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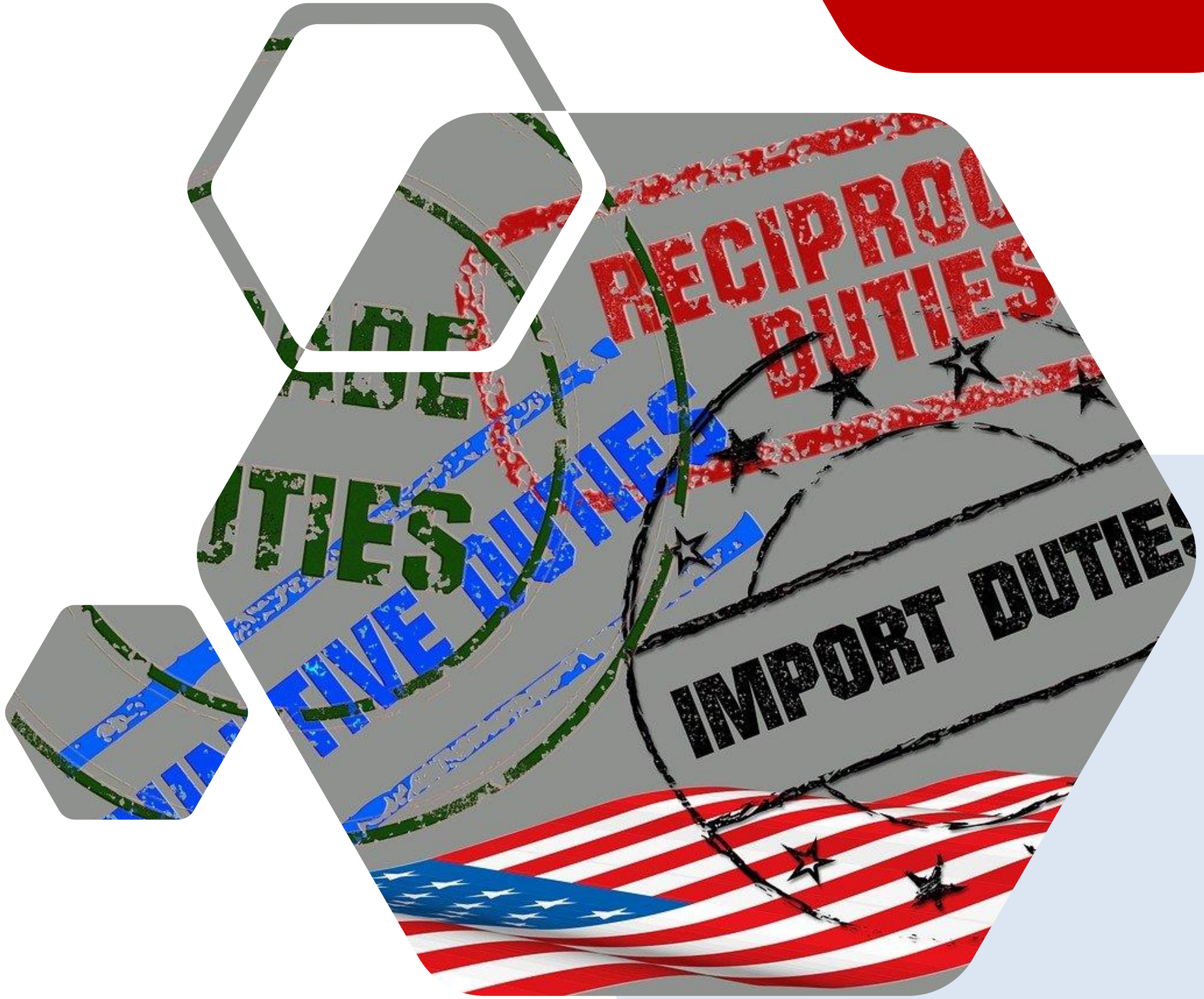
Tariffs implications on global outlook with a focus on China

