

Monthly economic webcast: Tariff deals, tariff threats



Eric Lascelles, Chief Economist
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Report card

POSITIVE THEMES



- White House blinked – tariffs scaled back
- Trade deals with UK and China
- U.S. economy still holding on, don't expect outright recession
- U.S. tax cuts likely
- Stock market revives
- Rest of world:
 - Most countries not that exposed to U.S. tariffs
 - Tariffs not too inflationary

NEGATIVE THEMES



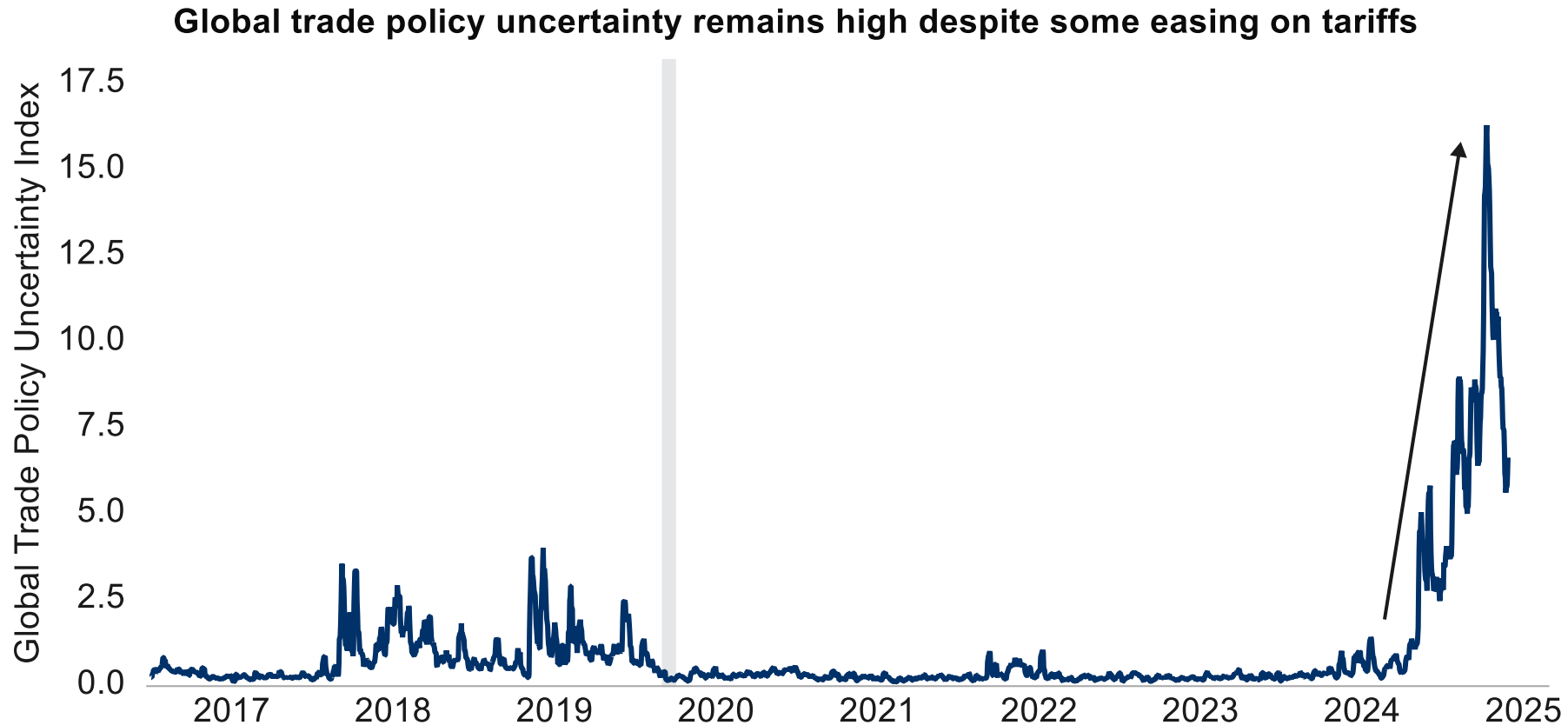
- Sizeable U.S. tariffs still in place
- UK trade deal not great
- Additional tariff threats loom
- Stagflationary impulse: Growth outlook falls, inflation outlook rises
- Lagged economic pain from tariffs
- Cdn economy showing damage
- U.S. inflation was sticky even before tariffs
- Fiscal concerns mounting / bond market nervous

INTERESTING



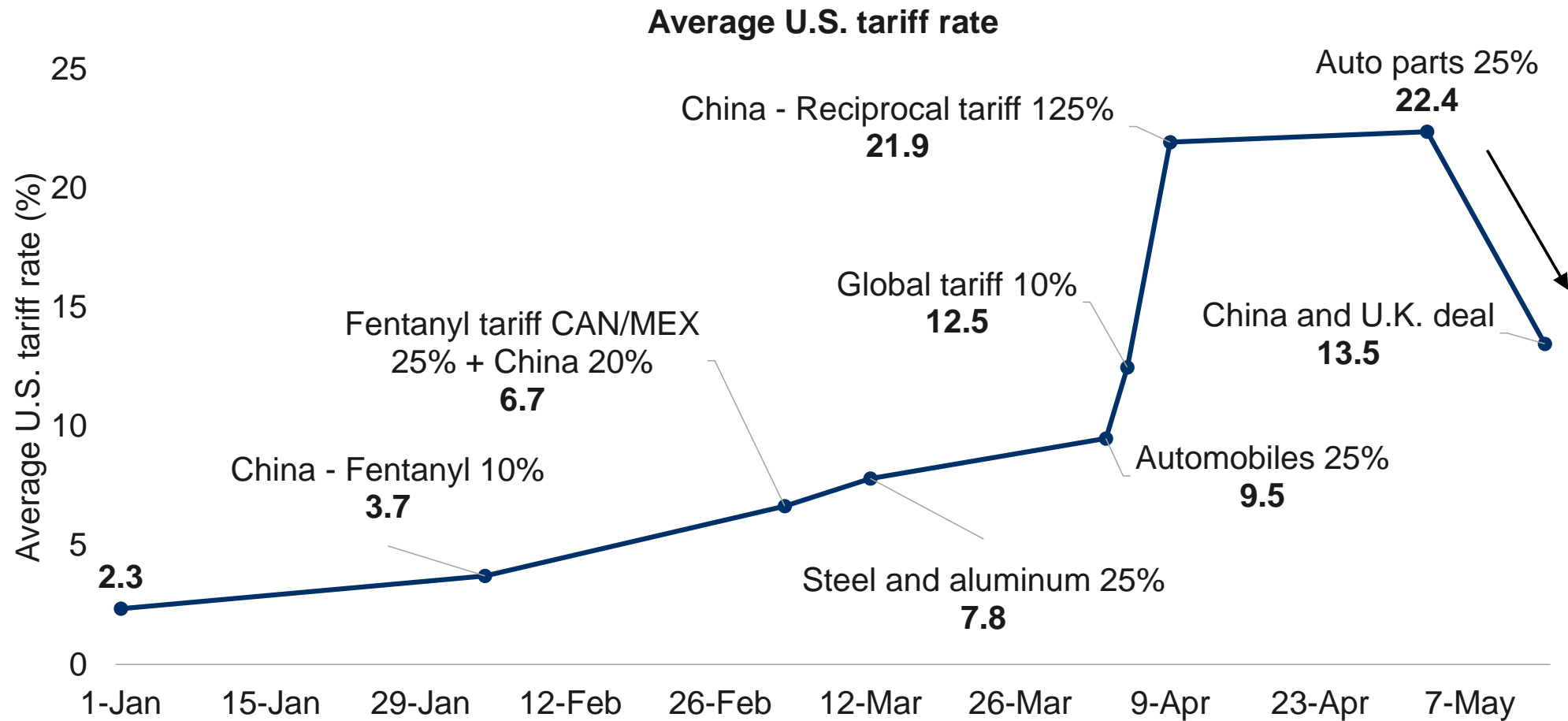
- Legal constraints unlikely to stop White House tariffs
- UK-EU trade deal reached
- Canadian election settled, growth-supportive policy ahead
- World order changing
- Opportunities emerge for China, Europe

