Special Commentary — March 24, 2025

# April Showers

## For Better or Worse, Answers Are Coming for Trade Policy

Economist(s)

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## Summary

This year, it is April that comes in like a lion, with the effective date for a range of tariff policies slated for April 2. It will not go out like a lamb either, with Q1 GDP at the end of the month showing just how much of a drag the trade gap exerted in Q1.

## In a Climate of Uncertainty, April Will Bring Some Hard Details

The latest batch of new tariff policies is earmarked for April 2. Prior deadlines have seen postponements, and news outlets have reported that the original list of tariffs is being pared. Still, barring further exclusions, a litany of new or increased levies are set to go into effect next week.

New tariffs guidance generally falls into four buckets: The first is products from Canada and Mexico falling under USMCA, after a one-month delay. Next are European products, where tariff threats range from a 25% universal tariff to a 200% tariff on European wine or addressing value-added taxes. The next potential tranche addresses specific sectors such as autos or pharmaceuticals. Last are the reciprocal tariffs, which aim to hit U.S. imports from foreign countries by an equal amount that they levy on imports from the U.S.

Until specifics drop, there are three top-of-mind considerations for decision makers:

1. **Is this an emergency?** Conventional measures involve lag time for official studies and industry feedback. This can be short-circuited by emergency authorization granted through the International Emergency Economic Powers Act (IEEPA). A self-declared fentanyl emergency was the basis for recent China as well as Canada and Mexico tariffs.

2. **Saying it doesn't make it so.** Even if the President declares an emergency and uses IEEPA authorization to enact tariffs with immediate effect, the best-laid plans face practical considerations in the real world.

- **Supply chain disruption**: long wait times and lost business from 2021 are still fresh in the minds of businesses and purchasing managers.
- **Legal and trade agreements**: tariffs are out of step with the WTO and USMCA, which means court fights and a loss of good faith for future trade pacts. Congress also has the authority to terminate an IEEPA-declared national emergency through a joint resolution.
- **Retaliation**: Protectionist trade policies are historically met with tit-for-tat retaliation.
- **Business contracts**: U.S. firms have contracts with trading partners that are enforceable beyond our shores. They also have international business relationships that span generations which make it difficult, not to mention unsavory, for business owners to turn their backs on partners overnight.
- **Political blow-back**: Tariffs are apt to stoke inflation or weigh on corporate profits. Neither is a winning campaign strategy.

3. **Regardless of what happens in April, trade uncertainty is already contributing to an economic shock.** A yawning trade gap is poised to exert a sharp downward drag on first quarter GDP growth. The Atlanta Fed is forecasting the U.S. economy will *contract* at a 1.8% annualized rate in the first quarter. The first estimate from the Commerce Department is due out on April 30.

## Is This Posture or Policy?

If it is merely posturing ("he's a deal maker, tariffs get people to the table") at some point, tariff threats that are repeatedly extended become less effective. This raises the odds that tariffs are more than posture and indeed are on track to becoming actual policy, though questions remain on the sheer feasibility of imposing such broad tariffs so quickly.

Some take solace in the fact that there have already been delays with tariff implementation. Not only have tariffs on imports from our North American trade partners been scaled back and postponed, but the closing of trade loopholes, specifically around de-minimis trade (products under $800 in value), have been spotty as well. After President Trump ordered these goods no longer enter the country duty-free, media sources reported packages started piling up at U.S. customs, forcing the duty-free status to be reinstated to avoid logistical chaos. This is a prime example that trade policy cannot be changed at the flip of a switch.

The April 2 deadline may prove far too short for something as far-reaching as reciprocal tariffs. Various news sources report that administration officials have conceded that reciprocal action could take longer to implement. After all, if the elimination of de-minimis trade sowed chaos, how much more could the business cycle be disrupted if the reciprocal tariffs are rushed out before considering the downstream implications for U.S. businesses?

Even for reform-minded actors with a desire to re-write the playbook, this all takes time. That has been our message since we first detailed some trade legislation President Trump used in his first term to implement tariffs. Tariffs normally come with investigations and comment periods that must be completed before implementation. When we say, "this all takes time," we are not speaking in advocacy of bureaucratic red tape. On the contrary, these investigations and comment periods exist for the very thing that tariff advocates cite as their rationale: to protect American businesses.

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Once we have definitive guidelines on April 2, we will update our Tariff Tracker. To date, the administration has implemented tariffs under the IEEPA allowing for immediate implementation (China, Mexico, Canada), or under a prior Section 301 investigation (steel & aluminum) making them easier to adjust.

