

“ MOST FORECASTERS –OURSELVES INCLUDED– SEE HIGHER ODDS OF A US RECESSION IN THE NEAR TERM. IN THE LONGER RUN, AS TARIFFS ENCOURAGE CAPITAL ALLOCATION TO LESS EFFICIENT PRODUCERS, US PRODUCTIVITY GROWTH, WHICH HAS BEEN THE ENVY OF THE WORLD, IS BOUND TO FALL. SO WILL THE PACE AT WHICH THE US ECONOMY CAN GROW WITHOUT EXCESSIVE INFLATION.

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ECONOMIC RESEARCH



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"RECIPROCAL" TARIFFS ARE BAD FOR WORLD GROWTH AND WORSE FOR THE US

Last week, the Trump administration announced tariffs against the entire world which, added to those of previous weeks, will raise the average external tariff of the United States to 22%, compared with 2.5% at the end of 2024. Financial markets have reacted extremely badly, and suggest even more serious fears for US growth than for global growth. Many unknowns remain, but this scenario is the most plausible. For the United States' trading partners, it would be better to resist the temptation to escalate and instead to double down on strengthening the engines of domestic growth. Europe is particularly well placed to do this..

Let's recapitulate the key facts: after imposing ad hoc tariffs on Canada, Mexico and China, and 25% tariffs on all steel and aluminum imports, as well as on automobiles, on April 2 President Trump announced tariffs on the entire world (minus Belarus, Cuba, North Korea and Russia) ranging from 10% for the lucky ones to 49% for Lesotho. Contrary to what their official name suggests, these tariffs are not reciprocal but simply based on the size of the US bilateral trade deficit relative to imports. Together, these measures raise the average tariff on US imports to around 22%, from 2.5% at the start of the second Trump mandate (and 1.7% at the start of his first). Less than 20% of all US trade is now Trump-tariff-free. Poor countries and Asian countries are hit hardest, in particular China, whose exports to the US will now be taxed at 74% (potentially rising to 99% if the 25% tariffs on importers of Venezuelan oil are activated. See chart 1).

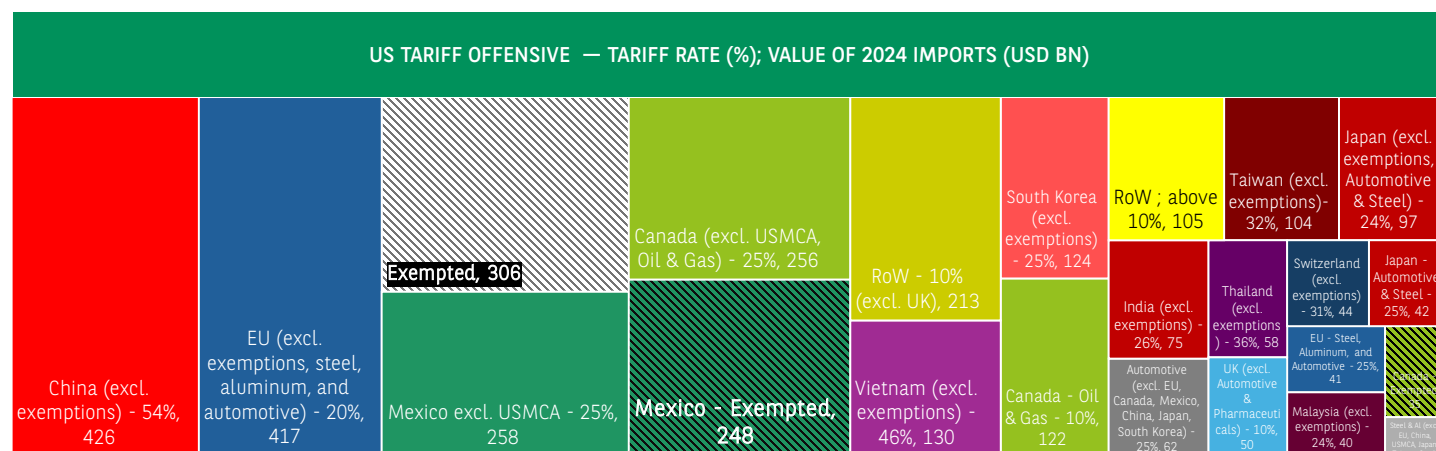
The reaction from markets was unambiguously bad: stock markets around the world plunged, as did oil and other growth-dependent asset prices, while sovereign bonds rallied. The moves were of a magnitude similar to those seen at the onset of the COVID lockdowns. Plainly, markets fear the so-called reciprocal tariffs will trigger a global trade war and recession. Consistent with the results of most macroeconomic models that have sought to estimate the impact of global tariffs such as those unleashed on April 2¹, markets also seem to expect the US economy to be hit hardest: the US dollar (which typically appreciates in global risk-off events) weakened sharply in the 48 hours fol-