U.S. trade policy uncertainty remains very high, but clearly falling – guardrails becoming visible



Note: As of 05/27/2025. Shaded area represents U.S. recession. Index based on searches in economic, research and government related topics in Bloomberg News and First Word feeds. Source: Bloomberg, Macrobond, RBC GAM

U.S. effective tariff rate has declined from peak



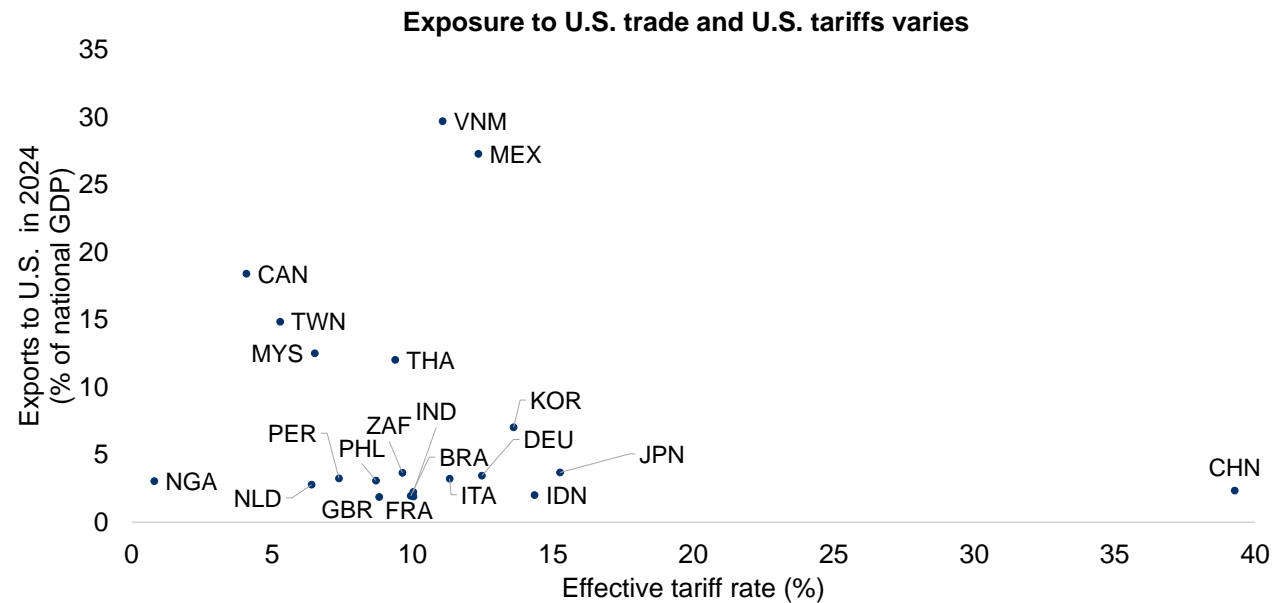
Note: Effective tariff rates estimated based on tariffs implemented by the Trump administration up to May 15, 2025. Excludes de minimis effect. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM

Countries most exposed to current tariffs

Countries ranked by current U.S. tariff impact

Country	Tariff impact on economic output (A) x (B)	Exports to U.S. in 2024 (% of national GDP) (A)	Effective tariff rate (%) (B)
Mexico	3.37	27.30	12.34
Vietnam	3.29	29.72	11.07
Thailand	1.13	12.03	9.39
South Korea	0.96	7.04	13.60
China	0.92	2.34	39.27
Malaysia	0.82	12.52	6.52
Taiwan	0.79	14.86	5.29
Canada	0.75	18.41	4.09
Japan	0.56	3.68	15.25
Germany	0.43	3.44	12.47
Italy	0.36	3.22	11.32
South Africa	0.35	3.66	9.64
Indonesia	0.29	2.01	14.35
Philippines	0.27	3.07	8.70
Peru	0.24	3.24	7.38
India	0.22	2.24	10.03
Brazil	0.19	1.95	9.93
France	0.19	1.90	10.03
Netherlands	0.18	2.78	6.40
Turkey	0.17	1.27	13.71
U.K.	0.16	1.87	8.81
Spain	0.13	1.24	10.53
Australia	0.08	0.93	8.78
Saudi Arabia	0.03	1.17	2.27
Nigeria	0.02	3.04	0.80
Russia	0.01	0.14	3.66

Note: Effective tariff rates estimated based on tariffs implemented by the Trump administration up to May 15, 2025. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM



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Tariff state of affairs



Significant tariffs in place

- 10% baseline reciprocal tariffs on most of world
- 39% tariff on China
- Sector tariffs: steel, aluminum, autos
- U.S. de minimis exemption ended in May
- Retaliation by China, Canada, others



Recent direction of travel → lower tariffs / more exemptions

- Reciprocal tariff reduction/delay
- Chinese tariff reduction/delay
- Certain electronics, auto parts exempted
- UK trade deal outline



But further tariff threats

- 90-day delay on reciprocal tariffs expires in July, China delay expires in August
- US-Mexico-Canada re-negotiations pending
- Further sector tariffs planned: copper, forestry, chips, pharmaceuticals
- EU threatened with 50% tariff
- Foreign-made cell phones threatened with 25% tariff; foreign films with 100% tariff
- Fundamentally, U.S. still has many trade grievances and wants to shrink trade deficit
- Tariff economic pain arrives with a lag