April 2025



Key messages

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- The **90-day pause in U.S. tariffs** has eased short-term fears of a trade/financial shock but has not eliminated recession risks. A contraction in activity later this year remains plausible, as uncertainty continues to weigh on corporate investment decisions and consumer sentiment.
- Despite the pause, the **U.S. maintains a complex tariff structure**: 10% baseline tariff on most imports, 25% tariffs on steel, aluminum, and vehicles, 25% tariffs on Canadian and Mexican goods not compliant with USMCA, Tariffs on Chinese goods raised to 125%, with no active negotiations in place.
- The environment reinforces **global trade fragmentation** and adds volatility to supply chain strategies. US inflation is still likely to increase around summer.
- Should the recession scenario materialize, **Fed rate cuts** remain on the table but may be delayed until end-2025, as the central bank assesses the growth and inflation impact of current trade tensions. A **gradual path toward 3.5-3.0% is still expected by mid-2026**.
- **Volatility is expected to persist within wide ranges**, but structural factors — including above-target inflation, Fed credibility concerns, higher term premium, and elevated risk premium — argue in favor of structurally higher long-term yields.

Trump’s 2025 Tariff Action: Structure, Rationale, and Timeline

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- Strategic Rationale Executive Order (April 2, 2025) declares a national emergency due to persistent, asymmetric U.S. goods trade deficits (>$1.2 trillion in 2024).
- Objective: Re-establish reciprocity in global trade relations under Presidential authority (IEEPA).
- Baseline 10% tariff remains on most imports (with exemptions) for 90 days, excluding China (125%).

Measure	**Description**	**Start Date**
Baseline tariff	+10% ad valorem on all import	April 5, 2025
Reciprocal tariff	Country-specific ad-valorem rates (up to 50%) based on estimated imbalances	Pause for 90 days excluding China (125%)

Trump's 2025 Tariff Action: Detailed Exemptions to the 2025 Tariff Regime

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1. **Legally protected categories (50 U.S.C. §1702(b))** Exempted by statute under IEEPA, including: personal remittances and humanitarian aid, informational materials (books, films, software, news), donations of food, medicine, and medical supplies.

2. **Goods already covered by Section 232 national security tariffs:** To avoid duplication, existing duties remain in place:
   - Steel: 25%
   - Aluminum: 10%
   - Derivatives of steel/aluminum: 25% / 10%
   - Automobiles and parts: 25%

3. **Strategic products explicitly excluded.** To preserve essential supply chains and inputs: Pharmaceuticals, Semiconductors, Copper and lumber articles, Critical minerals and energy not sufficiently available in the U.S.

4. **Precious metals in bulk form** (e.g. gold, silver bars) to protect financial and monetary stability.

5. **Future Section 232 categories.** Products under national security review (e.g. chemicals, solar panels) are pre-exempted if later included under Section 232.

