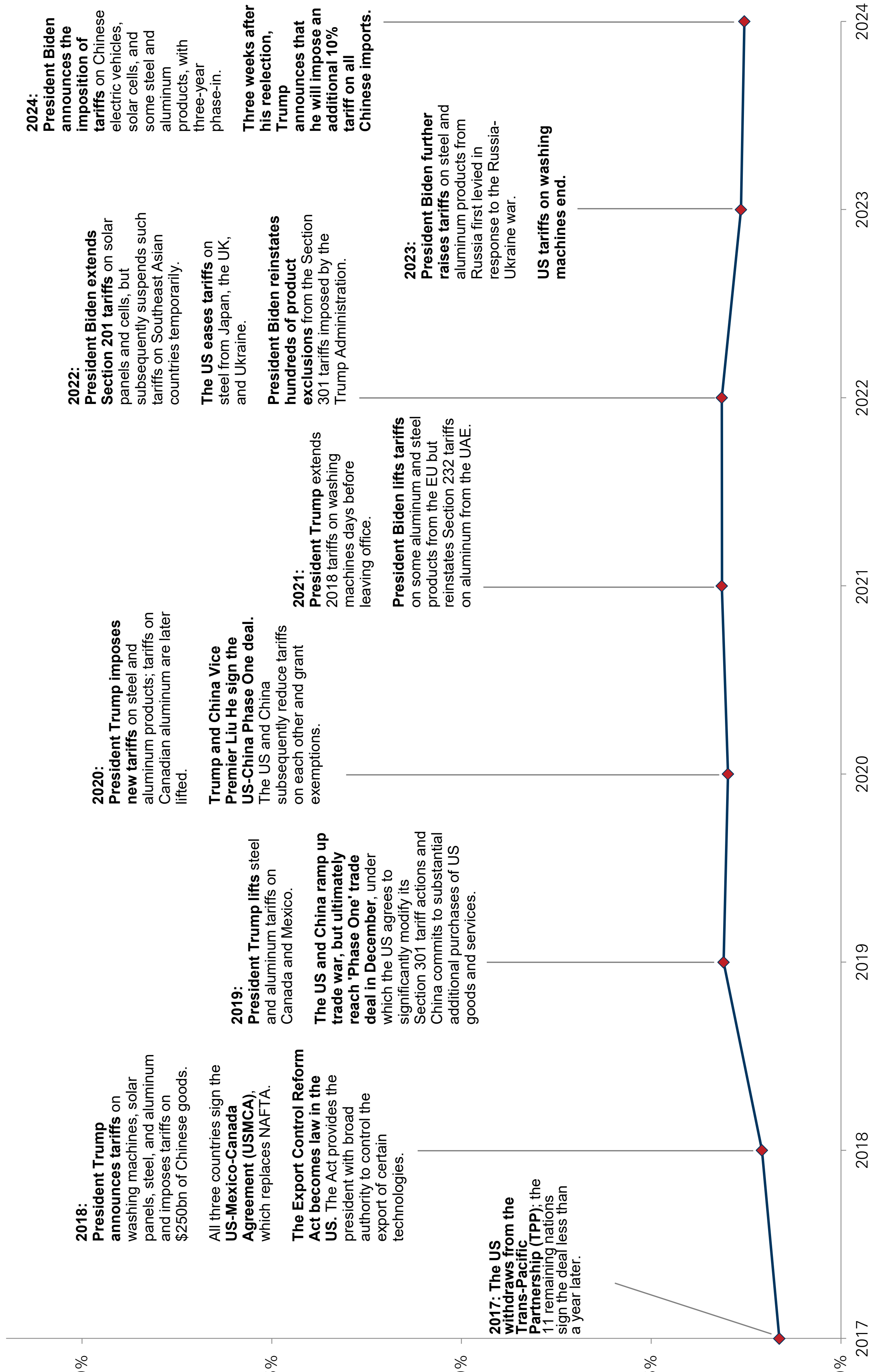
A long...

US effective tariff rate (customs duties/imports)



...and short history of US trade policy

US effective tariff rate (customs duties/imports)



Source: US International Trade Commission, US Department of Commerce, WTO, Irwin, Douglas A., "Clashing over Commerce", Peterson Institute for International Economics, Goldman Sachs GIR.

Interview with Timothy C. Brightbill

Timothy C. Brightbill is Co-Chair of Wiley Rein LLP's International Trade practice and an Adjunct Professor at Georgetown University Law Center. Below, he discusses the legal authorities that the US president has to impose tariffs and argues that President Trump's recent tariff actions fall within these authorities.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Jenny Grimberg: What specific authorities does the US president have to impose tariffs?

Tim Brightbill: The president has a wide variety of tools at his disposal to impose tariffs, three of which President Trump has utilized across his two terms. One, the International Emergency Economic Powers Act (IEEPA), which was the basis for Trump's February 1 Executive Order that imposed additional 10% tariffs on China and the 25% tariffs on Canada and Mexico that were ultimately postponed. IEEPA gives the president broad power to regulate commerce during a national emergency, has almost-immediate effects on international trade, and doesn't require an agency investigation to invoke.

Two, Section 232 of the Trade Expansion Act, which allows the president to impose tariffs on imported products deemed a threat to national security and was the basis for Trump's original and expanded steel and aluminum tariffs. And three, Section 301 of the US Trade Act of 1974, which the current administration hasn't invoked but was the basis for the 25% tariffs on hundreds of billions of dollars of Chinese goods in 2018 that kicked off the US-China trade war. Section 122 of the same 1974 Act, which is the president's balance-of-payments authority, has never been used by Trump but would allow him to impose an additional 15% tariff on imports for up to 150 days, unless extended by Congress. And Section 338 of the Tariff Act of 1930, which hasn't been used in over 70 years, allows the president to impose tariffs of up to 50% on any country discriminating against US producers. So, President Trump could conceivably use this to impose reciprocal tariffs.

Jenny Grimberg: Whether IEEPA can be used to impose tariffs seems to be a matter of debate. Is there historical precedent for such use of IEEPA, and what have the courts had to say in this regard?

Tim Brightbill: IEEPA has never before been used to impose tariffs, although both the first Trump Administration and the Biden Administration used IEEPA to sanction countries and individuals, and the courts repeatedly upheld these actions. So, this is new territory for IEEPA. However, the courts have generally upheld the president's power to declare an international economic emergency, and tend to be deferential on matters of national security. And while the use of IEEPA to impose tariffs is novel, the Nixon Administration invoked IEEPA's predecessor—the 1917 Trading with the Enemy Act—to justify a 10% import tariff in 1971 due to a balance-of-payments crisis. The Court of Customs and Patent Appeals, which was the appellate court at the time, upheld this action in *United States v. Yoshida International*. So, some legal basis exists for such use of IEEPA.

Jenny Grimberg: But can the president just declare anything a "national emergency" to justify tariffs?

Tim Brightbill: That's the key question. Trump has declared several national emergencies, including the fentanyl crisis and the immigration issues at our borders, and used these to justify the China, Mexico, and Canada tariffs. But he has also talked at length about dumping, subsidies, and other unfair trade practices. Whether the courts will uphold Trump's tariff actions because a genuine economic emergency exists that would justify tariffs, or find that the president is just using IEEPA to address trade problems that should be covered under other laws, is an open question.

During the first Trump Administration, the courts were generally deferential to the president's ability to decide what constituted a national security threat or economic emergency. But even in those cases, some judges raised different opinions and doubts as to whether the president had overreached his authority. The courts have also indicated that the president's power to act during national security or economic emergencies is not without limits. Eventually, the president may cross the line, or the remedy offered of tariffs might not align with the alleged problem. So, any court challenges on the president's IEEPA authority will be important to watch.

> "During the first Trump Administration, the courts were generally deferential to the president's ability to decide what constituted a national security threat or economic emergency."

Jenny Grimberg: Who might file such court challenges, and what court(s) would hear any challenges to tariff actions?

Tim Brightbill: Trade associations, companies, or importers paying the increased tariffs might bring a lawsuit; hundreds of importers filed the ultimately unsuccessful lawsuit to overturn the Section 301 China tariffs. These cases would be heard by the US Court of International Trade in New York, followed by the Court of Appeals for the Federal Circuit in Washington and then possibly the US Supreme Court, though few trade cases ever make it to the Supreme Court. The Court of International Trade heard the Section 232 disputes on steel and aluminum as well as the challenges to the Section 301 tariffs on China during the first Trump Administration. And in both of those cases, the Court upheld the president's power to act.

Jenny Grimberg: If court cases are filed against tariff actions, do the tariffs in question still take effect?

Tim Brightbill: Whether the parties that bring a lawsuit against the Administration's tariff actions can also obtain an injunction to stop the tariffs is an important question, which is already playing out in the legal challenges to some of the President's other recent executive actions. Such injunctions are difficult to obtain because they require the plaintiffs to show evidence of "irreparable harm", and financial losses due to tariffs often don't cut it—a higher showing of financial harm, such as a significant likelihood that the company or importer could go out of business altogether as a result of the tariffs, would be required. So, injunctions, and trade lawsuits in general, tend to be an arduous process for the plaintiffs, and oftentimes a lengthy one. A case filed before the Court of International Trade and then any appeal to the Federal Circuit could each take six months to a year to resolve. So, even if the arguments may be on their side, companies cannot rely on court challenges to address the impact of tariffs; they have to think carefully about how to minimize the impacts to their businesses through other means, perhaps by shifting their supply chains closer to home.

Jenny Grimberg: Which, if any, of the tariffs that Trump has announced/floated will likely invite challenges?

Tim Brightbill: Many, if not all, of Trump's tariff actions will likely face legal challenges despite the fact that the courts upheld such actions during the first administration. That said, the Trump Administration has come into office more prepared for such challenges than it was eight years ago—it is more well-versed in the legal authorities at its disposal and how to utilize them, and is more willing to test previously-unused authorities like IEEPA or Section 122 of the 1974 Trade Act to impose tariffs. In my view, the tariffs announced so far are aggressive but arguably within the president's authority. So, while I expect challenges, the recent tariff actions are unlikely to be halted by the courts.

> "In my view, the tariffs announced so far are aggressive but arguably within the president's authority. So, while I expect challenges, the recent tariff actions are unlikely to be halted by the courts."