Interpreting recent trade deals

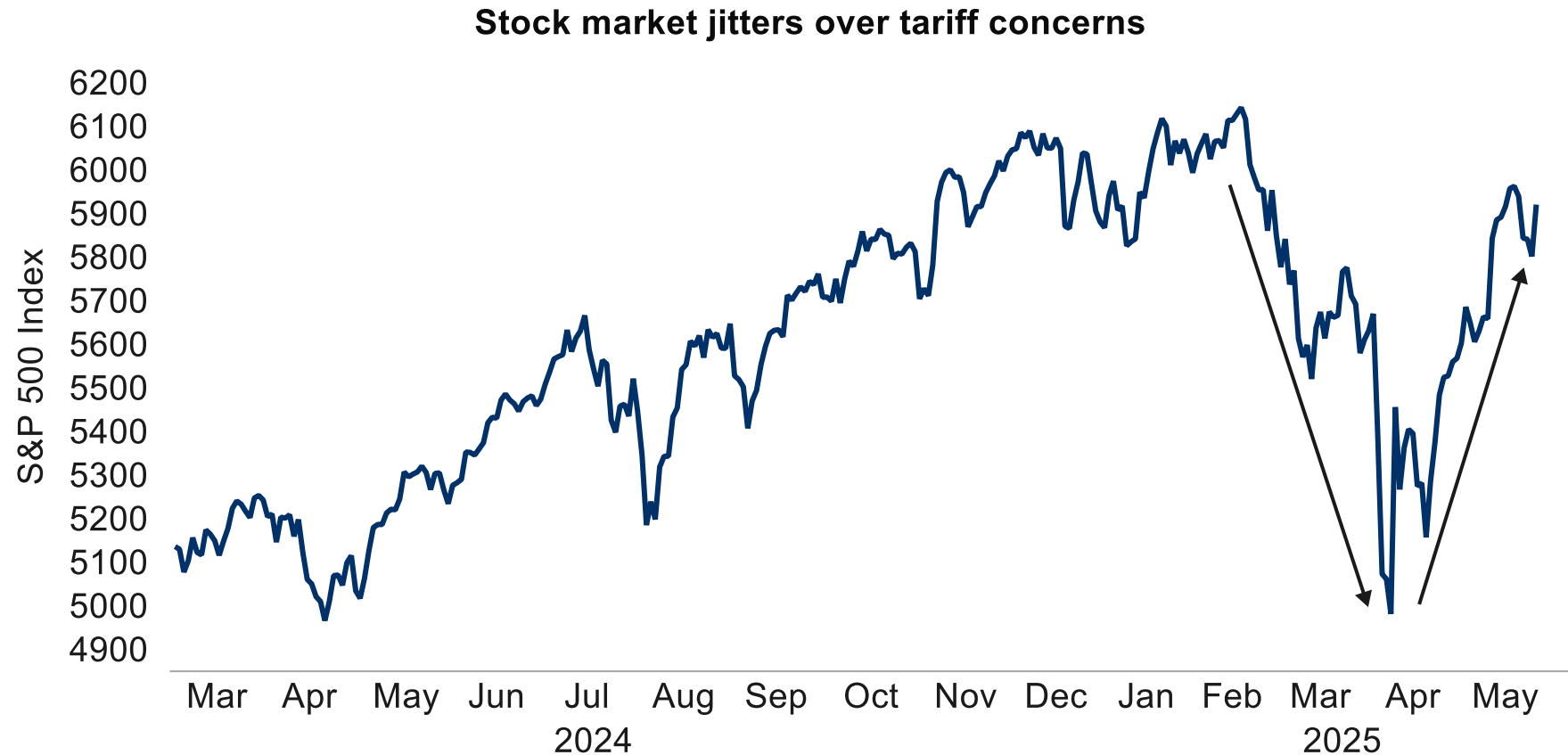
U.S.-China detente

- China tariff rate falls from 145% to 30% (effective rate from 105% to 39%)
- U.S. tariff rate falls from 125% to 10%
- But real negotiations begin now – still big disagreements
- We budget for China tariff rate of 25-50% at end

U.S.-UK trade outline

- Substantial but underwhelming – tariffs don't go away, even for inoffensive UK
- 10% baseline rate continues to apply to UK
- UK negotiates down/away sector tariffs – but with quota limit
- UK can no longer engage with China in certain key sectors
- UK avoids concessions in digital services tax, VAT, defense, service sectors
- Sets template for future deals?

Stock market jitters unwound on “White House put”; but will White House capitalize by again pushing forward on tariffs?



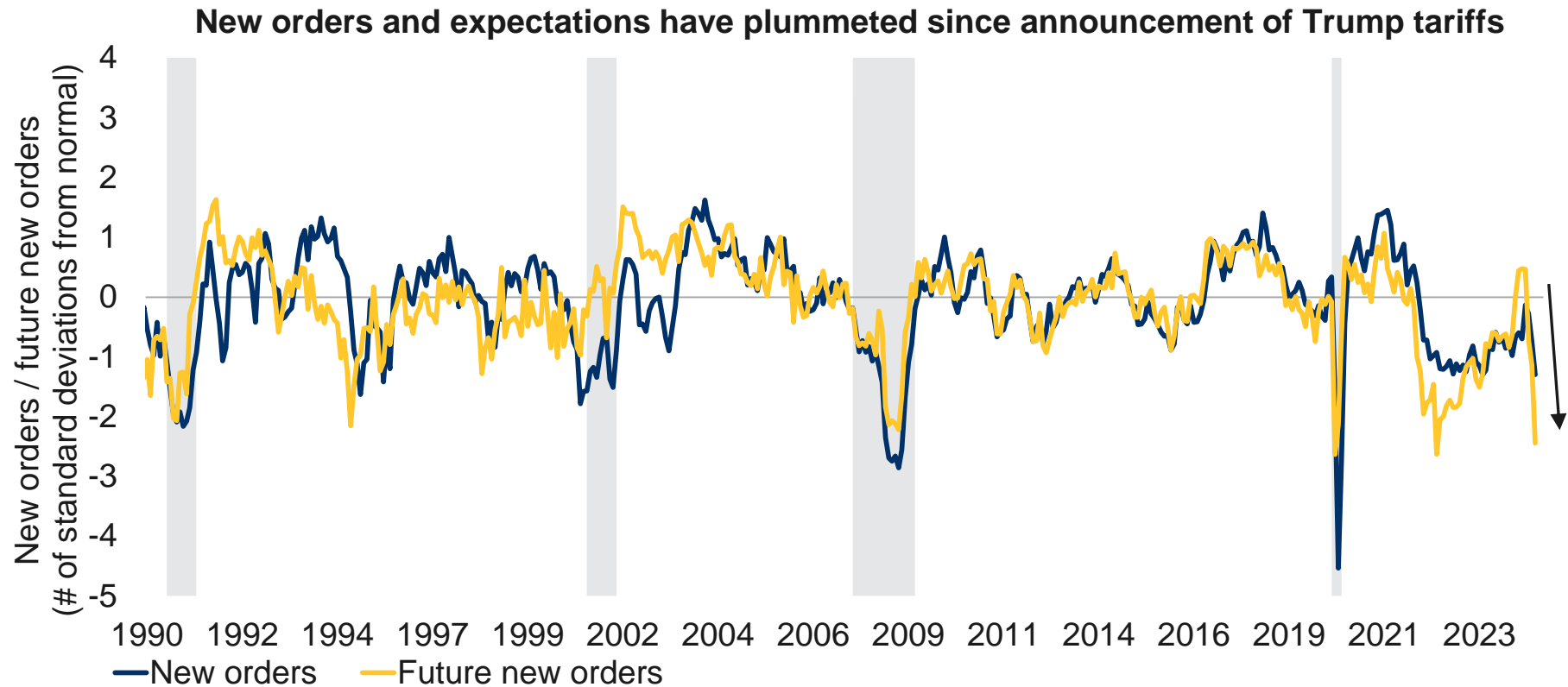
Note: As of 05/27/2025. Source: S&P Global, Macrobond, RBC GAM

Evidence of tariff-related front-loading



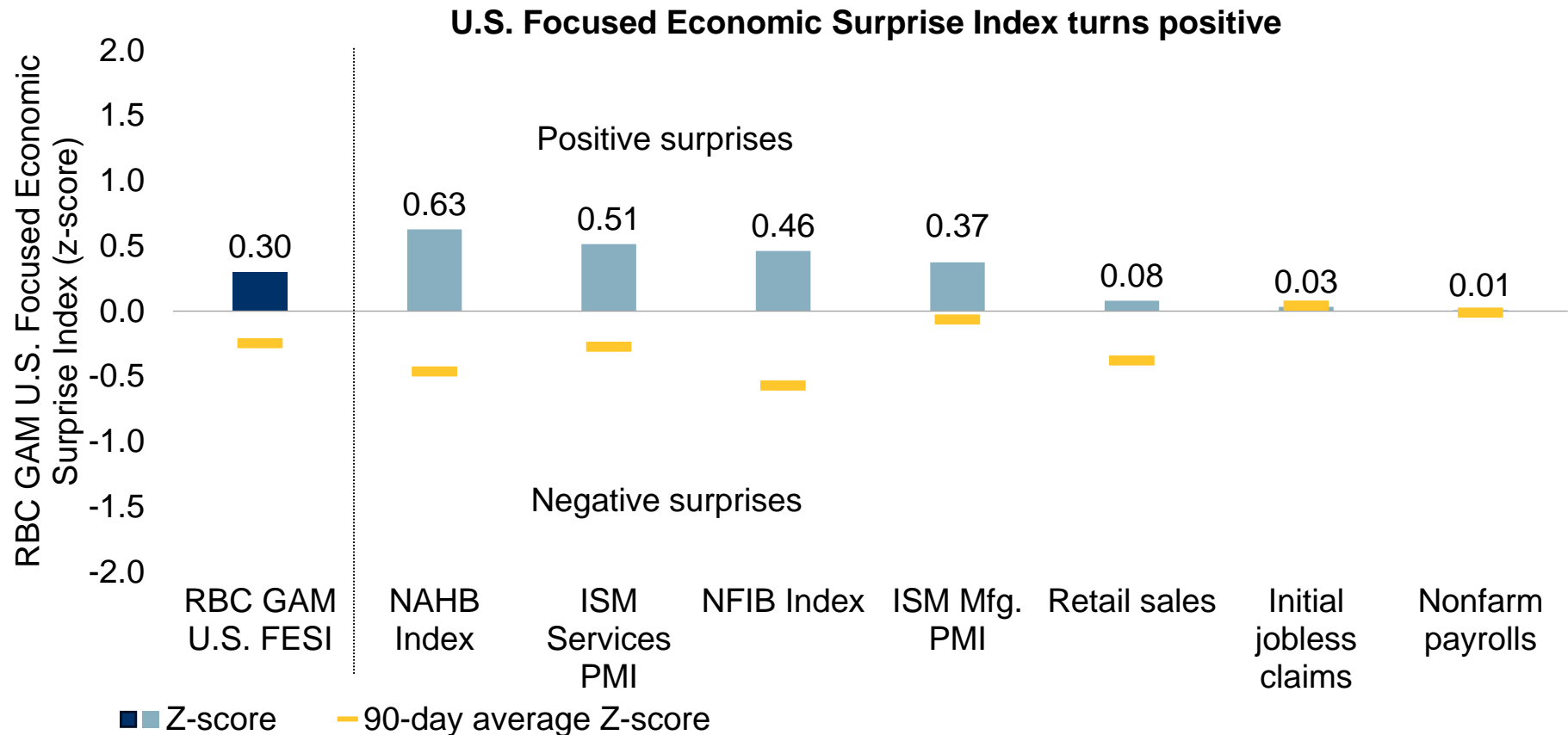
Note: As of March 2025. Source: U.S. Census Bureau, Macrobond, RBC GAM