**Tariff Tracker: U.S. Tariffs On...**

*Estimates Based on 2024 Annual Trade Levels; Billions of USD*

| Country | Date Effective | Effective Tariff Rate | Tariff Details | Tariff Revenue | Dutiable Share of U.S. Imports |
|---|---|---|---|---|---|
| ***Implemented*** | | | | | |
| Various | Pre-2018 | | Various Goods | $27.9 | |
| Various | Jan-2018 | 15% | Solar Panels | $0.2 | 1% |
| Various | Mar-2018, Mar-2025 | 25% | Steel | $6.3 | 1% |
| Various | Mar-2018, Mar-2025 | 25% | Aluminum | $4.7 | 1% |
| China | 2018 & 2019, Sep-2024, Feb & Mar-2025 | 23% | 25% Intermediate Inputs & Capital Equipment, 7.5% Consumer Goods, Additional 20% All Goods | $139.3 | 14% |
| Mexico | Apr-2025 | 11% | All Non-USMCA Goods (1) | $65.0 | 8% |
| Canada | Apr-2025 | 16% | 25% All Non-USMCA non-energy Goods (2), 10% on Energy Goods, Additional 25% Steel & Aluminum | $63.0 | 8% |
| **Avg. U.S. Trade-Weighted Tariff Rate:** | | **8.1%** | | | |
| **Total Annual Tariff Revenue Collected & Share of U.S. Imports:** | | | | **$306.5** | **32%** |
| ***Proposed*** | | | | | |
| Mexico | Apr-2025 | 25% | All USMCA Goods (1) | $62.5 | 7% |
| Canada | Apr-2025 | 25% | 25% All USMCA non-energy Goods (2) | $27.7 | 5% |
| European Union | Apr-2025 | 25% | All Goods | $154.4 | 18% |
| Various | | | Copper | | 1% |
| Various | | | Reciprocal Tariffs | | |
| **Total Annual Tariff Revenue Collected & Share of U.S. Imports:** | | | | **$244.6** | **31%** |
| ***Implemented & Proposed*** | | | | | |
| **Avg. U.S. Trade-Weighted Tariff Rate:** | | **12.0%** | | | |
| **Total Annual Tariff Revenue Collected & Share of U.S. Imports:** | | | | **$551.1** | **63%** |

*As of 3/24/2025*

**Notes**: Estimates represent upper bounds as they rely on 2024 trade data and do not account for future change in trade flows.
Dutiable share of imports represent estimated share of 2024 total U.S. imports subject to tariffs.
(1) We estimate 49% of Mexican imports were compliant with USMCA in 2024.
(2) We estimate 38% of Canadian imports were compliant with USMCA in 2024.

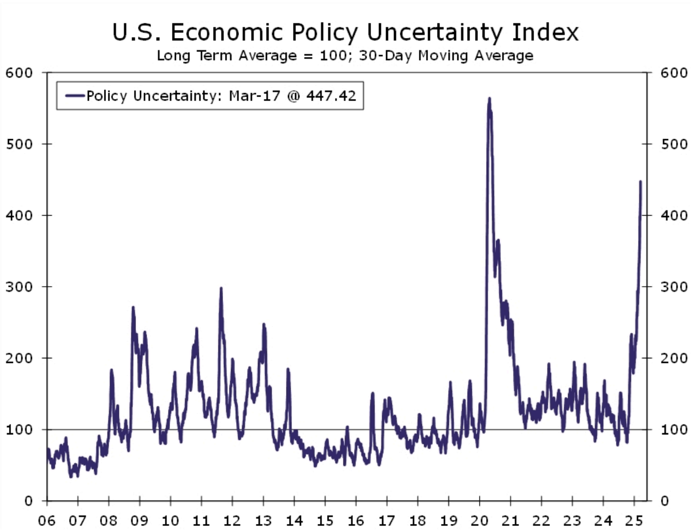
When it comes to sectoral tariffs, auto tariffs could fall under a 2018 investigation allowing for faster implementation, but tariffs on pharmaceuticals and others would likely take time for investigations. Ultimately, it is reciprocal tariffs that remain the big outstanding question mark. Not only is it is incredibly challenging to back into estimates of the size and scope of reciprocal tariffs, and thus their economic impact, but it is unclear which legislation the Trump administration will rely on. Trump can impose reciprocal tariffs immediately through the IEEPA, but national emergency would need to be declared against each country, otherwise the administration can open Section 301 investigations per country, meaning it could be a couple of months before reciprocal tariffs go into effect.