Jenny Grimberg: If not the courts, what role could Congress potentially play in curbing Trump's tariff plans?

Tim Brightbill: Article 1, Section 8 of the Constitution gives Congress the power to regulate commerce with foreign nations and to lay and collect taxes and duties. But, over time, Congress has delegated that power as well as the power to declare national emergencies and security risks to the Executive Branch through the authorities we've discussed. Now, Congress could try to reclaim some of this power. Legislative proposals to do so were floated during the first Trump Administration when Trump initiated an investigation on automobile imports on US national security grounds, which several senators and members of Congress claimed was an overreach of presidential authority. If the president continues to push the boundaries of his authorities, Congress may again try to restrict the president's trade authority, which would require passing a law. However, it's hard to envision that the president would sign a law to restrict his own power, complicating any such legislative effort.

Congress could more easily influence trade policy by withholding agreement on key legislation. Congress has the power to appropriate money and therefore has substantial leverage as the March 14 deadline to enact a fiscal year 2025 spending agreement and prevent a government shutdown approaches. Congress could pass a temporary stopgap measure in the form of a continuing resolution, and lawmakers could potentially threaten to vote 'no' or withhold their vote on the resolution—which requires a majority vote in both the Senate and the House—unless the Executive Branch agrees to a deal on tariffs. The reconciliation bills currently making their way through Congress also give it leverage, as they include funding for many of the administration's priorities. Lawmakers concerned about tariffs could similarly oppose these bills or hold out for an agreement on tariffs. So, Congress has a few tools to potentially push back on the president's tariff plans, if it so desires.

> "Bottom line: neither the WTO nor the USMCA will likely be an impediment to Trump's tariff plans."

Jenny Grimberg: How much power would targeted countries have to challenge tariffs through the World Trade Organization (WTO) and the US-Mexico-Canada Agreement (USMCA)?

Tim Brightbill: The WTO has limited power to police the Trump Administration's actions. The WTO ruled that Trump's first-term steel and aluminum tariffs and Section 301 China tariffs violated WTO agreements, and a panel on the recently-announced tariffs would probably make the same finding. However, the WTO Appellate Body—which hears appeals in disputes brought by the organization's members—has been shut down for several years as the US has blocked the appointment of the new members necessary to form a quorum. This prevents a WTO ruling from taking effect, as the US can simply appeal any losing decision to the now-defunct Appellate Body in a process known as "appealing into the void", which is what the US previously did.

Mexico and Canada would also face an uphill battle challenging Trump's tariffs under the USMCA. The Agreement includes a national security provision—a standard feature of the US' free trade agreements—that allows members to take actions necessary to protect their security interests as they themselves define them. So, the US could invoke this provision if Mexico and Canada pursue a challenge. In addition, the USMCA will be renegotiated next year, and the Trump Administration is likely counting on being able to reach a deal with Canada and Mexico before any dispute panel would rule on the new tariffs. So, bottom line: neither the WTO nor the USMCA will likely be an impediment to Trump's tariff plans.

Q&A: ex-US impacts of Trump tariffs

We ask our economists about the potential implications of Trump tariffs for the US' largest trading partners

Europe

Sven Jari Stehn

Q: What is the state of play of US tariffs in your region, and what will they mean for growth/inflation/monetary policy?

A: President Trump has floated several tariff proposals that would affect Europe, and we expect tariffs on imports of EU cars, critical goods, and steel/aluminum in our baseline (see pgs. 8-9). We find that the direct trade effects of these tariffs on Euro area growth will likely be modest, especially if the EU retaliates. More importantly, we have found that elevated trade policy uncertainty will have notably negative effects on European investment, confidence, and growth. As a result, we estimate that the trade tensions will lower Euro area real GDP by 0.5% this year, with more substantial effects in Germany than southern Europe given Germany's more export-oriented economy. By contrast, we see limited inflation effects from the trade tensions. We would expect EU tariff retaliation and a weaker Euro to push up European inflation. But weaker growth and trade diversion effects (with China selling goods to Europe at a lower price) should push the other way. On net, we expect a 0.05% increase in consumer prices owing to the tariffs in our baseline. Given weaker growth and only marginally higher inflation, we believe that the trade tensions will reinforce the ECB's resolve to normalize interest rates, and, accordingly, expect continued rate cuts to a 1.75% terminal rate.

Q: What might such retaliation look like?

A: We expect the EU to retaliate—but avoid a sharp escalation—by raising tariffs on a few key products equivalent to ~50% of the value of EU exports affected by US tariffs. We would expect the EU to start with metals, agricultural products, and some transport equipment (boats and vehicles), and possibly extend to chemicals and aircraft. Consistent with the 2018 precedent, we expect the European Commission would publish a list of additional US goods that would be subject to EU tariffs at a later stage whose value would match the full amount of EU exports affected by US tariffs should the US not show any cooperation on tariff policy.

Q: What would a more extreme tariff scenario than your base case look like for Europe, and what would it mean for growth/inflation/monetary policy?

A: We would expect more meaningful growth downside from US tariffs that target all EU goods. We estimate an incremental 0.5% GDP hit relative to our baseline in the event of a 10% US tariff on all EU goods and an incremental 0.7% hit if US tariffs matched Europe's value-added tax (VAT) rates, reflecting a growth hit from a larger net trade hit and higher uncertainty that is only partly offset by more aggressive policy. We estimate such tariffs would boost inflation by 0.1-0.2pp relative to our baseline. Faced with sharply weaker growth in the case of such an across-the-board tariff, we would expect the ECB to cut rates further than in our baseline.

Mexico

Alberto Ramos

Q: What is the state of play of US tariffs in your country, and what will they mean for growth/inflation/monetary policy?

A: The Trump Administration issued an Executive Order on February 1 levying a 25% tariff on all imports from Mexico, though the tariffs were put on hold until March 4 in light of the Mexican authorities' "cooperative stance" and commitment to reinforce the northern border. Meanwhile, bilateral teams are working on security and trade issues with a view to achieve a "deal". As such, we see it as more likely than not that the 25% tariff will ultimately not be implemented. This led us to leave our Mexico real GDP forecasts—which already incorporate the 0.5-1% growth drag we expect from trade policy uncertainty—as well our inflation and monetary policy forecasts unchanged. Trump also signed an Executive Order levying a 25% tariff on all steel and aluminum imports, effective March 12. While these tariffs have a higher likelihood of implementation, Mexico's steel/aluminum exports account for only a small share of its total exports and GDP, limiting the growth, inflation, and policy impacts.

Q: What retaliatory measures might Mexico enact if the US were to impose tariffs?

A: The Mexican authorities have stated that the country would retaliate with tariff and non-tariff measures if the US were to levy tariffs on Mexico. We are of the view that the Mexican authorities will remain cooperative and would likely avoid a tit-for-tat tariff response and/or actions that would escalate trade frictions with its main trading partner. But we anticipate that authorities would levy targeted tariffs on a limited but politically-sensitive set of goods (such as meat, dairy products, fruit and vegetables, beverages, etc.), as they did during the 2018/19 trade war, should the Trump Administration follow through on its tariff threats.

Q: What would a more extreme tariff scenario than your base case look like for Mexico, and what would it mean for growth/inflation/monetary policy?

A: We view the potential implementation of the postponed 25% tariff on Mexico as a significant risk. If such tariffs were implemented, we would expect a growth hit from the drag on real income and reduction in exports to the US that is only partially offset by currency depreciation and the domestic monetary policy response. In a scenario with tit-for-tat retaliation, the combined impact of the trade policy uncertainty drag and the across-the board 25pp tariff increase would lower Mexico GDP by an estimated 3.5% and raise prices by 250bp, with the impact on domestic prices a smaller—but still significant—100bp if Mexico elected not to retaliate. In such an environment, we would expect the central bank to initially assume a conservative posture to preserve financial stability and anchor the currency, but to ultimately adopt a more accommodative/dovish stance to counteract the recessionary forces triggered by the tariff-driven negative supply shock. Broader Mexico retaliation than we expect would have a larger impact on domestic growth and inflation, presenting the central bank with more difficult tradeoffs to manage.

China

Hui Shan

Q: What is the state of play of US tariffs in your country, and what will they mean for growth/inflation/monetary policy?

A: President Trump implemented an additional 10% tariff on all Chinese goods on February 4, which we estimate will lower China's real GDP by 0.5pp in 2025. By contrast, the inflation impact will likely be limited—with the 10% tariff reducing CPI inflation by only an estimated 0.1pp—primarily because the linkage between the output gap and inflation is weak in China. Unlike other countries, tariffs are deflationary in China as the country imports only a limited amount from the US and, as the world's largest exporter, would have to see domestic prices fall for domestic buyers and/or importing countries to absorb Chinese products if the US imposes heavy tariffs. As tariff uncertainties linger and the CNY remains under pressure, the PBOC has kept the daily USDCNY fixing unchanged as it prioritizes FX stability, another reason why tariffs will be deflationary. In this environment, US tariffs are constraining the PBOC's ability to cut policy rates and ease policy. We continue to expect the US to increase the effective tariff rate on China by an additional 10pp this year, which, all else equal, would reduce Chinese growth by an estimated 0.7pp and CPI inflation by 0.1pp as expected FX depreciation would likely raise import prices on the margin and offset the negative inflation effect of a slightly larger growth drag.

Q: What retaliatory measures might China enact, and to what extent could these measures offset the impacts of US tariffs?

A: On February 4, the Chinese government announced a combination of retaliatory measures in response to the additional 10% US tariff, which were noteworthy in two respects. First, the retaliatory tariffs were much less than proportional: China levied 12% tariffs on $14bn of US goods compared to the US' imposition of 10% tariffs on over $400bn of Chinese goods. Second, the responses were coordinated, with various Chinese government agencies simultaneously announcing export controls of critical minerals, adding US companies to the "Unreliable Entity List", and launching antitrust probes on Google. Taken together, these demonstrate that, compared to the 2018/19 trade war, the Chinese government is relying less on retaliatory tariffs and FX depreciation and more on other instruments such as export controls and even geopolitical levers to retaliate this time around. As such, we believe that only 0.2pp of the 0.7pp growth hit under our baseline tariff assumptions will be offset through FX depreciation, with another 0.3pp offset coming from fiscal stimulus, leaving the net growth drag at 0.2pp.