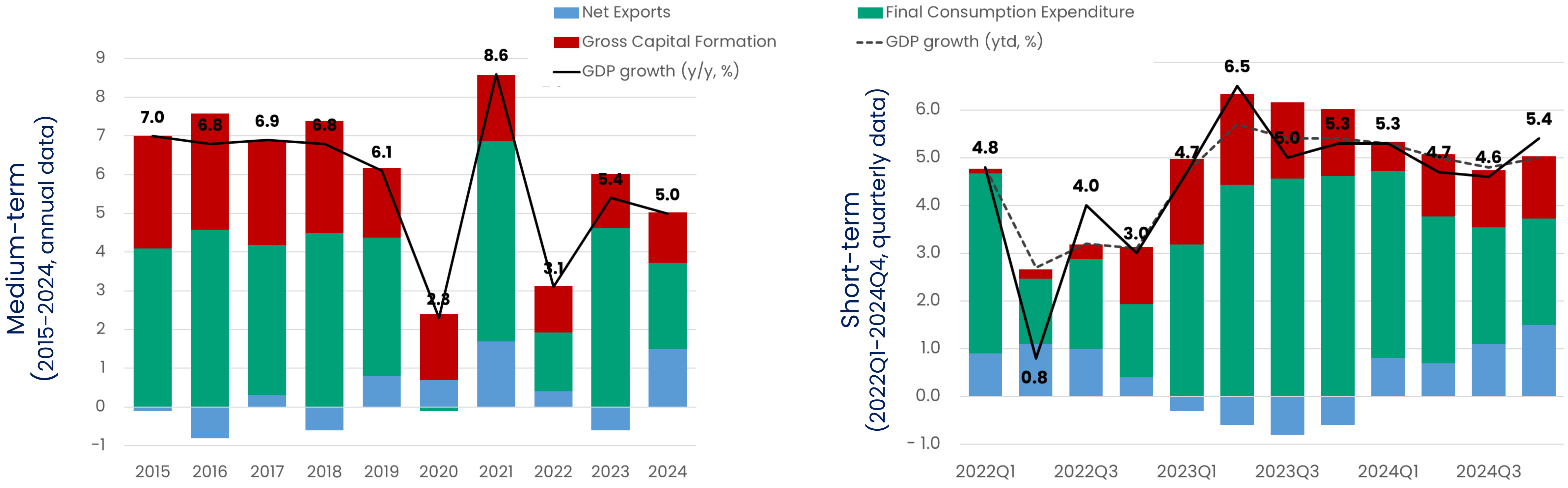
6. **USMCA treatment** (Canada & Mexico): USMCA-compliant goods" are those that meet the agreement's rules of origin and qualify for tariff-free treatment under the U.S.–Mexico–Canada Agreement
   - USMCA-compliant goods: 0%
   - Non-compliant goods: 25%
   - Non-compliant energy and potash: 10%

7. **China:** Tariffs have increased to 125%, reinforcing Washington's confrontational stance amid ongoing retaliatory.

Tariffs on trade, support to domestic demand: where from now?

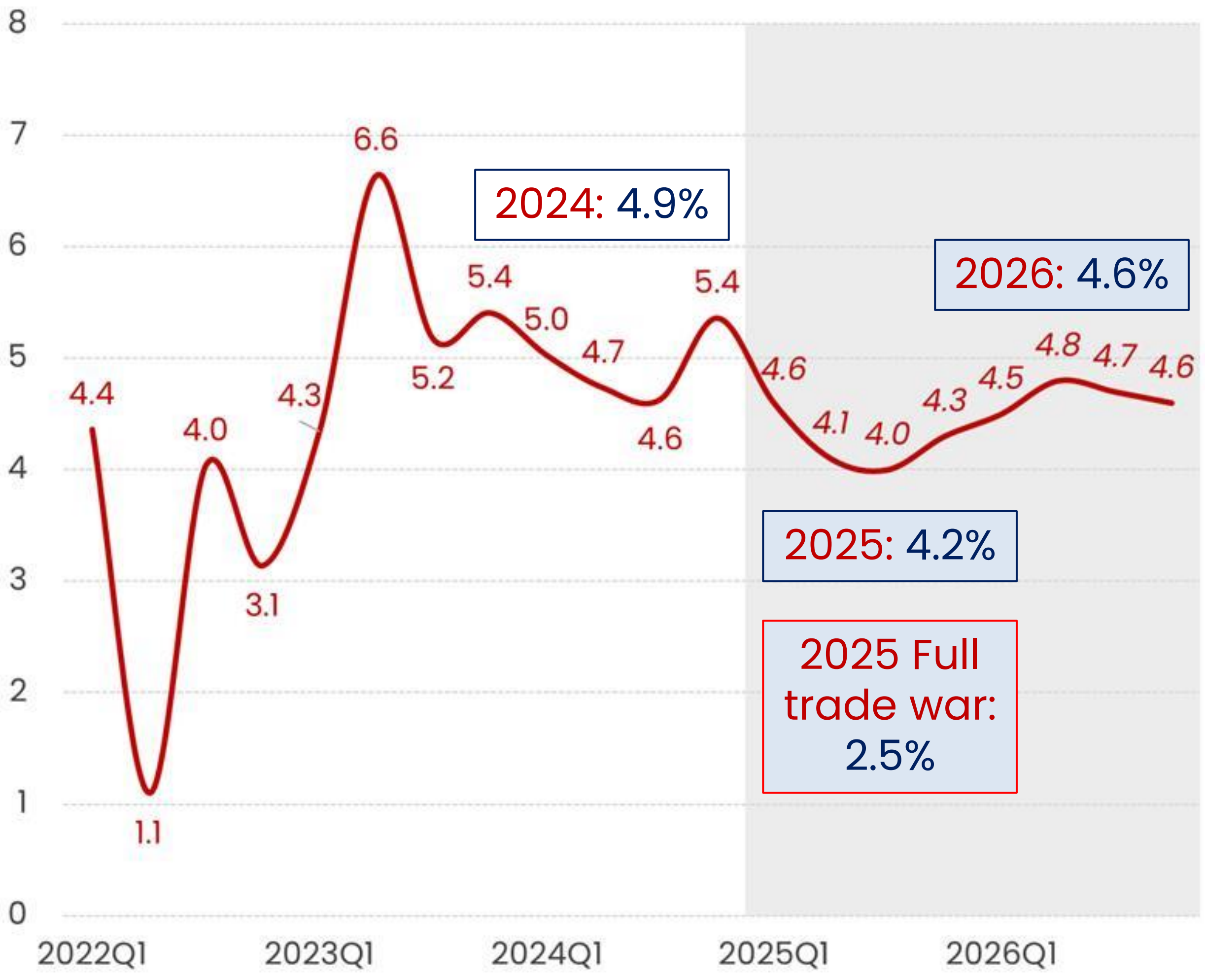
Major headwinds from a trade perspective, a result of the incipient trade war between the US and China and the perceived risk of China's export swamping non-US markets… But stronger domestic policies to support demand and growth have been the central feature of the past Two Sessions in March.