Economic expectations have fallen sharply



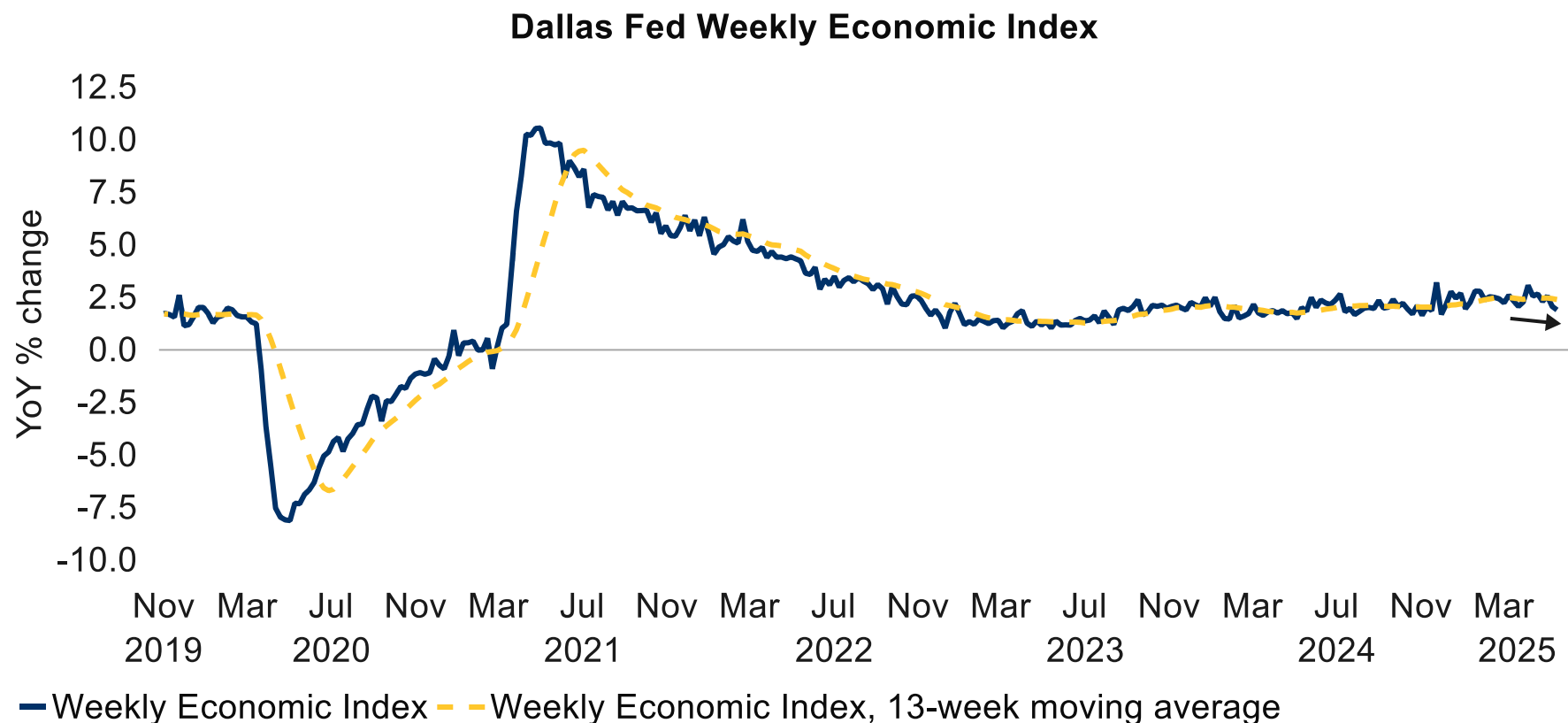
Note: As of Apr 2025. New orders and future new orders are normalized aggregate of new orders from surveys on manufacturing firms conducted by Chapman University, Creighton University ISM, Federal Reserve Bank of Dallas, Federal Reserve Bank of Kansas, Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, and Federal Reserve Bank of Richmond. Source: Macrobond, RBC GAM

