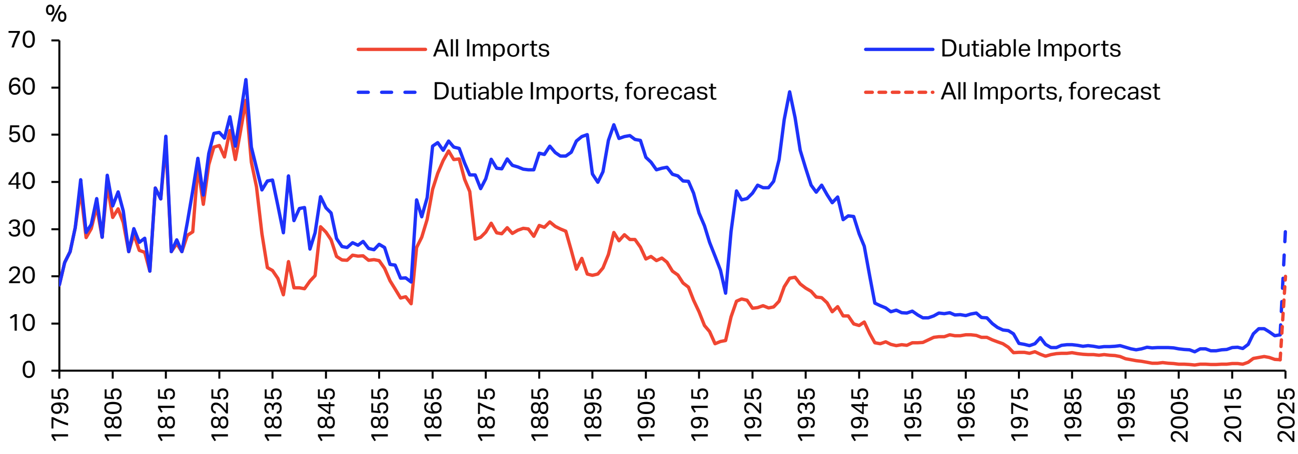
Chart of the Week

4 April 2025

US tariffs are now at the highest rate since the Great Depression

US average tariff rate on total imports and on dutiable imports, %, and forecasts



Source: IATA Sustainability and Economics, Macrobond, PIIE, Tax Foundation, US ITC, Yale budget Lab, Bloomberg

- For the first time since the Great Depression, the US has introduced a universal tariff on all imported foreign goods of 10% to take effect on 5 April. Additional duties will be levied on a few dozen countries, bringing the tax on Chinese goods, for instance, to 54%, effective 9 April. Goods from Canada and Mexico covered by an existing trade agreement are exempt. There is also a 25% tariff on all steel and aluminum imports, a 10% tariff on energy imports from Canada, and a 25% tariff on all imported vehicles, including imported auto parts. The US average tariff rate climbs to around 20% on all imports and to some 30% on dutiable imports.
- What the impact will be on GDP in the US and in the world depends on multiple factors. These include the state of the economy when the tariffs are imposed, where a stronger economy at the outset clearly lessens the potential damage. For instance, when the Smoot-Hawley tariffs were introduced in 1930, the Great Depression had already started. The resulting drop of 65% in global trade was compounded by the already depressed economy - GDP fell by 8.5% in 1930. In stark contrast, US GDP growth was 2.5% YoY in the fourth quarter of 2024, down from 3.0% earlier in the year, but still remarkably strong at this stage in the cycle.
- A mitigating factor, in addition to the positive global economy prior to the tariffs, is the fact that the world is predominantly a service economy. Services make up 67% of global GDP, with industry at around 26%. The share of services in global trade is as high as 42%, defined broadly, versus 58% for goods, according to the WTO (customs data puts services closer to 20% of total trade). Services are not subject to tariffs, but they do face multiple non-tariff impediments to trade. Some countries have suggested retaliating against the tariffs imposed by the Trump administration by targeting services, which would greatly magnify the impact on the US and global economies. The US has a surplus in its services trade of around USD 290 billion but a deficit of USD 1,200 billion in its trade in goods (2024).
- At this stage, it is unknown how long the tariffs might be left in place, the extent of retaliation, moves in exchange rates, policy interest rates, goods substitution, supply chains, and other dynamic responses. Cross-border trade in aircraft will be affected by the tariffs, though if made and bought on the same continent, this will not be the case. The record-late deliveries of aircraft could be an advantage in this sense, notably if the trade war proves short-lived. Slower GDP growth will weigh on air transport demand. US GDP growth could be reduced by up to 1 percentage point, and global GDP could drop by 0.5 percentage points hypothetically. While the probability of a recession has certainly risen, it does not yet look likely.

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