China: contribution of demand components to y/y GDP growth (% points)



What can our models say on short-term growth in China?

- Using different models (linear, non-linear) to capture the quarterly dynamics of China's GDP growth and using "complementary techniques to simulate shocks.
- The highest uncertainties relate to…
  - Trade development between China and non-US markets,
  - Transmission of trade tensions to other areas (access to technology, corporate presence and activities…)
  - Confidence within China, in-between economic downturn and the balance between structural trends, political objectives and saving behavior.



IMF WEO April 2025 Update

- The IMF's April 2025 baseline outlines a coherent global outlook, but it increasingly feels misaligned with market realities and political developments.
- It excludes recent US tariffs and assumes a soft landing in the US with limited fallout from trade fragmentation — a view that appears overly optimistic.
- Hard data, especially on payrolls and investment, suggest weakening momentum.
- Inflation risks are also likely underappreciated, particularly in the US, where strong demand could amplify tariff pass-through. In contrast, Europe may face persistent imported pressures despite softer domestic inflation.
- Crucially, the IMF's own downside scenarios highlight much steeper risks — including a 20% GDP drop for China and 6% for the US in the event of sudden decoupling. These extremes, however, are absent from the central forecast.
- Ultimately, the baseline offers policy guidance, but likely understates both economic fragility and the cost of deepening global fragmentation.

Scenario	Global Growth 2025	Global Inflation 2025	Key Assumptions
Baseline	2.80%	4.30%	Tariffs pre-Apr 5 only Gradual disinflation Managed China slowdown"
Adverse	~2.2% (-0.6 pt)	~4.4% (+0.1 pt)	Full tariff retaliation Persistent uncertainty Tighter global financing"
Upside	~3.2% (-0.4 pt)	~4.1% (+0.2 pt)	US fiscal consolidation EU stimulus Coordinated China recovery"

Region	Adverse Scenario (Growth)	Adverse Scenario (Inflation)	Upside Scenario (Growth)	Upside Scenario (Inflation)
USA	-0.8 pt	+0.5 pt	+0.4 pt	-0.2 pt
Euro Area	-0.5 pt	+0.2 pt	+0.3 pt	-0.1 pt
China	-1.0 pt	stable or ↓	+0.5 pt	mild ↑

Any questions?

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