Treasury Secretary Scott Bessent has also recently spoken to reciprocal tariffs as a way of negotiating down tariffs imposed by foreign countries on U.S. exports. An optimistic take then might be that the mere specter of reciprocal tariffs is successful in reducing or eliminating foreign tariffs on U.S. exports, a development that, in theory, should delight protectionists and free-trade advocates alike.

## Also Due in April: First Look at Q1 GDP, Watch for Trade Drag

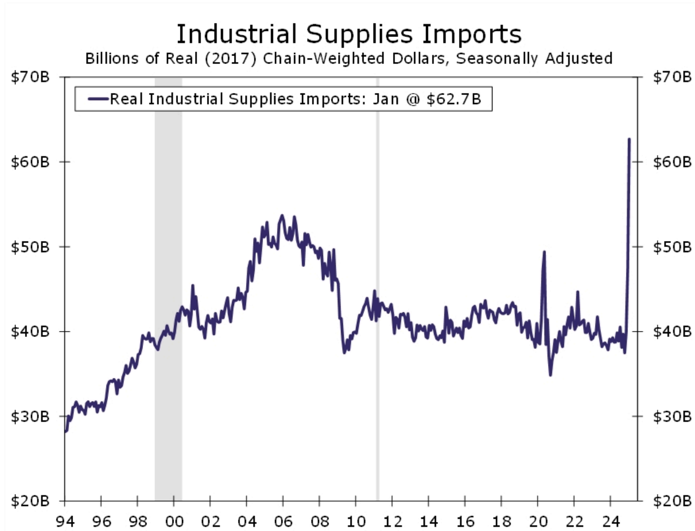
Only time will tell whether tariffs are ultimately posture or policy, but in the meantime, the threat of tariffs is already influencing behavior and driving uncertainty to levels that rival the pandemic (Figure 1). On April 30 we get the advance estimate of Q1 GDP growth, which will show just how much of a drag the widening trade gap exerted on the economy. To say U.S. imports surged in January is an understatement. Inflation-adjusted real U.S. imports jumped 12.4%, the most in a single month on record, due to a pop in industrial supplies imports (Figure 2), or finished metal shapes specifically.

Figure 1




Source: Barker, Bloom & Davis, Bloomberg Finance L.P. and Wells Fargo Economics

Figure 2




Source: U.S. Department of Commerce and Wells Fargo Economics

The surge in metals imports in January tells us two things: First, businesses pulled forward at least some demand to get ahead of tariff threats and secure needed inputs before tariffs went into effect. Second, trade has the potential to meaningfully dent first quarter GDP growth. It's still early days, but even with a complete reversal of the surge in metals imports, trade would *slice* two percentage points off headline GDP growth for the quarter. We also may not yet see a reversal either. In anecdotal conversations we're having with trucking and logistics clients, the rush to get product continued into March as steel & aluminum tariffs were further delayed. If we see a continued pull-forward in demand, trade could be an even larger drag on first quarter growth.

It's reasonable to expect a bulk of these imports find their way into inventories if they were in fact a result of front-running tariffs. By that logic, a built-in counterweight would kick in and ameliorate some drag on headline GDP growth.

We ultimately expect the economy can withstand a degree of uncertainty around tariff policy in the near term. But further out, if businesses start adjusting pricing due to tariffs, that price pressure could be passed onto consumers (meaning higher inflation) or partially absorbed (meaning dented profit margins). Neither option is great from a macro perspective. Price-sensitive consumers may not be able to withstand inflationary pressure causing them to pull back on spending, and businesses may look to

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cut costs elsewhere in order to shore up margins which could result in a broadening out in layoffs. To the extent these pressures bite, we may see growth slow in the second half of the year.

## Markets Hate a Vacuum, So Does the Fed, Apparently

April is set to be a milestone month for trade policy. It begins with at least a partial articulation of the next round of trade policies, particularly reciprocal tariffs. It ends with an advance estimate of the scope of damage trade might inflict on first quarter GDP growth.

Aristotle's line that "nature abhors a vacuum" has often been co-opted to describe how financial markets tend to dislike policy uncertainty. "In the current situation, uncertainty is remarkably high," said Fed Chair Jay Powell at the conclusion of the Fed's March policy meeting. Lest we wave that comment off as an off-the-cuff response, this theme was also evident the formal language of the accompanying statement which abandoned language about risks to the dual mandate being "roughly balanced" to say instead that the "Committee is attentive to the risks to both sides of its dual mandate." In other words, lack of clear and consistent fiscal and trade policy guidance are contributing to fatter tails in the distribution of possible monetary policy outcomes as well.

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