lowing the announcement, and US stock markets underperformed². Lower oil prices and long-term rates will be welcome by US consumers, but the former will further weaken the domestic oil industry, while much higher corporate bond yields, if sustained, will challenge the whole corporate sector.

Many unknowns remain. Speaking on the heels of the "reciprocal" tariffs announcement, Treasury Secretary Bessent argued that these tariffs provide much wanted certainty, in that they constitute a ceiling—provided trade counterparts do not retaliate. But nobody knows what scope there is to negotiate these tariffs down, nor on what basis, since there is plainly no discernible logic behind the "reciprocal" tariff rates. President Trump will be the one calling the shots, but he has said both that his tariffs were here to stay and that he would be open to revise them down if countries make him "phenomenal" offers. Moreover, more tariffs have yet to be announced: on copper, lumber, pharmaceutical products, and semi-conductors. An equally big unknown is how other countries will react. China has already retaliated with 34% tariffs on all US imports. Over 50 countries have allegedly reached out to the Trump administration since "Liberation Day" to try and negotiate a deal. The EU and the UK are considering their options. This uncertainty greatly amplifies the deleterious impact of the tariffs themselves, as households and businesses alike will be putting off any important economic decisions. The longer it lasts, the more persistent the damage will be.

¹ See for example Conference Board, PIIE, Yale Budget Lab, Kiel Institute

² See this week's Revue des marchés



Striped boxes represent Exemptions, which accounted for \$588 USD bn of imports in 2024 i.e. 18% of the total - Exemptions = USMCA, Copper, Minerals, Pharmaceuticals, Semi-conductors. This chart exclusively covers tariffs decided since 20 January 2025.

SOURCE: CENSUS BUREAU, MAISON-BLANCHE, BNP PARIBAS ECONOMIC RESEARCH.

DATAVIZ: ANIS BENSADANI

CHART 1



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How will it impact the US economy? The Trump administration's view is that these tariffs are essential to bring industrial jobs back³, that they will therefore benefit workers, improve real wages, and will not cause inflation because foreigners will bear the burden of the tariffs. They also believe the tariffs will generate trillions of US dollars that will help fund tax cuts and reduce the US public debt. On the other hand, mainstream economists, and the Chair of the Federal Reserve, believe that the tariffs will lower growth and increase inflation. How much is hard to say. But in the case of the 2018 tariffs, various studies estimate about 60% of the cost increase was borne by US consumers⁴. Estimates of the extra costs of the Trump II tariffs for US households range from USD 1,500 to USD 2,100 per year⁵. Steel prices, including from domestic producers, have already gone up by 30% following the 25% tariffs imposed just weeks ago. As far as growth is concerned, apart from the uncertainty shocks described above, the USD 6 trillion in the value of the US stock market is bound to have a chilling negative wealth effect on the 58% of US households who own stocks, with many critically depending on them to fund their retirement. As a result, most forecasters –ourselves included—see higher odds of a US recession in the near term. In the longer run, as tariffs encourage capital allocation to less efficient producers, US productivity growth, which has been the envy of the world, is bound to fall. So will the pace at which the US economy can grow without excessive inflation. As to reducing public debt, the new tariffs imposed year-to-date could raise USD 3.3 trillion over the next 10 years, based on 2024 imports. But to the extent the Trump Administration's stated goal to reduce imports is met, then the revenue boost will be lower.

How should Europe and the rest of the world respond? Politics and public opinions call for strong retaliation. Yet, we know from history where such a posture led in the 1930s (see the [Kindelberger spiral](#)). Modern macroeconomic models confirm that outcomes are worse for all parties with retaliation. Of course, these assume that both the original and retaliatory tariffs remain in place. As ever, a case can be made to “escalate to de-escalate”, i.e., to encourage the US to walk back the original tariffs. EU officials have noted that such moves do not need to be contained to trade in goods. Indeed, the US large surplus in exports of services, and its dependency on foreign capital inflows, can be seen as potential pressure points. This is a high-risk strategy with strong potential to back-fire.