Q: What would a more extreme tariff scenario than your base case look like for China, and what would it mean for growth/inflation/monetary policy?

A: In early 2024, Trump threatened to levy an additional 60% tariff on China, which remains a risk. We have found that the growth impact of such a tariff would be significant at an estimated 2pp of real GDP. The Chinese government may allow for meaningful FX deprecation to partially offset this growth headwind, though probably not quite as much as implied by the 2018/19 experience given larger capital outflow pressures today. Once the currency stabilizes at a weaker level, the PBOC could cut policy rates to ease policy and facilitate fiscal stimulus. This combination of slower growth and a weaker currency could leave China's CPI inflation 0.3pp lower than if no further US tariffs are imposed. But the net CPI inflation impact may be smaller if the government implemented substantial fiscal stimulus to counter the effects of the large tariff increase, which we view as likely given the government's growth target.

Canada

Joseph Briggs

Q: What is the state of play of US tariffs in your country, and what will they mean for growth/inflation/monetary policy?

A: President Trump issued an Executive Order on February 1 levying a 25% tariff on all imports from Canada. These tariffs were put on hold until March 4 and we ultimately don't expect implementation. However, Canada is highly exposed to the 25% tariffs on steel and aluminum scheduled to go into effect on March 12 and the tariffs on critical exports we expect, which together accounted for over 7% of Canada's GDP in 2024. Factoring in an expected drag from trade policy uncertainty and some fiscal and monetary policy offsets, we expect Canada's GDP will take a roughly 1% hit from these tariffs. The inflation impacts of the tariffs will largely depend on the extent of retaliation. If Canada retaliates by raising the tariff rate on US imports by a third of the amount that the US raises tariffs on Canadian imports, we would anticipate a modest boost of 0.2pp to prices. The price impact would be larger if Canada fully retaliates, on the order of 0.5%. We see US tariffs as dovish for the BoC since the large growth drag will likely amplify the BoC's concerns around weak activity, consistent with our forecast for two more 25bp cuts in 2025 to 2.5%.

Q: What might such retaliation look like?

A: The Canadian government has yet to announce retaliatory measures for the steel and aluminum tariffs, but when threatened with 25% blanket tariffs in January, Prime Minister Trudeau promised a "robust response" while noting that "everything is on the table", including a "dollar-for-dollar response". Canada subsequently provided a list of C$30bn in goods—largely food, apparel, and household products—that it would initially retaliate with 25% tariffs of its own and announced plans to retaliate on an additional $C125bn in goods—largely motor vehicles, aerospace products, and steel and aluminum—in mid-February. While these retaliatory tariffs were delayed in early February, we would expect any future retaliation package to look similar to these proposals.

Q: What would a more extreme tariff scenario than your base case look like for Canada, and what would it mean for growth/inflation/monetary policy?

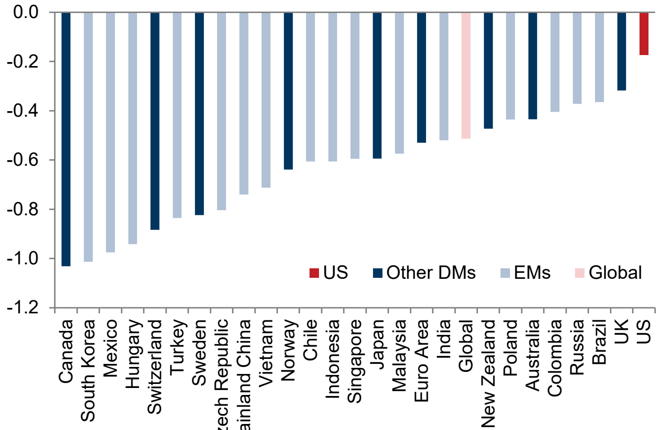
A: If Trump ultimately implements a 25% tariff on most Canadian exports (with oil and gas tariffs increasing by a less severe 10%) and leaves it in place permanently (or at least until a new USMCA agreement is reached ahead of the mid-2026 deadline), we estimate that the hit to Canada's GDP would likely rise to over 2%, while the boost to prices would likely rise to over 0.5% (and to well over 1% if Canada were to fully retaliate). We expect that the BoC would cut rates by an incremental 25-50bp relative to our baseline forecast if these tariffs were delivered, consistent with recent comments from Governor Macklem that the BoC would likely ease policy to offset an initial loss in demand and help the economy adjust to a trade shock.

A look at the global growth…

While our baseline forecasts assume a meaningful but narrower set of tariffs than the full range that Trump has floated, the large number of potential policy changes raises significant uncertainty around the global growth and inflation impacts of the Administration's trade agenda. On the growth front, our Global Economics team finds moderate downside risk to global growth in most tariff scenarios, with larger drags in non-US economies, though the distribution of effects depends on the nature of the tariff.

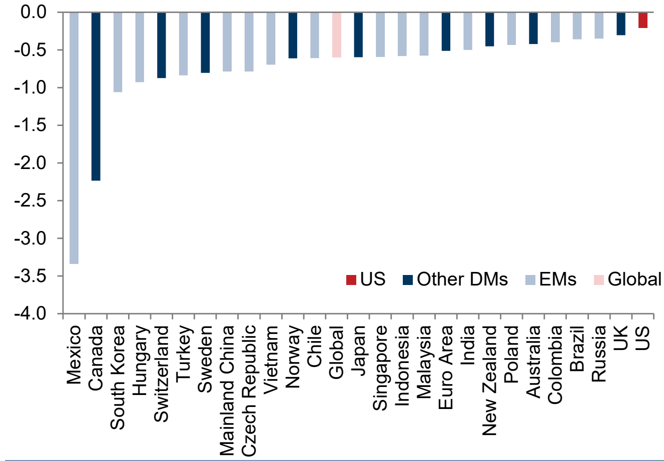
Under our baseline tariff scenario, we estimate that tariffs will lower US GDP by 0.2%, with larger but still modest growth impacts on non-US economies

Est effect of GS baseline tariff expectations on GDP, %



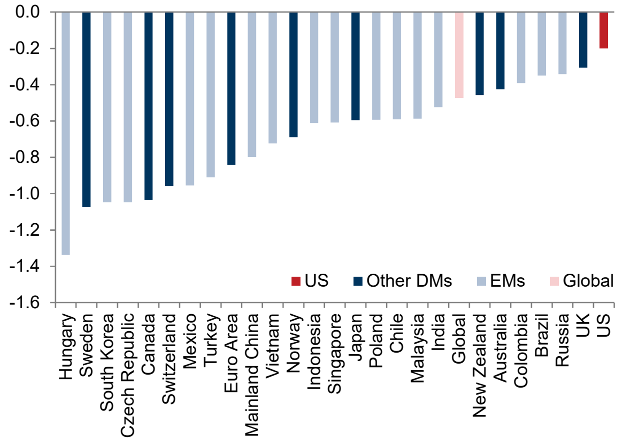
A 25% North America tariff would weigh more significantly on Mexican and Canadian growth, with Mexico in particular experiencing a significant growth hit

Est effect of a 25% North America tariff on GDP, %



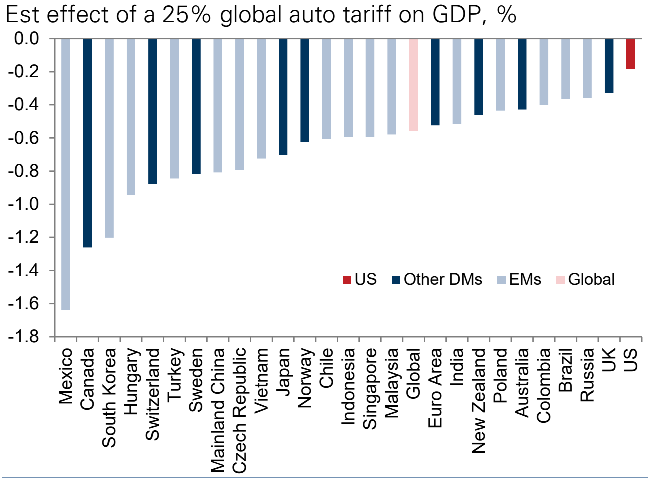
Similarly, a 25% tariff on the EU would create larger growth headwinds for the Euro area and central Europe

Est effect of a 25% EU tariff on GDP, %



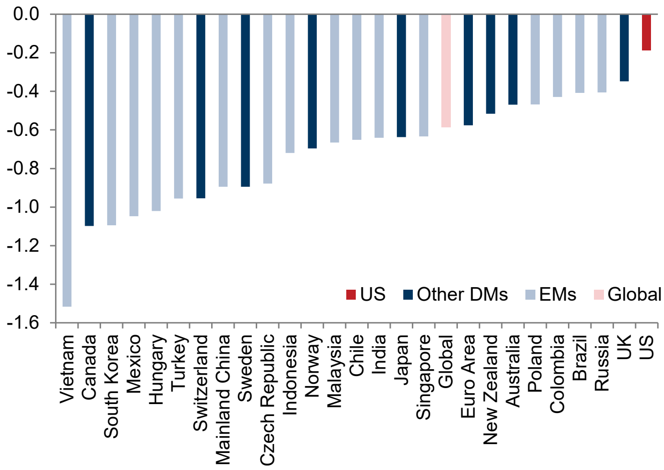
Mexico, Canada, and Korea are particularly exposed to a 25% global auto tariff, and as such, would see larger growth hits

Est effect of a 25% global auto tariff on GDP, %



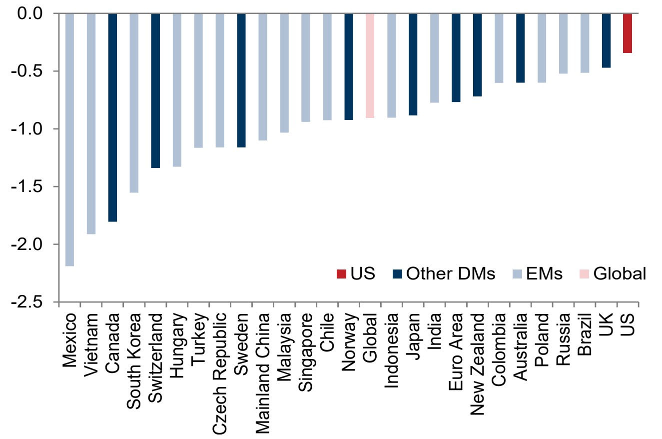
Reciprocal tariffs would have the largest incremental growth impact on Vietnam and Hungary relative to our baseline