But actual economic data is holding up – positive surprises



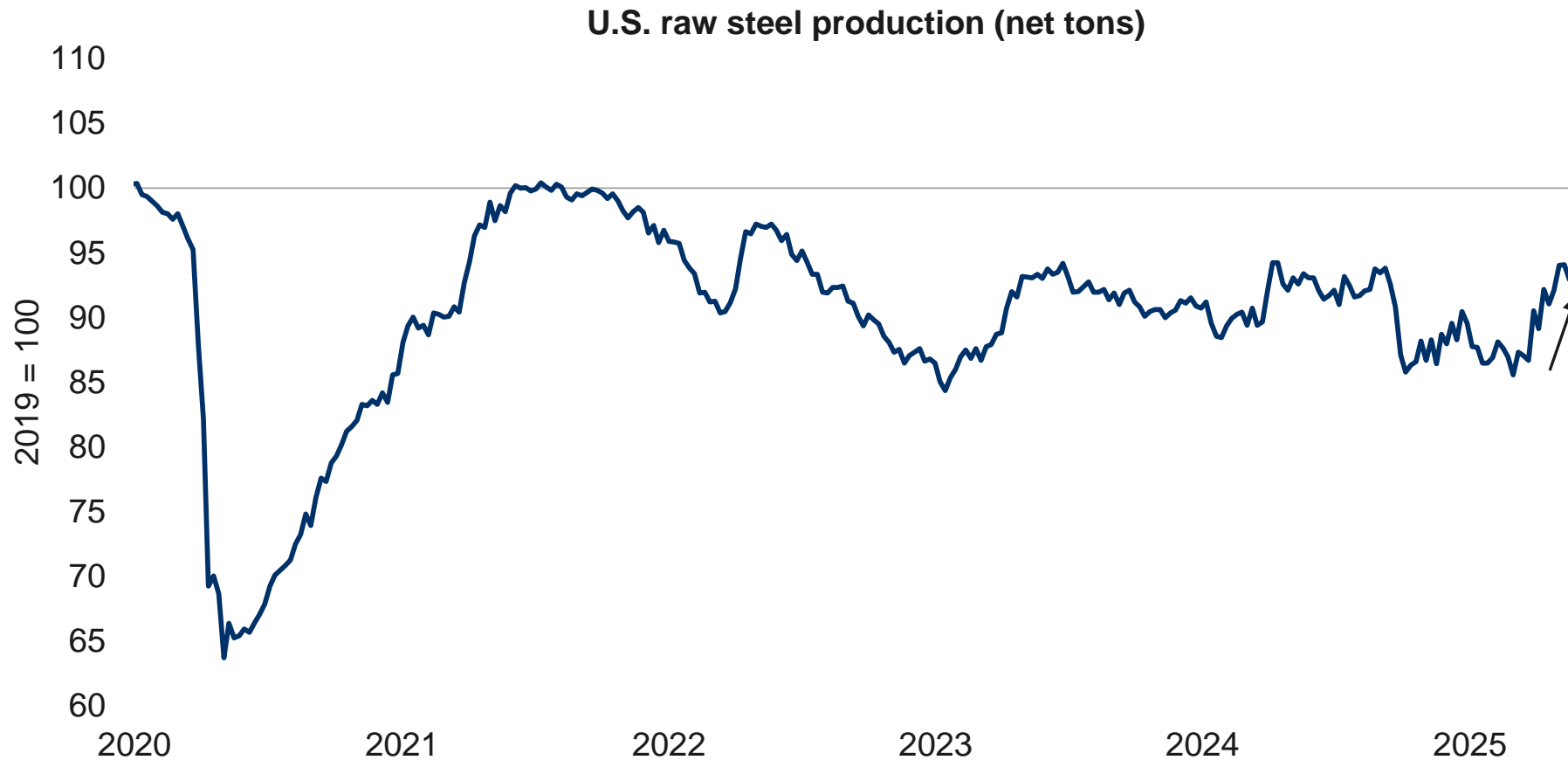
Note: As of 05/20/2025. U.S. Focused Economic Surprise Index (FESI) is the equal-weighted average of the normalized data surprises of the underlying components. Source: Bloomberg, RBC GAM

Real-time economic data only slightly softer



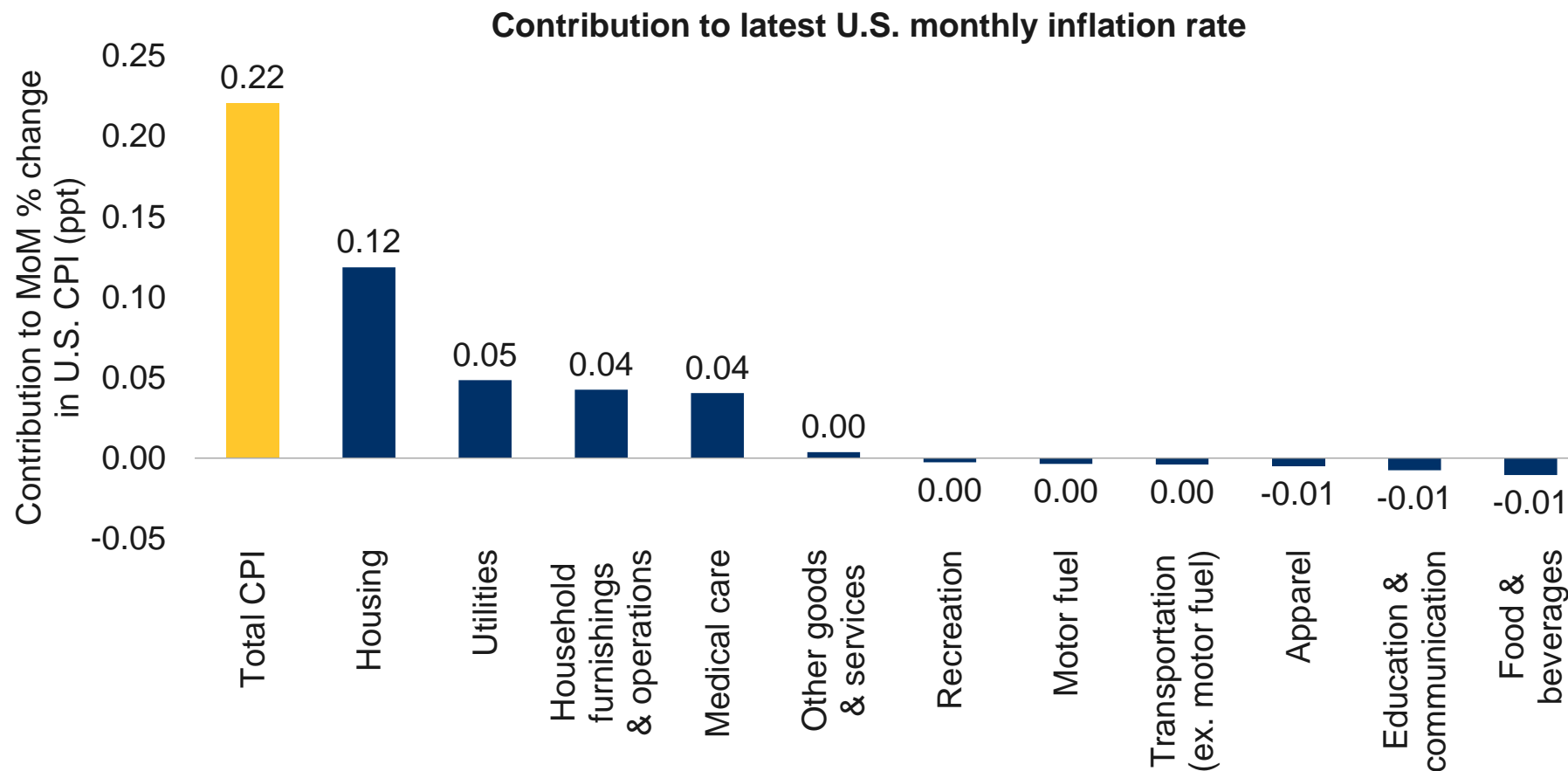
Note: As of the week ended 05/17/2025. The WEI is an index of ten indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. Source: Federal Reserve Bank of Dallas, Macrobond, RBC GAM

