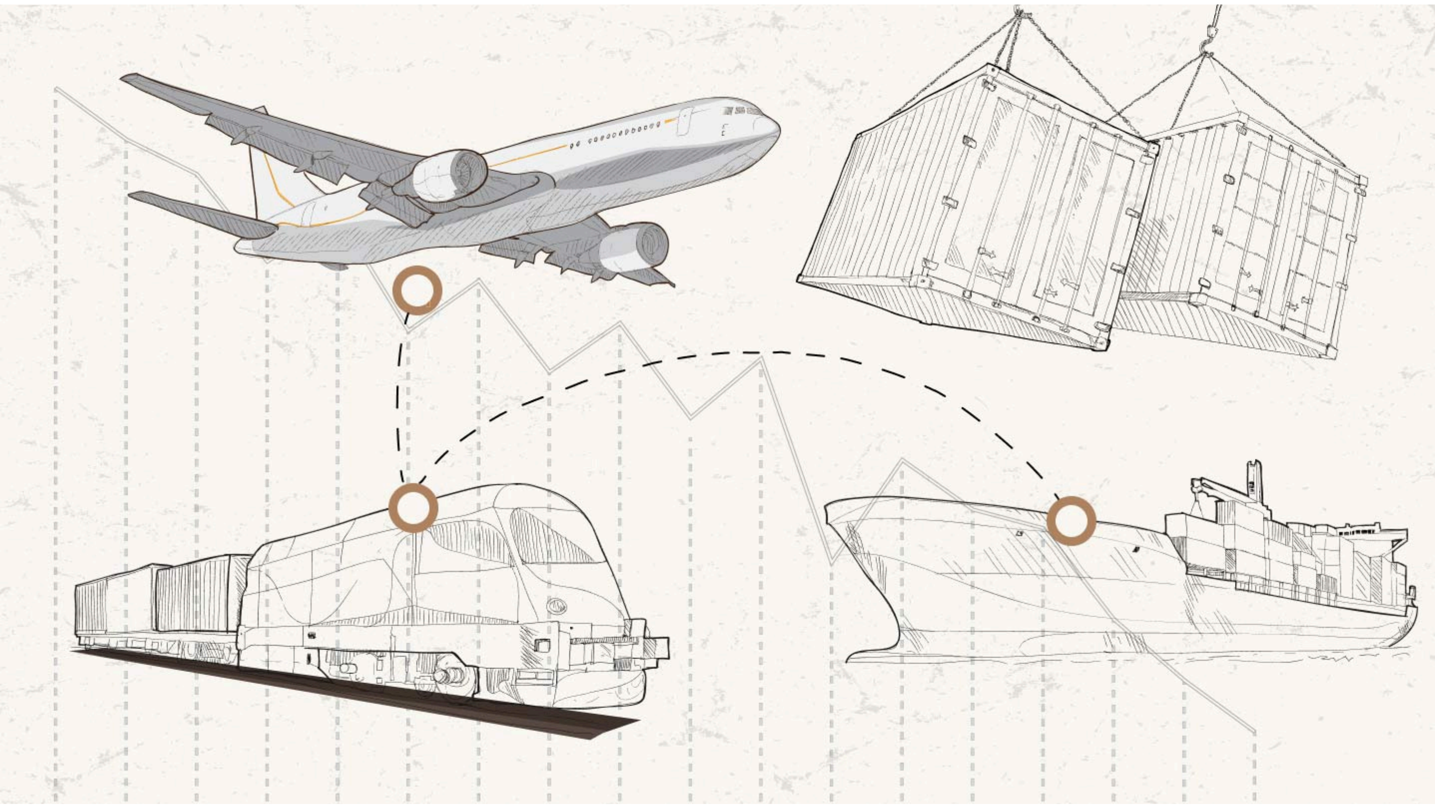
US tariffs: What's the impact on global trade and the economy?

April 02, 2025

J.P. Morgan Research will bring you the latest updates and analysis of President Trump's tariff proposals and their economic impact.



Since taking office, President Trump has announced a growing list of tariffs on specific countries and commodities – a move aimed at protecting American interests. However, their rollout has been marred by delays and reversals, and the situation continues to evolve.

What's the latest on U.S. tariffs, and what's their impact on consumers, markets and the global economy? **Bookmark this page for the latest updates and analysis from J.P. Morgan Research.**

March 27: Auto tariffs could impact growth and inflation

President Trump has announced 25% tariffs on auto and auto parts entering the U.S., which will take effect on April 2. This updated trade policy will likely raise costs for consumers, according to Ryan Brinkman, head of U.S. Autos and Auto Parts at J.P. Morgan. U.S. light vehicle prices could potentially rise by as much as ~11.4% on average under one scenario, should automakers prove successful in passing tariff-related costs along to consumers.