Est effect of reciprocal tariffs on GDP, %



A 10% universal tariff would have the most significant impact on global growth, roughly doubling the overall hit to global GDP relative to our baseline

Est effect of a 10% universal tariff on GDP, %

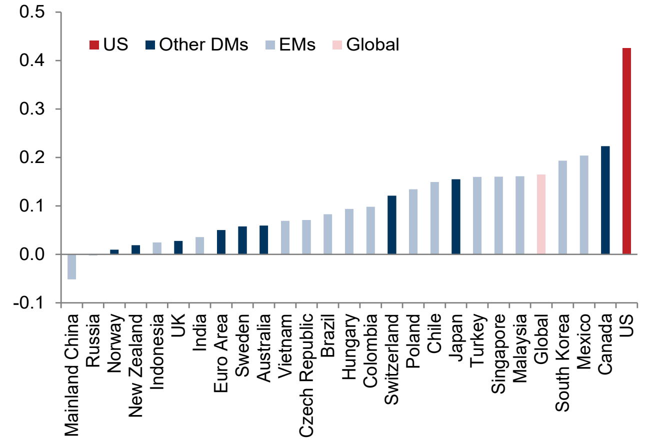


...and inflation impacts of tariffs

However, the inflation impacts of US tariffs will likely be more significant in the US, with more muted price impacts in non-US economies. In most tariff scenarios, our Global Economics team estimates that the boost to prices outside the US would generally be less than 0.2% and average to near-zero on a global ex-US basis. And tariffs would actually *weigh* marginally on prices in China.

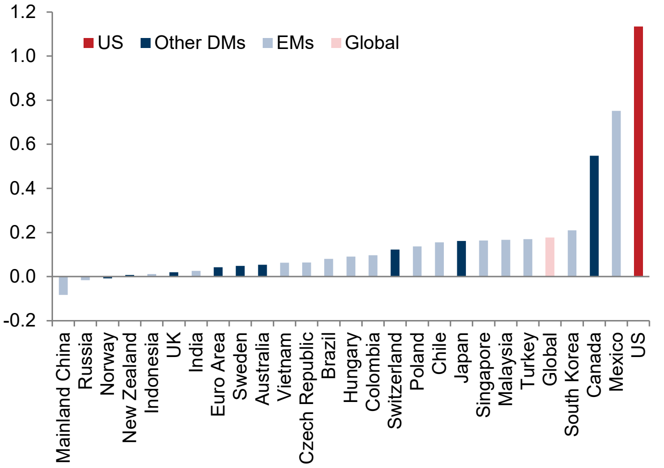
Under our baseline tariff scenario, we estimate that tariffs will raise US prices by around 0.4pp, with much more muted inflation impacts outside the US

Est effect of GS baseline tariff expectations on prices, %



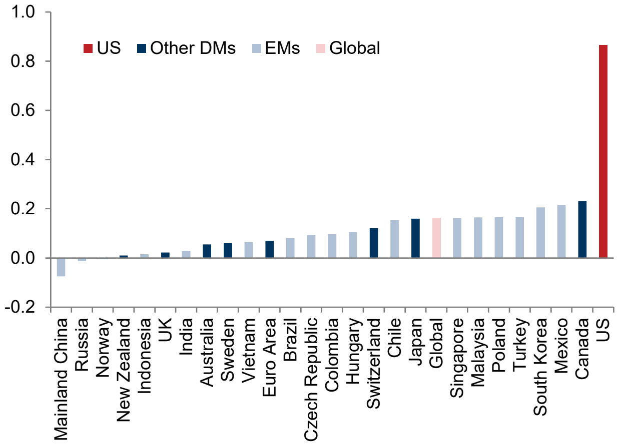
However, a 25% North America tariff would result in moderate prices increases in Canada and Mexico

Est effect of a 25% North America tariff on prices, %



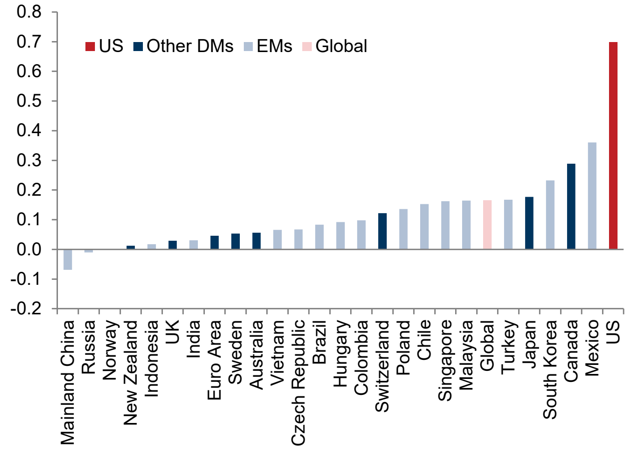
A 25% EU tariff would not have material price implications for the region, with the US, again, seeing a larger inflation effect

Est effect of a 25% EU tariff on prices, %



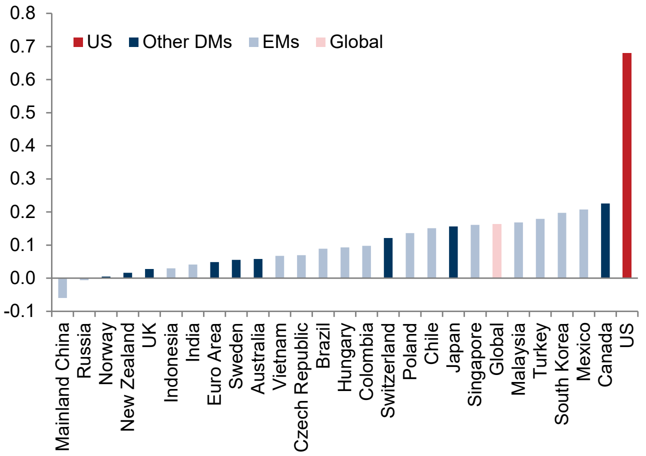
Mexico, Canada, and Korea are, again, particularly exposed to an auto tariff, and so would see somewhat larger price impacts

Est effect of a 25% global auto tariff on prices, %



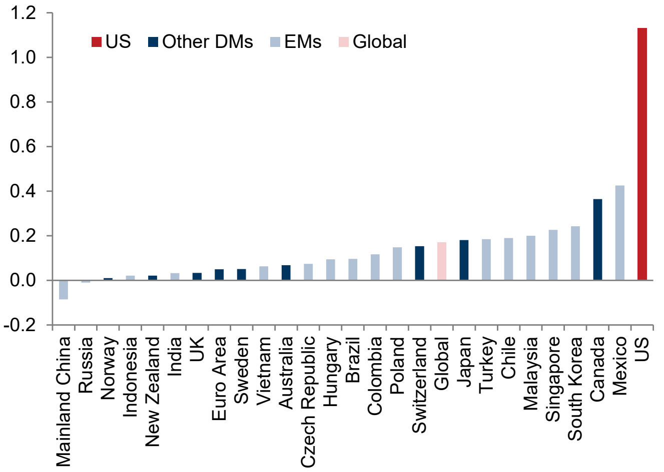
The inflationary impacts of reciprocal tariffs would follow a similar pattern, although the effects would be slightly larger than in our base case

Est effect of reciprocal tariffs on prices, %



A 10% universal tariff would have the largest impact on US inflation, with a >1% boost to prices, although the global average would remain relatively small

Est effect of a 10% universal tariff on prices, %



Note: Our baseline assumes the already-implemented 10pp tariff rate increase on Chinese imports, announced tariffs on aluminum and steel, an additional 10pp tariff rate increase on China, a 25pp tariff rate increase on EU autos, and a 10pp tariff rate increase on critical imports.
Source for all charts: Goldman Sachs GIR.

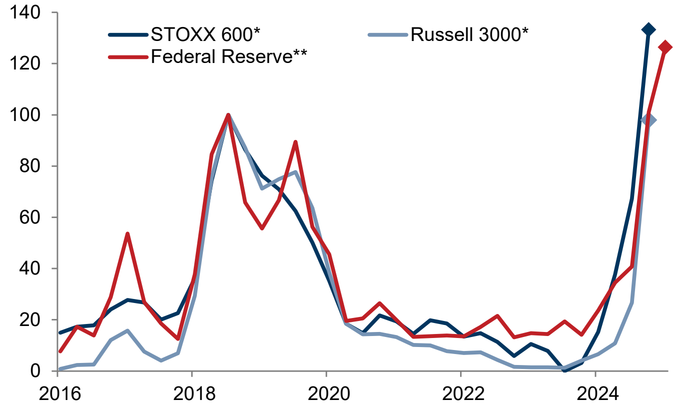
Uncertainty is the only certainty

Joseph Briggs argues that the sharp rise in trade policy uncertainty from Trump's tariff volley could damage global growth

In addition to implementing tariffs on China and announcing steel and aluminum tariffs, President Trump has floated a broad range of tariff policies, including reciprocal tariffs and tariffs on "critical" goods, global autos, Canada, Mexico, and the EU, as well as further China tariffs and a 10% "global" tariff on all US imports. While we think it is unlikely that all of these proposals will be implemented and include a narrower—albeit still meaningful—set of tariffs in our baseline, the large number of potential policy changes raises significant uncertainty around President Trump's trade agenda. Trade policy uncertainty indices have therefore unsurprisingly risen sharply in recent weeks. But even if Trump delivers a more benign set of tariffs than his recent proposals imply, history suggests that the sharp rise in trade policy uncertainty could damage global growth.