While negotiations are ongoing, there will be calls to support the most directly impacted sectors, and providing such support makes sense to cushion the blow in the near term and hence strengthen the negotiators' hand (in the EU, care would need to be taken to maintain a reasonably level playing field across member states).

But ultimately, if the US does succeed in reducing its trade deficit (a big if, unless significant macroeconomic adjustments occur), economies that have relied extensively on US demand as a source of growth will need to find alternative ones. They will be tempted to look for other export markets, as China did very successfully since 2018.

But unless the surplus economies grow their own domestic demand, this will be a zero-sum-game, or worse. As such, the EU is right to have warned China not to flood its markets with discounted goods and to contemplate safeguard measures. But it must go further and support its own domestic demand. Providentially, the single-market deepening and investment plans recommended by Mario Draghi last year and embraced by the EU Leadership since—across defense, infrastructure, energy and climate—will do precisely that, on a scale that far exceeds the US bilateral trade deficit (c. USD 230 bn in 2024). It's time to execute, using all the policy levers—fiscal, industrial, and monetary that the EU is fortunate to have at its disposal.

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³ We are skeptical this will happen, as argued here [Will Tariffs Bring Industrial Jobs Back to America?](#) See also [Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector](#)

⁴ Cf for example [The Impact of the 2018 Trade War on U.S. Prices and Welfare](#) | NBER

⁵ Sources include the Peterson Institute for International Economics, the Tax Foundation, and the Yale Budget Lab, among others.



[Find our scenario and forecasts](#)

ADVANCED ECONOMIES

UNITED STATES – WORLD

Tariffs for everyone. Trump announced “reciprocal tariffs” on 2nd April, applying to all of the United States’ trading partners and ranging from 10% to 50% ([complete list](#)). The new 10% floor rate has been in force since 5 April. The higher rates will apply from 9 April: 20% for the European Union, 10% for the United Kingdom, 24% for Japan, and 31% for Switzerland. Semiconductors, copper, minerals and pharmaceuticals are exempt from additional tariffs for the time being. At the same time, the exemption applying to products under the USMCA free trade agreement (due to expire at the beginning of April) has been extended. Global markets did not react well to the announcements. The resulting losses were not far off the levels seen at the start of the COVID-19 pandemic (see Markets Review [HYPERLINK](#)), with US assets (including the dollar) significantly underperforming. The European Union and the United Kingdom have given themselves four weeks to discuss possible retaliatory measures if no agreement is reached with the United States.

UNITED STATES

Employment holding up better than activity. In March, the nonfarm payrolls accelerated to +228k, driven by private services (+197k). The revision for January and February was down (-48k cumulatively). The unemployment rate rose to 4.2% (+0.1 pp m/m), mainly due to the increase (+200k) in the workforce. The ISM manufacturing index returned to contraction territory in March (49, -1.3 pp). New orders (45.2, -3.4 pp) and hires (44.7, -2.9 pp) deteriorated further, while production slowed (50.7, -1.8 pp). The prices paid index rose to 69.4 (the highest since June 2022). The ISM non-manufacturing index fell to 50.8 (-2.7 pp, below the consensus of 53.0). On the subject of “reciprocal” tariffs, Federal Reserve (Fed) Chairman Jerome Powell said that he expected them to lead to a reduction in growth and an increase in inflation; and he reiterated that the Fed could afford to wait before adjusting rates. The week will be marked by CPI inflation (10 April), the March NFIB survey (8 April) and the University of Michigan consumer sentiment measure (preliminary on 11 April).

EURO AREA

The labour market remains tight. The unemployment rate fell to 6.1% in February, an all-time low. Inflation was surprisingly lower in March (2.2%, compared with 2.3% in February). The slowdown in services (from 3.7% to 3.4%) caused core inflation to fall (2.6% to 2.4%). Producer prices accelerated again (from 1.7% to 3.0% in February), driven by the rise in energy prices.

FRANCE

Manufacturing output rose by 1.4% m/m in February (-1.9% y/y), driven mainly by aerospace production, which returned to its November 2024 level.

GERMANY

Gradual improvement in the economy. In February 2025, retail sales rose by 4.9% y/y (the biggest increase for three years). Harmonised inflation fell to +2.3% y/y in March, compared with +2.6% in February (lower energy prices and slowing services inflation). The final composite PMI was revised upwards in March (from 50.9 to 51.3; +0.9 m/m).