“Under the new scheme, virtually all automakers will face significant pressure to raise prices, making it more likely domestic automakers will be able to effect price increases to better offset tariff costs without the risks of material market share loss,” Brinkman noted.

In response to the auto tariff announcements, J.P. Morgan Research has further revised its growth and inflation forecasts. It now sees a 0.2 percentage point hit to U.S. GDP, which moves its estimate for the year down to 1.3%. Personal Consumption Expenditures (PCE) price inflation for 2025 is expected to climb to 2.7%, up 0.2 percentage points, while core PCE inflation is forecast to increase 0.3 percentage points to 3.1%.

“The worsening growth and inflation outcomes leave the Fed with a challenging dilemma. Absent labor market deterioration, there is a strong case for rates to be on hold indefinitely. However, the more challenging business environment increases the chances of just such a labor market deterioration,” said Michael Feroli, chief U.S. economist at J.P. Morgan. “We hold our call for cuts in June and September and will revisit after next week's jobs report.”

March 14: J.P. Morgan Research revises down U.S. GDP growth based on tariffs

J.P. Morgan Research has lowered its estimate for 2025 real GDP growth due to heightened trade policy uncertainty, the effect of existing tariffs and retaliatory measures by foreign trading partners. Real GDP growth is now expected to be 1.6% for the year, down 0.3% from previous estimates.

“Heightened trade policy uncertainty should weigh on activity growth, particularly for capital spending,” Feroli said. “Plus, tariffs that have already been imposed will create a bump to headline inflation, pushing up consumer prices by 0.2 percentage points. Retaliatory tariffs would also serve to drag on gross export growth.”

March 12: President Trump imposes 25% tariffs on steel and aluminum

The new administration has imposed 25% tariffs on all steel and aluminum imports to the U.S. This could drive up the prices of various goods ranging from autos to canned drinks.

This harks back to 2018, when President Trump imposed 25% tariffs on US$16 billion of imported steel, and 10% tariffs on US$9 billion of imported aluminum, during his first term. The measures at that time led to increased domestic production but also sparked retaliatory tariffs, raising costs and domestic prices for downstream industries.

“The U.S. relies on imports to meet the bulk of its primary aluminum needs and domestic prices have already been adjusting sharply higher in anticipation of the new tariffs,” said Nora Szentivanyi, senior Global Economist at J.P. Morgan.

March 7: The risk of a global recession rises to 40%

J.P. Morgan Research now believes there is a 40% risk of a global recession taking hold this year, up from 30% at the start of 2025. “We see a materially higher risk of a global recession due to U.S. trade policy,” said Bruce Kasman, chief Global Economist at J.P. Morgan. “The administration's shift in the application of tariff policy and the potential impact on sentiment have contributed to this increased risk.”

March 7: Reciprocal tariffs could be substantial if foreign taxes are targeted

Reciprocal tariffs involve equalizing the U.S.'s import tariffs with those imposed by its trading partners. Average tariff rates between the U.S. and other advanced economies are relatively low, so reciprocal tariffs would in theory be small. However, the Trump administration is also considering applying these tariffs against a broader range of foreign taxes – such as value-added taxes and digital services taxes – imposed by other countries on U.S. firms.

The economic impact of applying tariffs in this way would be much more significant as the trading partner's VAT would be added on top of the tariff differential with the U.S. While the rates could be negotiated lower on a country-by-country basis, the shock could still be large in some cases.

"Taken together, reciprocal tariffs levied in this extended way would raise the average U.S. tariff more significantly – by another 12 percentage points to above 20% – and would likely have material consequences for U.S. inflation and growth," Szentivanyi noted.

March 6: Trump pauses tariffs – for now

On March 4, President Trump enacted 25% tariffs on imports from Canada and Mexico, ranging from groceries to electronics. He also doubled the 10% levy on all goods imported from China, which had taken effect on February 4.

On March 5 however, he announced a one-month reprieve for goods traded under the United States-Mexico-Canada Agreement (USMCA), which was negotiated during his first term. This suggests the majority of exports to the U.S. from its North American neighbors will be spared until April 2.

"Our baseline has treated the potential impact of USMCA tariffs as largely transactional, based on our assessment that the economic damage from a meaningful sustained tariff hike would be too large – enough to throw the Mexican and Canadian economies into recession and also seriously damage U.S. growth," Szentivanyi noted. "While the scale and timing of the tariffs remain unclear, we are increasingly concerned about the uncertainty shock to business investment via the sentiment channel and have started to recalibrate our forecasts in response."