Trade policy uncertainty has risen sharply

Trade policy uncertainty based on indices, % of 2018 peak



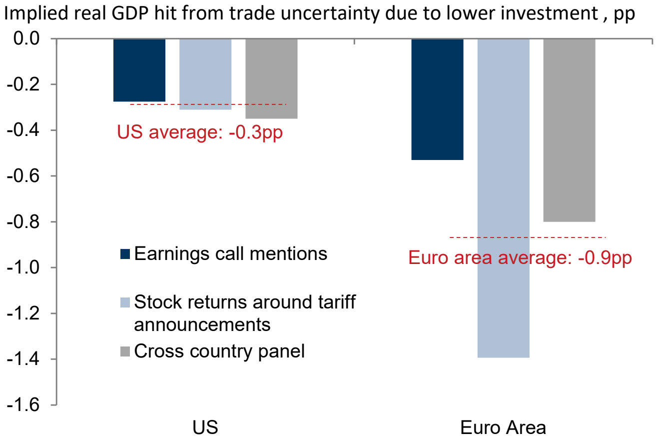
Note: Indices are normalized so that 0 corresponds to the sample minimum and 100 to the 2018 peak; data through 4Q24.
**Share of companies mentioning tariffs or trade policy in their earnings calls.*
***Fed index created by Caldara, Iacoviello, Molligo, Prestipino, Raffo (2020).*
Source: Bloomberg, Federal Reserve, Haver Analytics, Goldman Sachs GIR.

Lessons from history...

Much of the growth hit from trade uncertainty arises from its impact on investment as companies delay investments until the policy outlook becomes clearer.

Trade uncertainty weighed on growth in 2018-2019, particularly in the Euro area

Implied real GDP hit from trade uncertainty due to lower investment , pp



Source: Goldman Sachs GIR.

During the 2018-2019 trade war, we found that mentions of trade uncertainty on public company earning calls as well as moves in stock prices around tariff announcements predicted a drag on investment. And, looking across countries prior to the 2018-2019 trade war, we also found that a rise in the Fed's global trade policy uncertainty index has predicted an investment drag in export-oriented economies. Taken together, we estimate that a rise in trade policy uncertainty as large as the increase observed during the 2018-2019 trade war could lower GDP growth by around 0.3pp in the US and by a more significant 0.9pp in the Euro area, with other major exporters likely experiencing similarly large drags.

...suggest a trade uncertainty growth drag

Given the rise in trade policy uncertainty over last few months, it seems likely that a similar dynamic will repeat in 2025-2026. In fact, a drag on investment from trade policy uncertainty accounts for most of the negative growth impact that we expect from Trump's tariff proposals.

However, the good news is that any growth hit from trade policy uncertainty is likely capped at a certain level. This reflects the fact that uncertainty mostly delays investment—rather than deters it, as an actual policy change would—and the marginal hit to investment from increased uncertainty diminishes sharply as uncertainty rises to very high levels. Investment by export-focused manufacturers also accounts for only 0.5-1.5% of GDP in most DM countries, which should contain the growth hit even if trade policy uncertainty increases significantly.

But the bad news is that a drag from uncertainty could materialize even if Trump delivers a more benign set of tariff increases than his recent proposals would suggest.

Limited early evidence of a growth drag

So far, little concrete evidence exists of trade policy uncertainty weighing on investment and growth. Business sentiment and manufacturing business surveys have improved since the US election, particularly in the US, where our manufacturing survey tracker rose by four points to 53.5 in January. These dynamics likely reflect the growth positive aspects of Trump's agenda—namely, deregulation—as well as some frontloading of imports and investment before tariffs materialize.

However, while sentiment and survey data have yet to reflect much evidence of an uncertainty drag, some early signs of tariff impacts on investment have emerged elsewhere. As recently noted by our US economists, equity analyst expectations for 2025 capex were revised up 5% for S&P 1500 companies in aggregate over the last quarter but were only revised up by 2% for a basket of companies with broad exposure to tariffs, and were revised *down* by 1% for companies with a high exposure to Canada, Mexico, and China. These patterns provide early evidence that trade policy uncertainty will likely create a headwind to global growth in 2025, particularly if tariff proposals continue at the same pace as in recent weeks.

Joseph Briggs, Senior Global Economist

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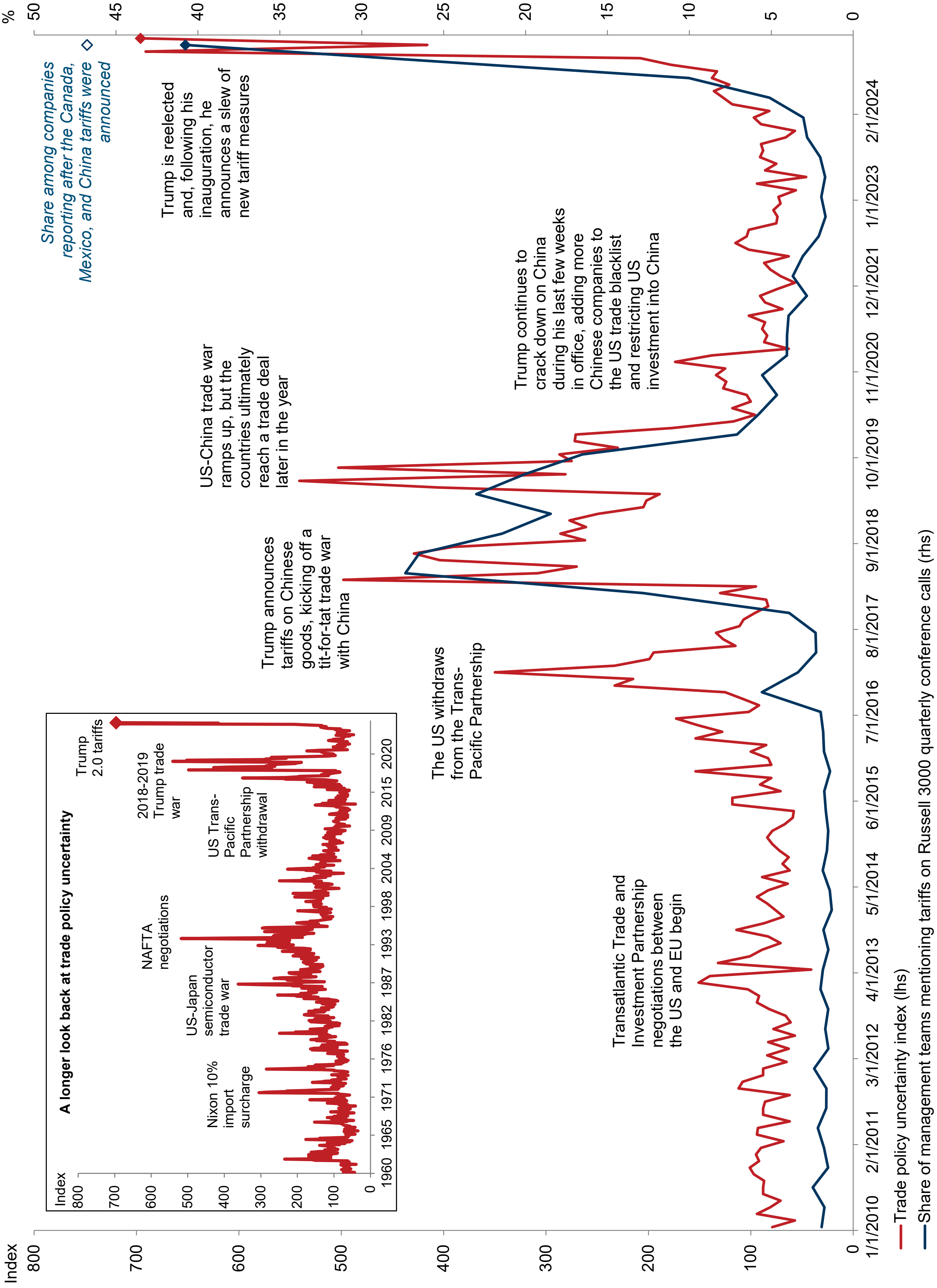
Trade policy (uncertainty) in focus



Source: Caldara, Iacoviello, and Molligo, GS Dataworks, Goldman Sachs GIR.

Special thanks to GS US Senior Economist Ronnie Walker for chart.

What are companies saying about tariffs?

Management commentary on tariffs, 2024Q4 earnings season	
Company	**Comment**
Some companies may delay capex until there is greater certainty about potential tariffs	
General Motors	What we won't do is spend a large amount of capital without clarity [about potential tariffs].
Three Part Advisors	Some of these projects are dependent on both the cost of the capital, but also tariffs could impact supply cost of steel. So you now have some projects [where] the escalator clauses are being negotiated.
Aptiv	We believe it's prudent to include additional conservatism for North American vehicle production in our current outlook for 2025 …. [Tariffs] introduce a certain amount of uncertainty into the system, which, in our view, will affect supply chains and when it affects supply chains, it will affect production.
Ryder System	There's still some concern out there from the customer base on, one, what you're seeing from tariffs and uncertainty around that and then still uncertainty in the general economic environment, which I think is still continuing to cause delays.
CleanSpark	So I think there's going to be a potential barrier to growth for some of the smaller scale miners…but we'll see what happens with the tariffs, and we'll react accordingly.
Pilgrim's Pride	I think there's still a lot of uncertainty about if, when and where the tariffs will be in place. And also what would be the answer from the trading partners?
W.W. Grainger	The uncertainty of the tariffs is still pretty strong.
Coty	In this varying macro environment, [which includes] potential tariff wars...we think that it is no longer prudent to put specific sales growth targets.
Zebra Technologies	This uncertainty is not helping because our customers are focused, as we are, on things like, "what happens if" and "how do I go mitigate tariffs" and other [things] as opposed to finalizing projects specifically with us.
Companies plan to pass along costs to consumers to the extent possible	
AMETEK	We plan to pass on the cost impact of the tariffs, if the tariffs get enacted, to our customers, as we have done previously.
Cardinal Health	If there are widespread tariffs, anywhere from the 10% to 25% range, I anticipate there will be corresponding price increases. We will do what we can to minimize those, but with 1% to 2% margins, we will not absorb whatever impacts are left.
Corning	We certainly have the ability to raise price if that is something that is required to do.
W.W. Grainger	Depending on what happens in the marketplace, the competitive environment, we would typically try to pass on and keep the same margins in what we pass on.
Jabil	While tariffs impact end customer demand, any changes in tariff costs have historically been largely a pass-through cost for Jabil.
Marathon Petroleum	We think it's likely if tariffs will be put in place...that we would see cost increases. We believe that the majority of that will ultimately be borne by the producer and then, frankly, to a lesser extent, the consumer.
Limited plans to reshore production but many examples of frontloading imports ahead of tariffs	
Leggett & Platt	Our teams continue to analyze multiple tariff scenarios, are qualifying alternative suppliers, and are evaluating potential geographic shifts in production.
Taylor Morrison Home	Given the steps we have taken to...reshore products and strengthen our supply chain resiliency in recent years, we believe we are prepared for any potential disruptions.
Fastenal	We accelerated some inventory ceded for future delivery into current periods ahead of potential new tariffs.
MSC Industrial	We've taken a series of actions including stocking inventory of our highest turned products that would be impacted by tariffs.
Costco Wholesale	We have a plan [to mitigate the impact of tariffs] and typically we'll look where we can to pull forward inventory buying.
3M	We...saw modest front loading from an anticipated change in tariffs.
Zebra Technologies	Our teams are doing everything they can to pull volume in from a purchasing perspective and get that inventory into the US as early as possible ahead of potential tariff impact.