ITALY

The composite PMI is still in expansion territory (50.5; -1.4 pt m/m), despite the manufacturing PMI still contracting (46.6; -0.8 pt). Production is down (-2.6 pts) and new orders are still in the red (44.8). The services PMI deteriorated (52.0; -1.0 pt). Harmonised inflation (+2.1% in March compared with 1.7% in February) reached its highest level since September 2023 (energy prices at +3.2% in March, +0.6% in February). Core inflation also rose (+1.8%, compared with +1.5%).

SPAIN

Private sector activity continued to grow in March, but at a slower pace than in the previous month (composite PMI at 54.0; -1.1 pt over one month). The manufacturing PMI deteriorated for the second month in a row (49.5; -0.2 pt and the lowest level since January 2024), despite increases in production and employment. On the services side, growth slowed (54.7; -1.5 pt).

UNITED KINGDOM

The composite PMI rebounded by 1 point (to 51.5) in March, thanks to services (+1.5 points to 52.5). The manufacturing PMI deteriorated (-2 points to 44.9) due to a plunge in new export orders (-4 points to 40.8). New vehicle registrations saw the biggest monthly increase for a March in 4 years (+12.4 y/y).



EMERGING ECONOMIES

New US tariffs: a particularly severe shock for Asian and developing countries.

- Asia is the region hardest hit. Virtually all countries have large trade surpluses with the United States. They will therefore be subject to tariffs ranging from 17% for the Philippines to over 40% for Vietnam and the poorest countries (Cambodia: 49%). Singapore, which has a trade deficit with the US, is an exception, with the application of the 10% floor rate.
- For Latin America, the new tariffs are limited to 10% for most countries, which have trade deficits with the US (except Venezuela: 15%, Nicaragua: 18%, Guyana: 38%). Mexico is not on the list published on 2 April. Nevertheless, the measures previously announced remain in force (goods not covered by the USMCA, steel and aluminium, and the automotive sector remain taxed at 25%).
- Exports from Central Europe will be taxed at 20%, as for all EU countries. The automotive sector has seen an even greater increase (25%) since 3 April.
- For the African continent, the tariffs announced range from 10% for 34 countries to 50% for Lesotho. Although it is not yet official, these measures are likely to sound the death knell for the African Growth & Opportunities Act, which provided 32 African countries with preferential access to the US market for some categories of goods in 2024. The AGOA was effective since 2000.
- In the Middle East and North Africa region, most countries are subject to the 10% rate. For countries with much higher tariffs, main exports to the US are energy products, which are exempt from new taxes (Algeria, Iraq, Libya) or very low (Tunisia).

CHINA

PMIs rise ahead of the announcement of new US tariffs. The Caixin PMI indices confirm a favourable trend, but the improvement is set to be reversed. The US is considering tariffs of 34% on Chinese goods, in addition to the 35% already in force. Moreover, the exemption on imports worth less than USD 800 is coming to an end. Beijing responded by announcing 34% taxes on US products from 10 April, and controls on rare earth elements.

Fitch downgraded China's sovereign rating from A+ to A. The rating agency cites high budget deficits and rising public debt. These will persist due to weak Chinese GDP growth and the fiscal support that will be needed to boost domestic demand and offset the effects of US tariffs.

INDIA

Economic growth revised downwards. Real GDP growth slowed to 6.2% y/y in Q4 2024 and hit 6.7% over the entire 2024 calendar year (-2.1 pp compared to 2023). The deceleration was mainly due to a sharp slowdown in investment. The increase in US tariffs (to 26% from a current weighted average of 2.56%) will have a modest impact on growth, with India's exports to the United States accounting for just 2.1% of GDP.

CENTRAL EUROPE

Improvement in manufacturing PMIs. In Poland, the index remained above 50 (50.7 in March and 50.6 in February), whereas it had been below that level since May 2022. In Hungary, the index is at its highest level since May 2024. In the Czech Republic, the PMI improved but remained below 50. However, industrial production remains depressed and US tariffs, particularly in the automotive sector, are likely to reinforce the trend.