February 27: Consumers could face higher prices as a result of tariffs

The impact of tariffs will likely trickle down to the American consumer, who could face higher costs for some imported goods. "At the end of the day, tariffs are a tax on imports. How much this tax raises final consumer prices depends on factors such as the elasticity of demand and the extent of exchange rate movement," said Murat Tasci, senior U.S. Economist at J.P. Morgan. "However, the tax incidence nearly always falls on domestic sellers and consumers, and not foreign producers."

In 2018-2019, Chinese exporters did not meaningfully change their prices in response to U.S. tariffs, even though the CNY depreciated in relation to the USD. Although the inflation impact did not appear significant at that time, studies have since shown that there was a nearly one-for-one rise in import prices, much of which was passed onto consumers.

"That said, President Trump's proposed tariffs are much larger in magnitude and in scope of coverage than the 2018-2019 tariffs, and the inflation backdrop today is materially different," Tasci noted.

February 21: Tariffs rattle business confidence

The February flash services PMI – which provides an estimate of business conditions in the U.S. private sector – slipped below 50 for the first time in two years, suggesting a deterioration in business confidence. In the same vein, homebuilder sentiment has taken a hit, with the overall NAHB housing market index – which tracks the relative level of current and future single-family home sales – falling from 47 to 42 in February.

"As the focus in tariff negotiations looks set to shift from border issues to more structural economic issues, the risk that some tariffs may actually be put in place – and potentially for some time – appears to be drifting up," Feroli said. "Recent declines in sentiment measures and a late-week sell-off in equity markets suggest growing recognition of these risks."

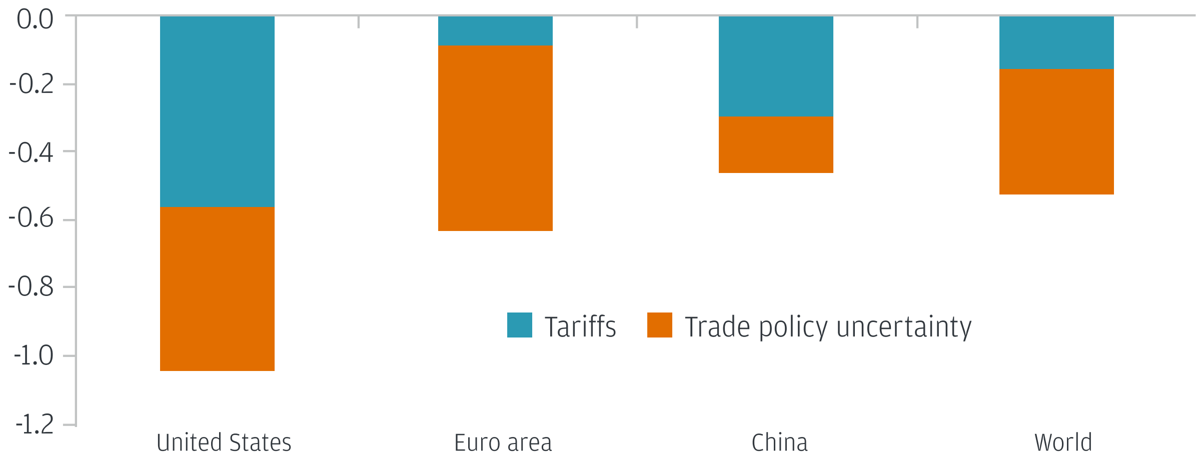
February 14: US tariffs and trade policy could have a material impact on the global economy

"Rising concerns about trade conflict can have a significant independent impact on economic activity. Model estimates uniformly show negative growth impulses from tariffs, while empirical studies of the 2018-19 U.S. trade war conclude that the tariff costs were borne primarily by U.S. consumers and that this depressed both U.S. and global growth," Kasman said. "The key transmission element of tariff policy is through sentiment – earlier in the year, markets and surveys deemed policy to be business-friendly. But we are starting to see a large drag on sentiment as businesses and households reassess – which can, and probably will, magnify the direct economic impact of tariffs."

According to the IMF, a universal 10% rise in U.S. tariffs, accompanied by retaliation from the euro area and China, could reduce U.S. GDP by 1% and global GDP by roughly 0.5% through 2026. Roughly half of the GDP decline from higher tariffs is attributed to a negative sentiment shock related to rising trade policy uncertainty.

Tariffs and trade policy uncertainty could weigh on both U.S. and global GDP

%-pt change in GDP through 2026



Source: IMF, J.P. Morgan

VIEW TEXT VERSION