Source: Company data, Data compiled by Goldman Sachs GIR.

Special thanks to GS US Senior Economist Ronnie Walker for table, which originally appeared in a Feb 17 US Economics Analyst.

Tariffs & markets: lessons learned so far

Kamakshya Trivedi discusses four lessons from market responses to the tariff developments of the past month

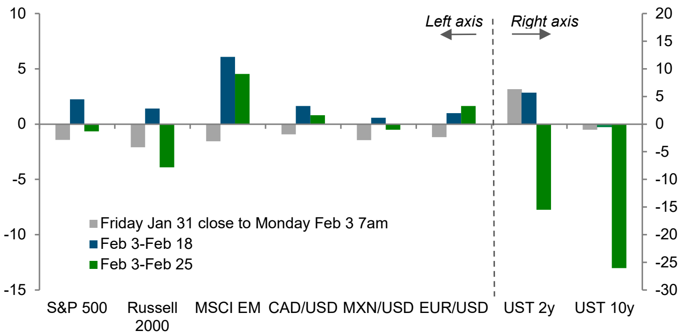
In the short time since his inauguration, President Trump has implemented an additional 10% tariff on China, threatened several other tariffs (on Mexico, Canada, and autos), and floated a variety of tariff proposals (universal, reciprocal, and critical imports tariffs). Asset markets' response to these developments provides four key lessons on how markets are thinking about tariff risks and where opportunities may lie.

1. Tariffs have meaningful market impacts... Currencies are the most obvious place to see this, because tariffs have a strong, direct, and unambiguous impact on exchange rates, unlike other asset classes. While several channels are at work, flexible exchange rates essentially help offset the tariff-driven shift in the relative cost of doing business. Consistent with this, and despite a highly overvalued Dollar coming into the year, the Dollar immediately and significantly strengthened when 25% tariffs on Canada and Mexico—two of the US' most important trading partners—were perceived as imminent. Beyond the Dollar strengthening on a broad basis, including versus the Euro as Europe was perceived as next in line as a tariff target, the yield curve also flattened as markets priced in a higher initial inflation shock and lower growth down the line, and US and global equities fell sharply.

2. ...but if deep tails don't materialize, scope exists for relief, especially in non-US assets. Equity markets recovered swiftly once it became evident that deep tariff tail risks were not imminent, although have given back some gains as US growth concerns have emerged. But the market response to recent threats of reciprocal and critical imports tariffs and upcoming deadlines has also been more muted than to the earlier Canada and Mexico tariffs, partly because of the long lead time on any action and skepticism about implementation owing to the Canada and Mexico postponement experience. The still broadly benign global macro backdrop of moderate growth and slowly cooling inflation points to higher equities, especially if the worst tariff tail risks are avoided. That is particularly true for non-US equities (Europe and China), as well as currencies where deep tariff risks are more priced in and starting valuations are less challenging, such as the Mexican Peso and (to a more limited extent) the Chinese Renminbi.

Equity markets recovered swiftly when deep tariff tail risks didn't immediately materialize, but have since given back some gains

% (lhs), bp (rhs)

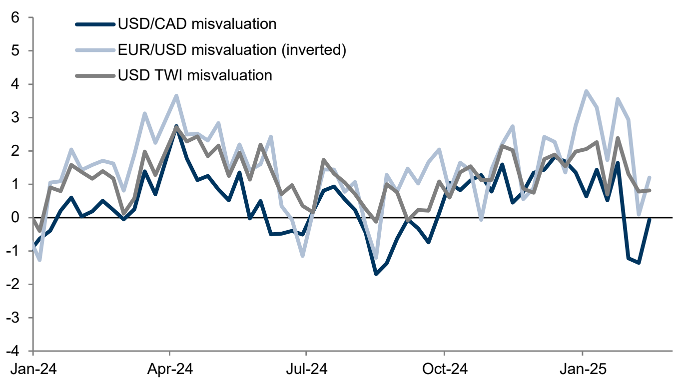


Source: Bloomberg, Goldman Sachs GIR.

3. Tariff risk premium in currencies has ebbed, creating opportunities to reset Dollar hedges... The repeated delays in the implementation of threatened tariffs means that the risk of a repeat of the 2017 experience is rising. The first year of the previous Trump Administration saw little actual change in trade policy despite similar threats, leading to one of the most significant Dollar drawdowns in the post-Global Financial Crisis period. Market pricing has moved in the same direction this time around: the pullback in key Dollar crosses and the broad Dollar itself since early February now suggests little or no embedded tariff tail risk premium. Tariffs did ultimately materialize in the second year of the first Trump Administration in 2018 and went on to boost the Dollar. And despite the false starts, our economists still expect additional 10% tariffs on China plus tariffs on critical imports and European autos ahead (see pgs. 8-9). Should these or bigger tariffs—including reciprocal or universal tariffs—materialize in coming months, we would expect the Dollar to march higher again. Since that tariff tail risk now looks underpriced and is a key risk to multi-asset or long equity risk portfolios, we see good opportunities to reset hedges in EUR/USD downside or USD/CAD upside.

FX markets are now embedding little to no tariff tail risk premium

%



Source: Goldman Sachs FICC and Equities, Goldman Sachs GIR.

4. ...but inflation risk is still embedded in front-end rates. In contrast to currencies, rates markets have continued to reflect the risk of somewhat higher inflation than our forecasts in the front-end of rate curves, even as we too have moderately raised our inflation forecasts on tariff developments. That said, we don't view market pricing as unreasonable given the significant uncertainty about trade policy, which also makes it easy to envision that the Fed could continue to delay rate cuts in the coming months. As such, we think more attractive opportunities lie further out the curve. Despite the recent shifts, the market could move further to price rate cuts beyond late 2025. By then, the inflation impacts of tariffs will likely have dampened, ceding prominence to any downside growth effects, while a new Trump-appointed Fed chair will likely be an increasingly imminent reality. Valuation considerations and high Treasury term premia also still support the case for US (and European) duration as a hedge, even if our benign growth baseline does not argue for a very deep rally from current levels.

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Tariffs and commodity dominance

Daan Struyven assesses how President Trump's quest for US commodity dominance could impact commodity markets

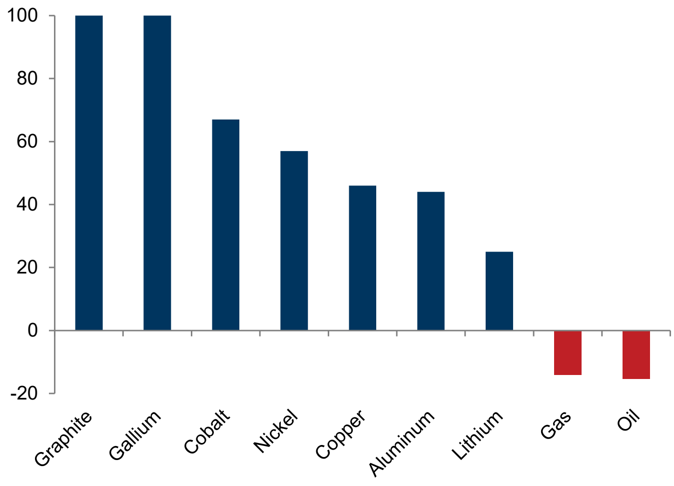
Commodities are front and center in Trump's trade and foreign policies as his Administration pursues US commodity dominance, spurred in large part by economic and geopolitical competition with China. Such a paradigm envisions affordable US energy prices, higher US output in the old (e.g., oil and manufacturing) and new economy (e.g., power, metals, and AI), and US military and geopolitical dominance. Trump has already taken several steps toward this goal, with tariffs in particular playing a central role. While we don't expect a significant near-term impact on commodity prices or supply from this commodity dominance agenda, we believe it has the potential to boost US energy/metals production over the longer run.

China competition in the driver's seat

Economic and geopolitical competition with China is likely a major driver of Trump's US commodity dominance agenda as the Administration aims to expand the US' oil and gas trade surplus—a source of geopolitical power—while reducing its reliance on imports of several critical metals for which China often dominates the supply chain.

The US Is a dominant net oil and natural gas exporter, but relies on imports for several critical metals

US net import reliance, % of apparent consumption* in 2023



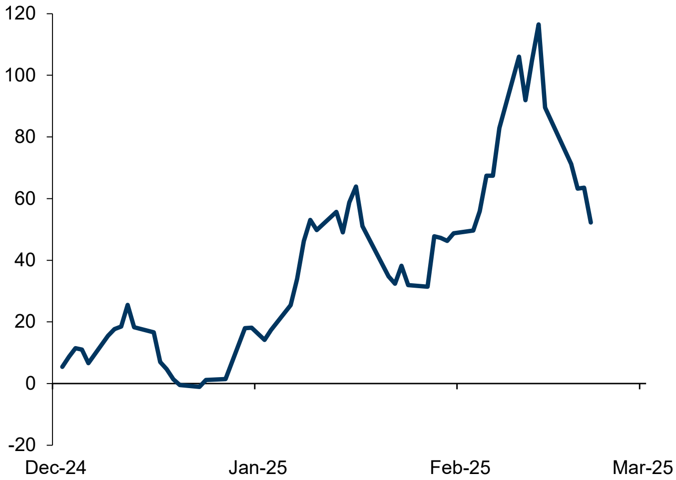
*Net imports plus production.
Source: Haver Analytics, EIA, Goldman Sachs GIR.