Some sectors benefit from tariffs



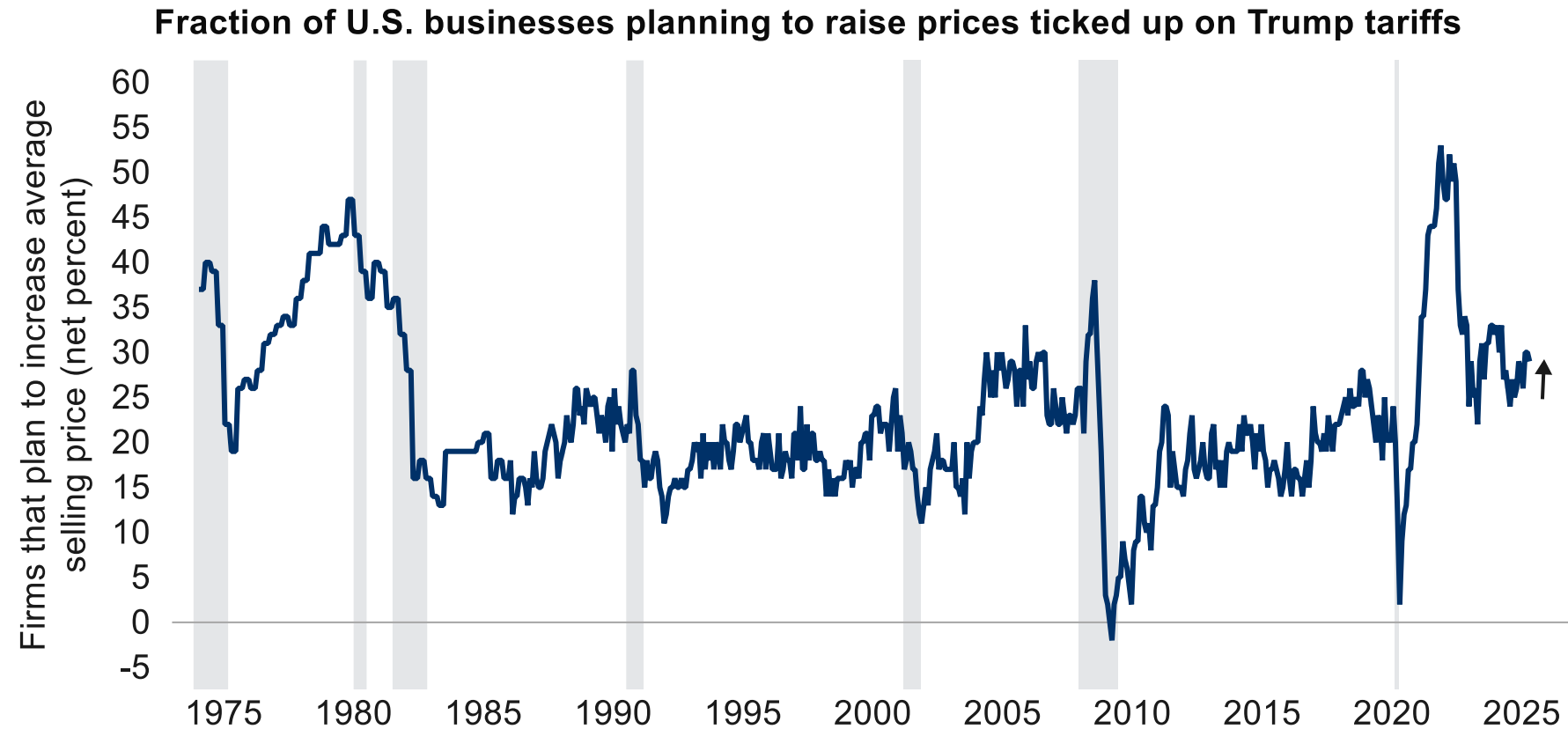
Note: As of the week ending 05/17/2025. Source: American Iron and Steel Institute, Haver Analytics, RBC GAM

April inflation data was tame, with little evidence of tariff effect



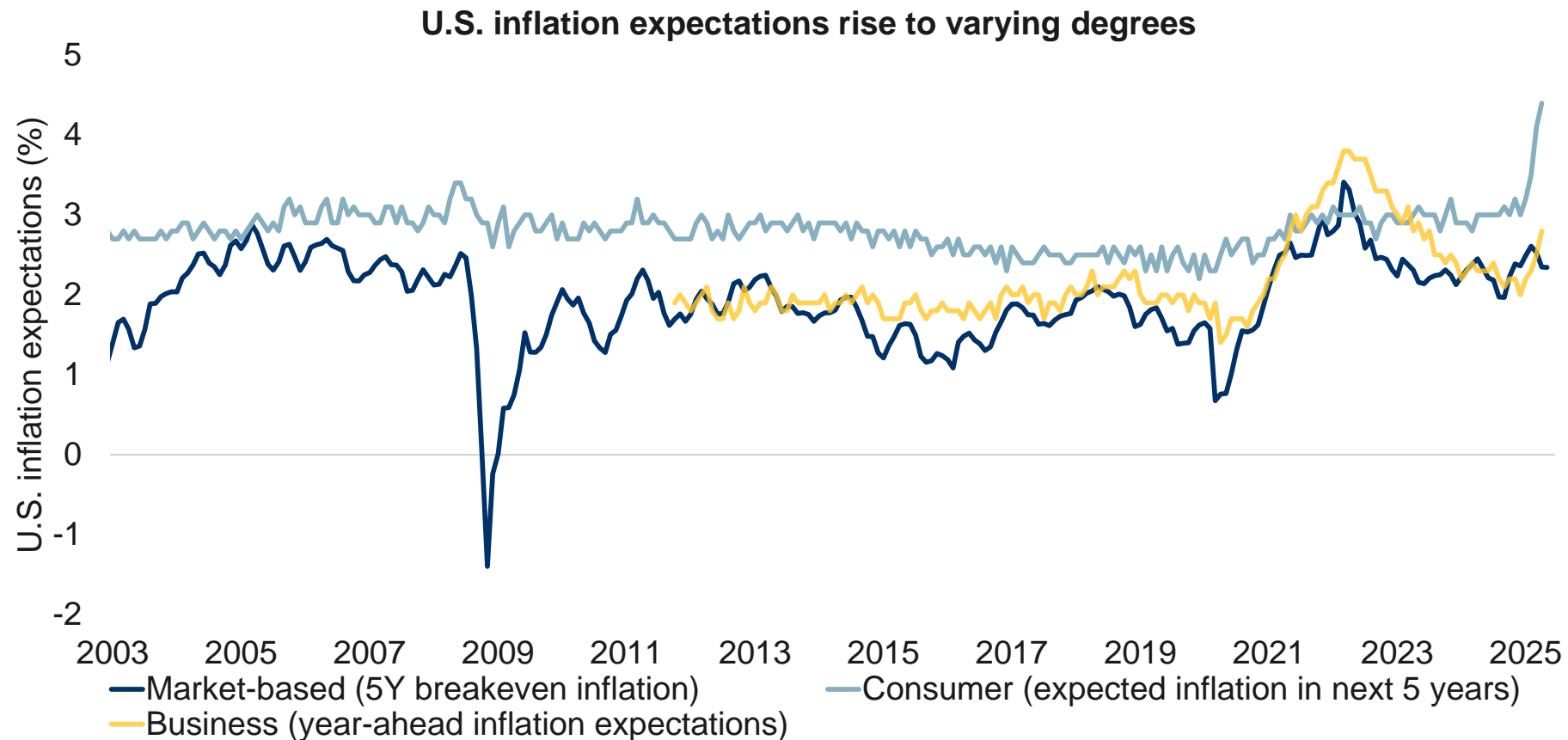
Note: As of Apr 2025. Source: U.S. BLS, Macrobond, RBC GAM

Price hike plans are notable, but still fairly limited



Note: As of April 2025. Shaded area represents recession. Source: National Federation of Independent Business, Macrobond, RBC GAM

Inflation expectations have risen sharply for consumers, but those in the know expect less of a jump



Note: Market-based expectations as of 05/12/2025, survey-based consumer and business expectations as of Apr 2025. Source: Federal Reserve Bank of Atlanta, Federal Reserve Board, University of Michigan Surveys of Consumers, Haver Analytics, RBC GAM

U.S. fiscal developments

- Budget bill passed House, must now pass Senate
- Components:
 - Maintenance of tax cuts past end-2025
 - Some new tax cuts (bigger standard deduction, eliminate taxes on tips & overtime)
 - More military and border spending
 - Partially paid for with Medicaid and food stamp cuts, cap SALT deduction, phase out green tax incentives
 - Tax hike on foreign investors if other countries don't remove their digital services tax
- Cumulative deficit over next decade is \$3T to \$5T larger
 - Economic boost in 2026
 - But fiscal concerns rise, too
- U.S. deficit and public debt already among the most concerning in world
- Moody's downgrades U.S. debt rating to AA+