COMMODITIES

OPEC raises its production quotas. The decision by OPEC members to triple the volume of additional oil put on the market from next May (411 kb/d compared with 138 kb/d initially planned) has accelerated the fall in oil prices. At their lowest for four years, prices are also affected by fears of a slowdown in global demand. The cartel's decision is designed to put pressure on its members who are overproducing and are not compliant with their production quotas.



MARKETS OVERVIEW

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Bond Markets

| | In % | In bps | | | |
|----------------|------------|--------|---------|--------------|--------|
| | 04/04/2025 | 1-Week | 1-Month | Year to date | 1-Year |
| Bund 2Y | 1.87 | -16.6 | -18.7 | -19.2 | -109.4 |
| Bund 5Y | 2.09 | -20.2 | -5.9 | -2.8 | -30.2 |
| Bund 10Y | 2.54 | -16.6 | +8.3 | +17.2 | +19.9 |
| OAT 10Y | 3.14 | -12.6 | +7.5 | +1.8 | +28.1 |
| BTP 10Y | 3.57 | -9.5 | +11.7 | +14.4 | -15.1 |
| BONO 10Y | 3.16 | -9.9 | +8.1 | +14.2 | -3.1 |
| Treasuries 2Y | 3.68 | -28.1 | -28.4 | -56.9 | -102.0 |
| Treasuries 5Y | 3.73 | -25.4 | -26.7 | -65.4 | -55.7 |
| Treasuries 10Y | 4.02 | -24.3 | -19.4 | -56.0 | -28.9 |
| Gilt 2Y | 3.93 | -26.9 | -25.3 | -21.6 | -59.7 |
| Treasuries 5Y | 4.02 | -28.8 | -11.7 | -33.0 | +18.2 |
| Gilt 10Y | 4.45 | -25.3 | -8.8 | -12.8 | +42.4 |

Currencies & Commodities

| | Level | Change, % | | | |
|---------------------|------------|-----------|---------|--------------|--------|
| | 04/04/2025 | 1-Week | 1-Month | Year to date | 1-Year |
| EUR/USD | 1.10 | +1.5 | +4.4 | +6.1 | +1.1 |
| GBP/USD | 1.29 | -0.0 | +1.8 | +3.3 | +2.1 |
| USD/JPY | 145.53 | -3.2 | -1.9 | -7.4 | -4.0 |
| DX | 111.99 | +7.9 | +11.5 | +10.5 | +6.1 |
| EUR/GBP | 0.85 | +1.5 | +2.6 | +2.7 | -1.0 |
| EUR/CHF | 0.94 | -1.3 | +0.4 | +0.3 | -4.3 |
| EUR/JPY | 159.92 | -1.7 | +2.4 | -1.7 | -3.0 |
| Oil, Brent (\$/bbl) | 66.18 | -10.0 | -7.5 | -11.5 | -25.8 |
| Gold (\$/ounce) | 3044 | -1.3 | +4.6 | +15.9 | +32.8 |

Equity Indices

| | Level | Change, % | | | |
|----------------------|------------|-----------|---------|--------------|--------|
| | 04/04/2025 | 1-Week | 1-Month | Year to date | 1-Year |
| World | | | | | |
| MSCI World (\$) | 3326 | -8.5 | -10.7 | -10.3 | -1.8 |
| North America | | | | | |
| S&P500 | 5074 | -9.1 | -12.2 | -13.7 | -1.4 |
| Dow Jones | 38315 | -7.9 | -9.9 | -9.9 | -0.7 |
| Nasdaq composite | 15588 | -10.0 | -14.8 | -19.3 | -2.9 |
| Europe | | | | | |
| CAC 40 | 7275 | -8.1 | -9.6 | -1.4 | -10.8 |
| DAX 30 | 20642 | -8.1 | -7.5 | +3.7 | +12.2 |
| EuroStoxx50 | 4878 | -8.5 | -9.4 | -0.4 | -3.8 |
| FTSE100 | 8055 | -7.0 | -8.0 | -1.4 | +1.0 |
| Asia | | | | | |
| MSCI, loc. | 1302 | -8.1 | -7.8 | -9.1 | -6.0 |
| Nikkei | 33781 | -9.0 | -9.5 | -15.3 | -15.1 |
| Emerging | | | | | |
| MSCI Emerging (\$) | 1088 | -3.0 | -0.5 | +1.0 | +3.7 |
| China | 73 | -3.0 | +0.1 | +12.9 | +32.9 |
| India | 969 | -2.3 | +6.4 | -5.8 | -1.8 |
| Brazil | 1264 | -5.1 | +1.7 | +7.4 | -22.7 |