Off to the (commodity) races

As part of this agenda, Trump recently signed an Executive Order establishing a National Energy Dominance Council within the Executive Branch to advise him on the best policies for making the US energy dominant. Trump has also raised the tariff on aluminum imports from 10% to 25%, removed all exemptions to the 25% tariff on steel imports that he imposed during his first term, and, more recently, directed his staff to launch an investigation into copper imports, which could ultimately lead to tariffs on the metal. The Administration has also floated tariffs on other critical imports—including energy—as well as a universal tariff on all oil and gas imports. While such tariffs remain uncertain, commodity markets continue to price substantial tariff risk premia across copper, Canadian crude oil, and US refined oil products.

The copper market…

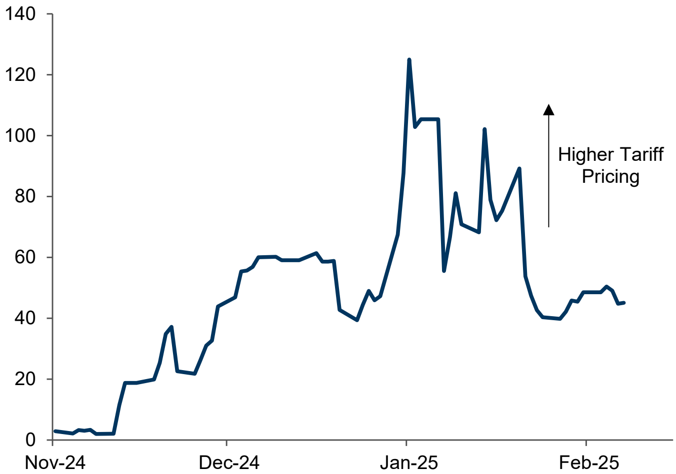
Market-implied probability of a 10% tariff on copper, %



Source: Goldman Sachs GIR.

…and Canadian crude market are pricing substantial tariff premia

Market-implied probability of a 10% tariff on Canadian oil, %



Source: Goldman Sachs GIR.

Trump has also sought deals with US trading partners to increase US energy exports as well as to expand the US' access to critical minerals supplies. On the energy exports front, Trump has urged Europe to buy more US oil and gas as a way to avoid tariffs, signaled a deal with India to buy more US energy and military equipment, and said he's "taking back" the Panama Canal—a key transit point for US liquefied natural (LNG) and petroleum (LPG) gas. On the critical minerals front, Trump recently secured a deal with Ukraine granting the US access to a share of the country's mineral deposits, although the final details of the deal have yet to be released. Trump has also expressed interest in gaining control of Greenland, which has some critical minerals reserves, and Canadian Prime Minister Justin Trudeau has also suggested that Trump's interest in Canada is related to the country's supply of critical minerals.

Three takeaways

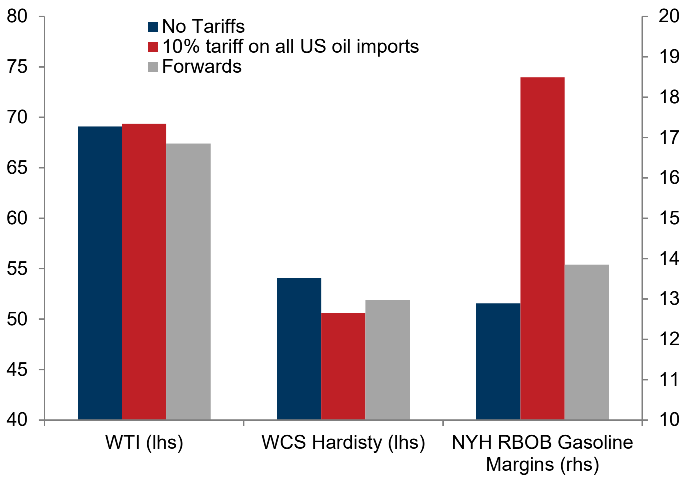
We see three main implications from policy shifts toward US commodity dominance:

First, **tariffs should raise US metals prices**, as we expect significant pass-through from the 25% tariff on steel and aluminum to US end-prices, assuming no significant exemptions are put in place. Specifically, we estimate that the US Midwest aluminum premium—a delivery premium paid on top of the LME price—will rise to 50c/lb ($1,036/t) by the end of Q1 from an average of 24c/lb ($529/t) in January 2025.

Second, **oil price impacts should remain limited**. While Trump has also floated a 10% oil tariff, we expect the price impact of such a tariff to be more muted as US refiners' preference for heavy oil limits any increase in demand for these light crude products, with WTI and Brent crude prices rising by only $0.5/bbl. And while the cost of refined oil products would rise, the magnitude would be modest at around $170 per household per year.

The oil price impact of a 10% tariffs on all US oil imports should remain limited

2026 average energy prices under tariff scenarios, $/bbl

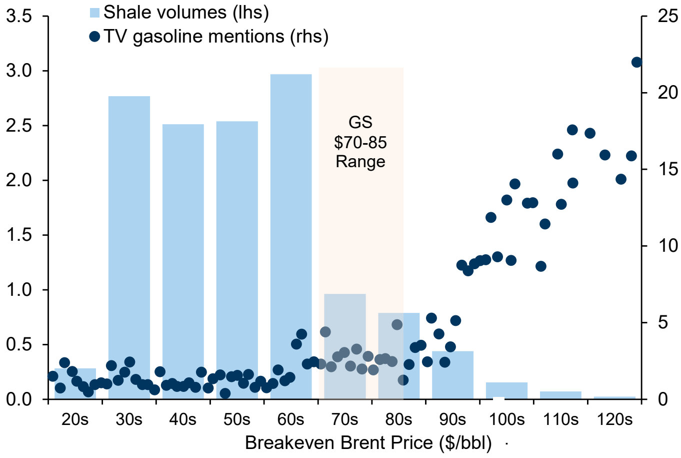


Source: EIA, Kpler, Goldman Sachs GIR.

On net, the US Administration's dual goals of commodity dominance and energy affordability reinforce our Brent $70-85 range baseline. We find that Brent prices above $70/bbl support solid growth in marginal US supply as it exceeds most US shale producers' breakeven price while Brent prices below $85/bbl keep gasoline prices below $3.50/gallon, the level at which public concern about prices begins to rise.

Brent prices in the $70-85 range are conducive to solid US supply growth and prevent elevated public focus on high gasoline prices

US shale production (lhs, mb/d) and US TV mentions of gasoline prices (rhs, % of transcripts) vs. breakeven Brent prices



Note: We derive implied Brent prices from our US retail gasoline pricing model which assumes taxes and marketing margins are fixed but that refining margins scale linearly with Brent crude prices.
Source: Woodmac, IEA, Cummings et al (2024), Goldman Sachs GIR.

Third, we estimate **a limited boost to US energy and metals supply from tariff policies in the short run, but a potentially bigger boost to supply from dominance policies over the longer run**. On the energy front, we find that market prices and capital availability drive US oil and gas production in the short and medium run with limited effects from greater federal land/water availability for drilling or from the restart of the approval process of proposed US LNG export projects.[1] And given the likely modest effect on WTI crude prices as well as many US refiners' preference for heavy oil over the light oil the US produces, we find that a 10% tariff on oil imports would not significantly boost US oil production.

Similarly, on the metals front, we don't expect large boosts to US production from the 25% steel and aluminum tariffs. While the imposition of a 25% tariff on steel imports and a 10% tariff on aluminum imports in early 2018 was associated with the largest annual increase in US steel production since 2011 and in primary aluminum production since 2012, the difficultly in securing long-term competitive power contracts will likely keep the two idle US aluminum smelters offline.

That said, many of the Administration's commodity-related measures are infrastructure related, which suggests longer-term support to commodity supply, including from faster permitting for pipeline buildouts as well as reduced mining regulatory restrictions.[2] The Administration could also undertake more significant and sustained policy shifts, especially in certain sectors that China has traditionally dominated—including processing critical minerals, solar panels, and electric vehicles (EVs)—which would also suggest upside risk to US production over the long run.

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[1] We have not changed our US LNG exports through 2027 view as financing often requires long-term contracting in addition to approval, the lead time required in construction is long, and we don't view the approval pause as a long run restriction.
[2] While the Trump Administration may permit the Rio Tinto Resolution mine, the large 500kt per year operation would likely not be operational until the early 2030s.

Four decades of Trump on trade

"What's unfortunate is that for decades now [the Japanese] have become wealthier in large measures by screwing the United States with a self-serving trade policy that our political leaders have never been able to fully understand or counteract."

- *The Art of the Deal, 1987*

"I'm not an isolationist... I think that you have to be treated fairly by other countries. If other countries aren't going to treat you fairly... they should suffer the consequences."

- *Interview with CNN's Larry King, 1999*

"We've fallen into the habit of mistaking the easy availability of cheap, sweatshop-produced product for solid and sustainable economic stability...What I would do if elected president would be to appoint myself U.S. trade representative... Our trading partners would have to sit across the table from Donald Trump and I guarantee you the rip-off of the United States would end."

- *The America We Deserve, 2000*

"Hillary Clinton unleashed a trade war against the American worker when she supported one terrible deal after another, from NAFTA, to China, to South Korea... A Trump administration will end that war by getting a fair deal for the American people and the American worker. The era of economic surrender will finally be over."

- *Speech in Pennsylvania, 2016*

"We can no longer tolerate these chronic trade abuses, and we will not tolerate them. Despite years of broken promises, we were told that someday soon everybody would behave fairly and responsibly. People in America and throughout the Indo-Pacific region have waited for that day to come. But it never has, that is why I am here today..."

- *Remarks at APEC CEO Summit, 2017*

"Billions of Dollars are pouring into the coffers of the U.S.A. because of the Tariffs being charged to China, and there is a long way to go. If companies don't want to pay Tariffs, build in the U.S.A. Otherwise, lets just make our Country richer than ever before!."

- *Tweet, 2018*

"President McKinley made our country very rich through tariffs and through talent."

- *Inaugural Address, January 2025*

"Will there be some pain? Yes, maybe (and maybe not!). But we will make America great again, and it will all be worth the price that must be paid."

- *Truth Social post in response to threatened tariffs against Canada, Mexico, and China, February 2025*

"On trade, I have decided for purposes of fairness, that I will charge a reciprocal tariff—meaning that whatever countries charge the United States of America, we will charge them no more, no less... In almost all cases, they are charging us vastly more than we charge them, but those days are over."

- *White House remarks, February 2025*

Source: The White House, The America We Deserve, various speeches and interviews, X, Truth Social, compiled by GS GIR.