U.S. fiscal position is challenging

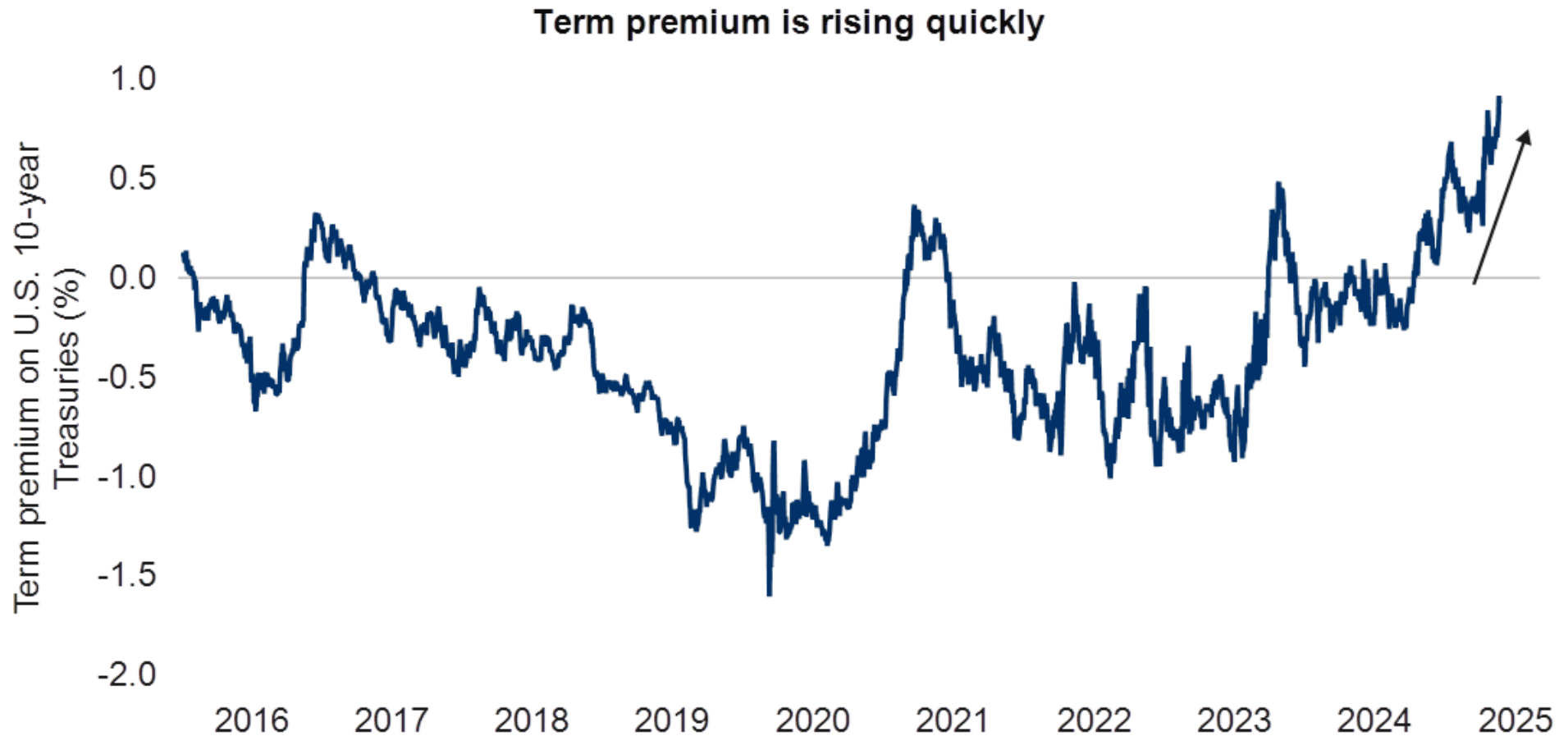
Fiscal health scorecard

Country	Fiscal Health Index (1 - 5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current Account (% of GDP)	Foreign-held debt (% share)	Currency control
U.S.	3.8	121	7.7	2.5	3.9	2.1	-3.9	26	Yes
Belgium	3.5	104	4.7	1.0	2.0	1.3	-0.9	52	No
U.K.	3.5	101	5.5	1.5	3.1	1.4	-3.4	25	Yes
France	3.3	113	5.4	1.3	1.9	1.2	0.4	46	No
Brazil	3.3	87	7.1	1.1	8.2	2.5	-2.8	11	Yes
Italy	3.2	135	3.5	-0.2	3.7	0.7	1.1	28	No
Spain	3.1	102	3.8	0.2	2.4	1.6	3.0	41	No
Greece	3.1	151	1.0	-3.4	2.8	1.4	-6.9	n.a.	No
South Africa	3.1	76	6.0	0.3	5.0	1.8	-0.6	23	Yes
Mexico	2.9	58	5.9	2.5	6.2	2.1	-0.3	23	Yes
Japan	2.9	237	2.5	-3.3	1.2	0.5	4.8	13	Yes
Norway	2.8	43	8.3	7.0	0.6	1.3	17.1	63	Yes
India	2.8	81	7.4	-0.8	5.4	6.5	-0.8	5	Yes
Canada	2.7	111	1.9	-2.6	3.2	1.5	-0.5	21	Yes
China	2.6	123	6.9	-1.2	0.9	3.4	2.3	3	Yes
Finland	2.5	83	2.8	-0.5	1.1	1.2	0.3	46	No
Portugal	2.3	95	-0.3	-3.1	2.2	1.7	2.2	46	No
Germany	2.2	64	2.2	0.0	0.9	0.7	5.7	42	No
Australia	2.1	50	2.9	0.6	1.6	2.3	-1.9	33	Yes
Turkey	2.1	26	5.5	0.6	2.6	4.1	-0.8	n.a.	Yes
Indonesia	1.9	40	2.2	-0.9	2.1	5.1	-0.6	34	Yes
Russia	1.9	20	3.0	1.5	0.8	1.2	2.9	8	Yes
South Korea	1.6	52	0.6	-1.7	0.9	1.8	5.3	17	Yes
Netherlands	1.6	43	1.4	-0.2	0.7	1.2	9.9	37	No
Ireland	1.4	41	-3.9	-5.1	0.7	2.3	17.2	56	No
Sweden	1.4	33	0.8	-0.3	0.7	1.7	7.4	16	Yes
Denmark	1.3	28	-3.8	-4.7	0.7	1.5	13.0	26	Yes