Performance by sector

Eurostoxx600

Year 2025 to 4-4, €

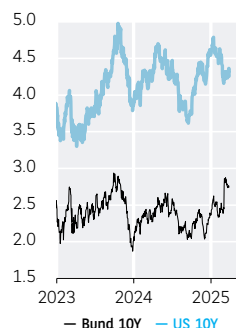
| | |
|--------------|---------------------|
| +9.4% | Utilities |
| +9.0% | Insurance |
| +8.7% | Telecoms |
| +6.5% | Banks |
| +5.2% | Food industry |
| +0.1% | Construction |
| -0.7% | Chemical |
| -2.2% | Eurostoxx600 |
| -3.2% | Oil & Gas |
| -3.6% | Real Estate |
| -3.6% | Industry |
| -5.8% | Financial services |
| -6.8% | Health |
| -8.1% | Retail |
| -9.6% | Media |
| -9.7% | Consumption Goods |
| -9.7% | Technology |
| -15.8% | Commodities |
| -20.2% | Travel & leisure |

S&P500

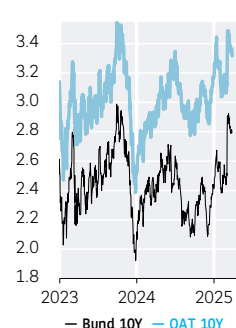
Year 2025 to 4-4, \$

| | |
|---------------|----------------------------|
| +12.3% | Telecoms |
| +6.3% | Food, Beverage & Tobacco |
| +2.7% | Healthcare |
| +1.8% | Insurance |
| +0.0% | Commercial & Pro. Services |
| -1.6% | Utilities |
| -4.5% | Retail |
| -4.9% | Pharmaceuticals |
| -5.1% | Real Estate |
| -7.1% | Energy |
| -7.1% | Materials |
| -12.0% | Capital Goods |
| -12.3% | Consumer Services |
| -13.7% | S&P500 |
| -16.2% | Bank |
| -16.4% | Consumer Discretionary |
| -17.3% | Media |
| -23.8% | Tech. Hardware & Equip. |
| -29.1% | Semiconductors |
| -37.9% | Automobiles |

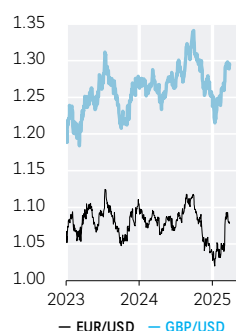
Bund 10Y vs US Treas. 10Y



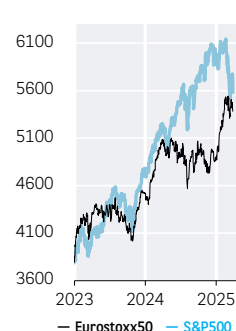
Bund 10Y vs OAT 10Y



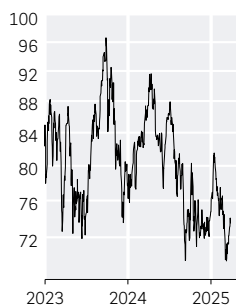
EUR/USD vs GBP/USD



EUROSTOXX 50 vs S&P500



Oil, Brent (\$/bbl)



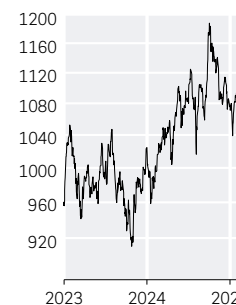
Gold (\$/ounce)



MSCI World (\$)



MSCI Emerging (\$)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS
DATA VISUALISATION AND CARTOGRAPHY: TARIK RHARRAB