Summary of our key forecasts

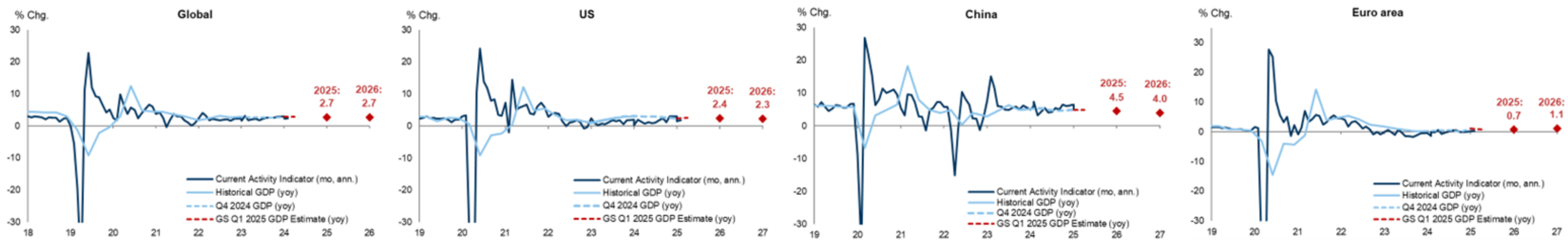
GS GIR: Macro at a glance

Watching

- **Globally,** we expect solid real GDP growth of 2.7% yoy in 2025, reflecting tailwinds from real disposable household income growth and easing financial conditions, with US growth likely to continue outpacing its DM peers given its significantly stronger productivity growth. We expect global core inflation to fall gradually to 2.6% yoy by end-2025 on the back of a further decline in shelter inflation and steady wage disinflation but a moderate boost from US tariffs, before converging to target across DMs by end-2026.
- **In the US,** we expect modestly above-consensus real GDP growth of 2.4% yoy in 2025 on a Q4/Q4 basis, reflecting continued healthy consumption growth supported by solid real income growth as well as strong residential and business fixed investment. We expect core PCE inflation to remain relatively steady this year and end the year at 2.5% as further disinflation from rebalancing in the auto and housing rental markets is offset by a moderate boost from higher tariffs. We expect the unemployment rate to stand at 4.0% by end-2025.
- **We expect the Fed** to deliver two 25bp cuts this year, in June and December, followed by another 25bp cut in June 2026 to a terminal rate range of 3.5-3.75%, although we view further Fed cuts this year as a very close call. On balance sheet policy, we expect the Fed to slow the pace of balance sheet runoff in May and to end runoff at the end of Q3.
- **In the Euro area,** we expect below-consensus real GDP growth of 0.7% yoy in 2025, reflecting continued structural headwinds in the manufacturing sector, trade policy uncertainty, and ongoing fiscal consolidation, although we expect growth to improve further out bringing real GDP growth to 1.1% in 2026. We expect core inflation to return to 2% sustainably by end-2025 amid a further cooling in services inflation, although we expect headline inflation to remain slightly above target for the entirety of 2025.
- **We expect the ECB** to continue delivering sequential 25bp cuts until the policy rate reaches 1.75% in July 2025.
- **In China,** we expect real GDP growth to slow to 4.5% yoy in 2025 as the significant step-up in policy easing measures only partially offsets weak domestic consumption, the ongoing property market downturn, and higher US tariffs. Over the longer term, we remain cautious on China's growth outlook given several structural challenges, including deteriorating demographics, a multi-year debt deleveraging trend, and global supply chain de-risking.
- **WATCH US POLICY AND GEOPOLITICAL DEVELOPMENTS.** Uncertainty about US policy remains high, and we think the risks are tilted toward higher tariffs, which could have significant US growth and inflation impacts with larger growth drags in Europe and China. Geopolitical developments also remain important to watch as conflict in the Middle East continues, US-China relations continue to be fraught, and a potential resolution to the Russia-Ukraine war remains highly uncertain.

Goldman Sachs Global Investment Research.

Growth



Source: Haver Analytics, Goldman Sachs Global Investment Research.
Note: GS CAI is a measure of current growth. For more information on the methodology of the CAI please see "Improving Our Within-Month CAI Forecasts," Global Economics Comment, Mar. 06, 2023.

Forecasts

Economics

GDP growth (%)	2025 GS (Q4/Q4)	2025 Cons. (Q4/Q4)	2025 GS (CY)	2025 Cons. (CY)	2026 GS (CY)	2026 Cons. (CY)
Global	2.4	--	2.7	2.6	2.7	2.6
US	2.4	2.0	2.4	2.3	2.3	2.0
China	3.9	4.1	4.5	4.5	4.0	4.2
Euro area	0.7	1.0	0.7	0.9	1.1	1.2

Policy rates (%)	2025 GS	2025 Mkt.	2026 GS	2026 Mkt.
US	3.88	3.76	3.63	3.60
Euro area	1.75	1.84	1.75	1.94
China	1.10	0.79	0.90	--
Japan	0.75	1.00	1.25	1.08

Markets

Interest rates 10Yr (%)	Last	E2025	E2026	FX	Last	3m	12m
US	4.30	4.35	4.45	EUR/$	1.05	1.00	0.97
Germany	2.43	1.90	2.00	GBP/$	1.27	1.23	1.20
Japan	1.38	1.60	2.00	$/JPY	149	160	162
UK	4.50	4.00	4.00	$/CNY	7.23	7.40	7.50

Commodities	Last	3m	12m	Credit (bp)		Last	2Q25	4Q25
Crude Oil, Brent ($/bbl)	73	80	76					
Nat Gas, NYMEX ($/mmBtu)	4.17	3.50	4.15	USD	IG	82	83	85
Nat Gas, TTF (EUR/MWh)	43.60	50	36		HY	277	290	300
Copper ($/mt)	9,364	9,600	10,700	EUR	IG	99	121	125
Gold ($/troy oz)	2,933	2,930	3,160		HY	281	338	350

Equities

S&P 500	E2025 GS	E2025 Cons.	E2026 GS	E2026 Cons.	Returns (%)	12m	YTD	E2025 P/E
Price	6,500				S&P 500	9	1.3	22.4x
EPS	$268	$270	$288	$308	MXAPJ	9	3.5	14x
Growth	11%	10%	7%	14%	Topix	14	-2.2	14.8x
					STOXX 600	5	9.2	14.4x

Consumer	2025 CPI (%, yoy)	2025 Unemp. Rate	2026 CPI (%, yoy)	2026 Unemp. Rate	Wage Tracker 2024 (%) Q1	Q2	Q3	Q4
US	2.9	4.0	2.3	3.8	4.4	4.3	4.1	4.0
Euro area	2.5	6.5	2.0	6.6	--	--	--	--
China	0.4	--	1.4	--	--	--	--	--

Source: Bloomberg, Goldman Sachs Global Investment Research. For important disclosures, see the Disclosure Appendix or go to www.gs.com/research/hedge.html.

Market pricing as of February 25, 2025

Glossary of GS proprietary indices

Current Activity Indicator (CAI)

GS CAIs measure the growth signal in a broad range of weekly and monthly indicators, offering an alternative to Gross Domestic Product (GDP). GDP is an imperfect guide to current activity: In most countries, it is only available quarterly and is released with a substantial delay, and its initial estimates are often heavily revised. GDP also ignores important measures of real activity, such as employment and the purchasing managers' indexes (PMIs). All of these problems reduce the effectiveness of GDP for investment and policy decisions. Our CAIs aim to address GDP's shortcomings and provide a timelier read on the pace of growth.

For more, see our CAI page and Global Economics Analyst: Trackin' All Over the World – Our New Global CAI, 25 February 2017.

Dynamic Equilibrium Exchange Rates (DEER)

The GSDEER framework establishes an equilibrium (or "fair") value of the real exchange rate based on relative productivity and terms-of-trade differentials.

For more, see our GSDEER page, Global Economics Paper No. 227: Finding Fair Value in EM FX, 26 January 2016, and Global Markets Analyst: A Look at Valuation Across G10 FX, 29 June 2017.

Financial Conditions Index (FCI)

GS FCIs gauge the "looseness" or "tightness" of financial conditions across the world's major economies, incorporating variables that directly affect spending on domestically produced goods and services. FCIs can provide valuable information about the economic growth outlook and the direct and indirect effects of monetary policy on real economic activity.

FCIs for the G10 economies are calculated as a weighted average of a policy rate, a long-term risk-free bond yield, a corporate credit spread, an equity price variable, and a trade-weighted exchange rate; the Euro area FCI also includes a sovereign credit spread. The weights mirror the effects of the financial variables on real GDP growth in our models over a one-year horizon. FCIs for emerging markets are calculated as a weighted average of a short-term interest rate, a long-term swap rate, a CDS spread, an equity price variable, a trade-weighted exchange rate, and—in economies with large foreign-currency-denominated debt stocks—a debt-weighted exchange rate index.

For more, see our FCI page, Global Economics Analyst: Our New G10 Financial Conditions Indices, 20 April 2017, and Global Economics Analyst: Tracking EM Financial Conditions – Our New FCIs, 6 October 2017.

Goldman Sachs Analyst Index (GSAI)

The US GSAI is based on a monthly survey of GS equity analysts to obtain their assessments of business conditions in the industries they follow. The results provide timely "bottom-up" information about US economic activity to supplement and cross-check our analysis of "top-down" data. Based on analysts' responses, we create a diffusion index for economic activity comparable to the ISM's indexes for activity in the manufacturing and nonmanufacturing sectors.

Macro-Data Assessment Platform (MAP)

GS MAP scores facilitate rapid interpretation of new data releases for economic indicators worldwide. MAP summarizes the importance of a specific data release (i.e., its historical correlation with GDP) and the degree of surprise relative to the consensus forecast. The sign on the degree of surprise characterizes underperformance with a negative number and outperformance with a positive number. Each of these two components is ranked on a scale from 0 to 5, with the MAP score being the product of the two, i.e., from -25 to +25. For example, a MAP score of +20 (5;+4) would indicate that the data has a very high correlation to GDP (5) and that it came out well above consensus expectations (+4), for a total MAP value of +20.

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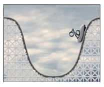
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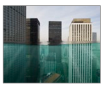
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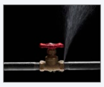
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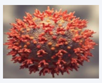
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