Legend	
Extremely poor	
Very poor	
Poor	
Fair	
Good	

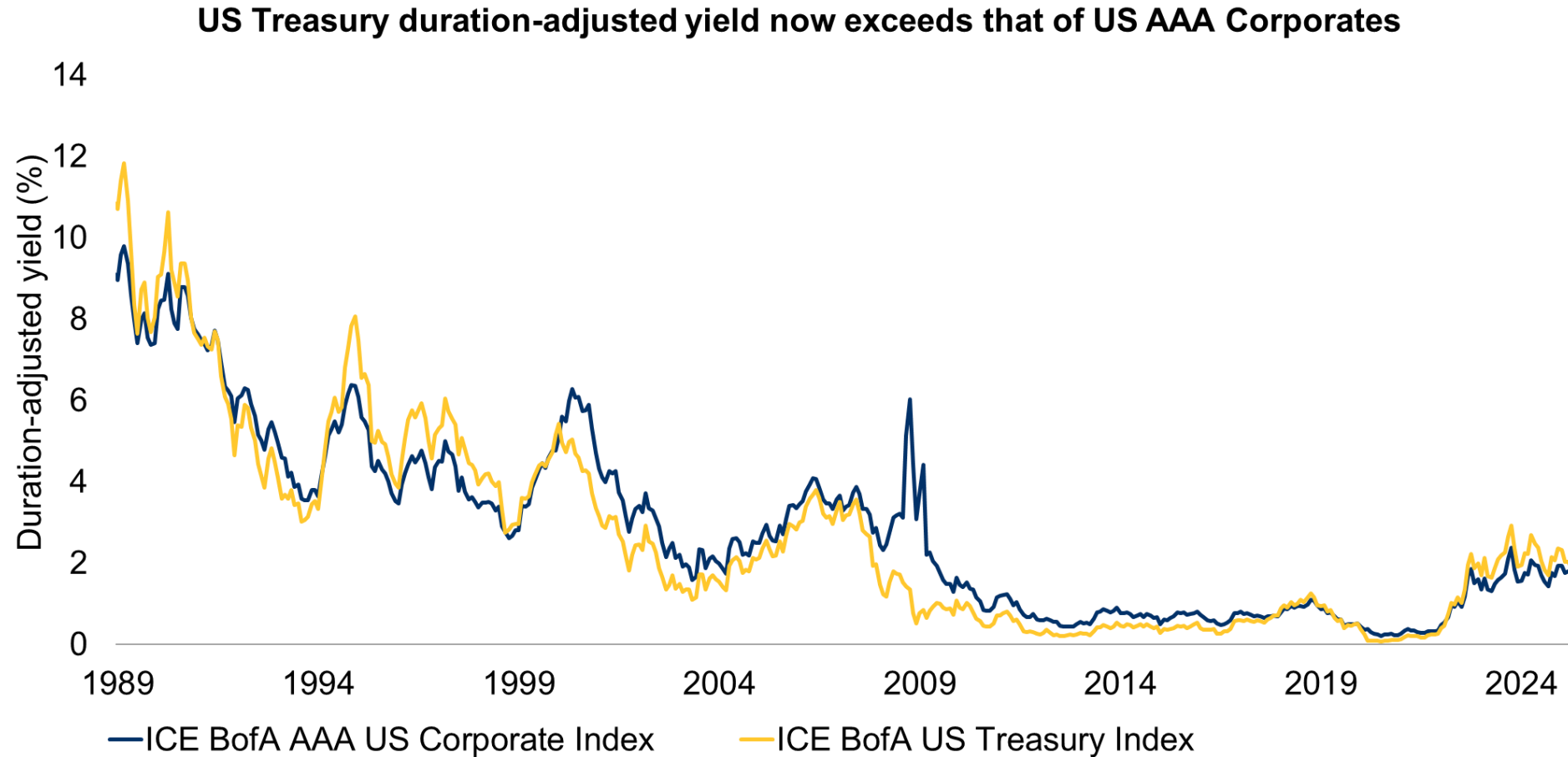
Note: 2024 data for all indicators except interest payments (2023) and GDP growth (IMF forecast for 2030 used as proxy for "normal"). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

U.S. term premium rising and is now positive



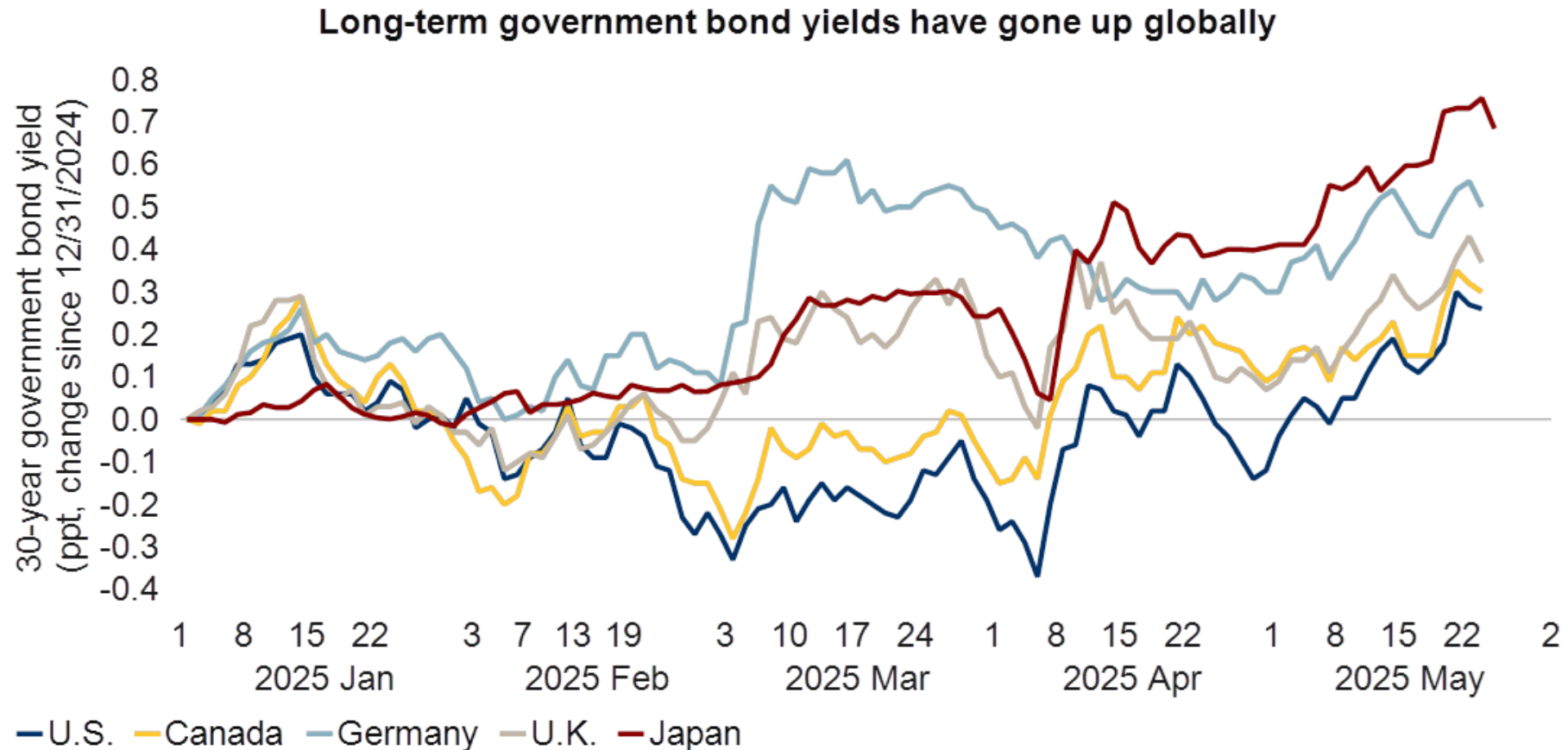
Note: As of 05/22/2025. Source: Federal Reserve Bank of New York, Macrobond, RBC GAM

Some U.S. companies are now deemed safer than government debt



Note: As of Apr 30, 2025. Source: Bloomberg, RBC GAM

Rising long-term borrowing costs not unique to U.S.



Note: As of 05/23/2025. Source: U.S. Department of Treasury, Macrobond Financial AB, RBC GAM

U.S. dollar eroding as reserve currency / safe haven

U.S. dollar cons

- Substantially overvalued
- Not behaving like reserve currency
- Political forces
 - *Dollar weaponized*
 - *High policy uncertainty*
 - *U.S. retreats from world*
 - *Loss of trust in U.S.*
 - *U.S. pressures other countries*
 - *U.S. pressures companies*
 - *Safety of capital?*
 - *White House wants weaker USD*
- Declining U.S. economic exceptionalism
 - *Growth-negative policies*
 - *Other countries pivot to pro-growth policies*
- Fiscal challenges
 - *Large public debt, deficit*
 - *Debt downgrades*
- Global forces
 - *Deglobalization, weakening global order*
- Resurgent competitors
 - *Gold, yen/Swiss franc, euro, others, crypto*
- Financial considerations
 - *U.S. equities overvalued?*
- Not behaving like a safe-haven currency

U.S. dollar pros

- World's biggest economy
- Economy can still outgrow rest of developed world
- Still home to dynamic companies and entrepreneurs
- Higher interest rates than rest of developed world
- Deep U.S. government bond market
- Scope for political reversal after 2028?
- China not ready to claim reserve currency mantle
 - *Capital controls*
 - *Insufficient risk-free assets*
 - *Inadequate rule of law*
- Still reserve currency, even if status eroding

Implications of weaker dollar

- Lower U.S. dollar, lower equities, higher yields
- Rising U.S. competitiveness / worse for ROW
- More U.S. inflation / less for ROW
- ROW investments and profits in USD underperform
- U.S. investments and profits in foreign FX outperform
- Good for EM: Flows, equities, dollar-denominated bonds

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