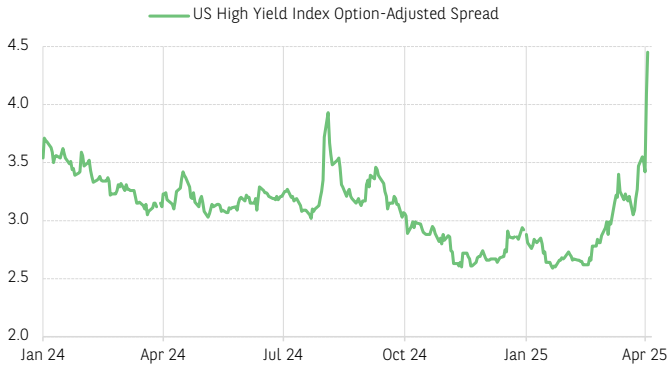
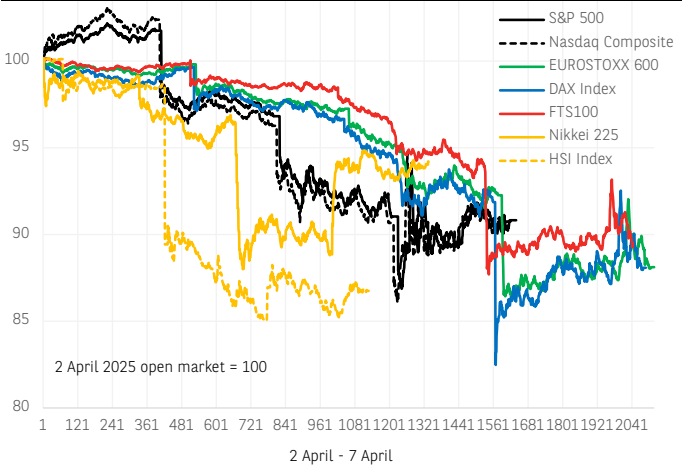
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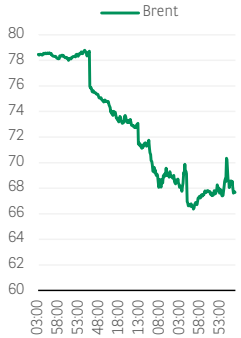
MARKETS OVERVIEW

MARKETS REACTIONS FOLLOWING ANNOUNCEMENTS

| 2 April - 7 April | S&P 500 | Nasdaq Composite | Eurostoxx 600 | DAX | FTSE100 |
|--|---------|------------------|---------------|------|---------|
| Loss of market capitalization (\$, Mds) | -5158 | -3287 | -1314 | -188 | -224 |



2 APRIL - 7 APRIL



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS
DATA VISUALISATION AND CARTOGRAPHY: TARIK RHARRAB

FURTHER READING

9

| | | |
|--|-----------------------------|----------------------------|
| Which ASEAN countries are most vulnerable to the hike in US tariffs? | EcoInsight | 4 April 2025 |
| China's prudent exchange rate policy is expected to continue | Chart of the Week | 2 nd April 2025 |
| French Economy Pocket Atlas - March 2025 | French Economy Pocket Atlas | 1 st April 2025 |
| Europe's major investment projects: an increasingly complex financial equation | EcoWeek | 1 st April 2025 |
| Tariff escalation between the United States and the EU: sectoral differences are generally not very marked. | EcoTV | 28 March 2025 |
| Fed monetary status quo: for how long? | EcoTV | 27 March 2025 |
| Will Tariffs Bring Industrial Jobs Back to America? | Chart of the Week | 26 March 2025 |
| China in 2025: temporary adjustment or structural rebalancing of economic growth drivers? | EcoWeek | 24 March 2025 |
| FOMC, A Strange Stability | EcoFlash | 20 March 2025 |
| QT2: the Fed is trying to find the right pace | EcoInsight | 20 March 2025 |
| United States: Concerns about growth | Chart of the Week | 18 March 2025 |
| EcoPulse March 2025 issue | EcoPulse | 18 March 2025 |
| How the 2025 Davos Consensus Was Upended in two Months, and What Comes Next | EcoWeek | 17 March 2025 |
| Tariff wars are stories that usually end badly | Chart of the Week | 17 March 2025 |
| Growth is local, bond yields are global: why does it matter? | EcoInsight | 14 March 2025 |
| Germany: "whatever it takes"? | EcoFlash | 12 March 2025 |
| The challenge of inflation: 5 things to look out for | EcoWeek | 11 March 2025 |
| Eurozone: stimulated by lower interest rates, new loans to households and businesses continued to increase in January 2025 | Chart of the Week | 7 March 2025 |
| Emerging countries: financial vulnerability is lower than it once was | EcoWeek | 4 March 2025 |
| Emerging markets: which sovereign debts are most vulnerable to rising global financial volatility? | Chart of the Week | 27 February 2025 |
| February inflation: sharp drop expected in France, stability in the rest of the Eurozone | EcoFlash | 26 February 2025 |



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