



Nothing artistic about this deal

By Taylor Schleich & Ethan Currie

At long last, the White House is starting to strike 'deals' that trade partners have apparently been clamoring for since Liberation Day. Thursday's agreement between the U.S. and the U.K. is the first we've seen but won't be the last as nations seek relief from the eye-popping tariffs imposed (and then paused) in early April. To be clear, this isn't a trade deal in the traditional sense as that would require congressional approval. Rather, this agreement simply rolls back or reduces some of the levies imposed in recent months. Moreover, this isn't the final form of the deal and there will be months of additional negotiation ahead. Nonetheless, it's progress. As such, markets looked favourably upon the announcement. However, as we look through the (limited) details of what was announced, we don't find ourselves basking in optimism.

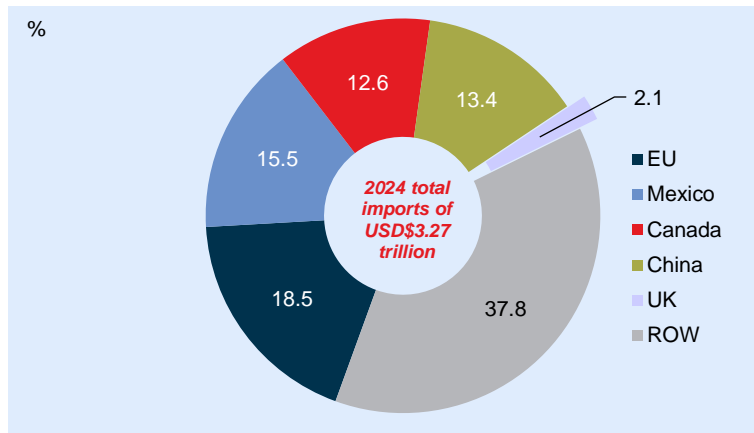
For context, the U.K. is a relatively small fish in the U.S. trade pond. British goods are just ~2% of the total U.S. import basket. Within this relatively small amount, the agreement at this stage covers only ~30% of what Americans import. Steel and aluminum, autos, jet engines, pharmaceuticals and some agriculture products were the main items

touched. Everything else remains subject to a 10% charge. Even within the goods covered, tariffs have *not* been universally lifted. Section 232 levies on steel and aluminum were removed but that was not the case for cars. The agreement allows for 100K autos to be subject to a reduced 10% rate as part of a tariff rate quota (TRQ). Imports above this threshold are subject to a 27.5% charge. Of course, lower tariffs are better than higher tariffs and it's notable that the 100K TRQ covers most, if not all British vehicles imports. Still, the "preferential" 10% duty is well above the ~2.5% rate that applied in past years.

Looking to deals with other nations, the U.K. agreement offers a reminder that material protectionism isn't going away. Tariffs may be negotiated *down* but not away entirely. The TRQ on autos is particularly relevant for a country like Canada where a significantly larger quota would be needed. From a U.S. inflation perspective, this single deal does little to ease inflation concerns as it barely dents the U.S.'s effective tariff rate. Here, tariffs on China are most critical, so we'll be watching this weekend's meetings closely.

Chart 1: The U.K. is not a top player in U.S. trade...

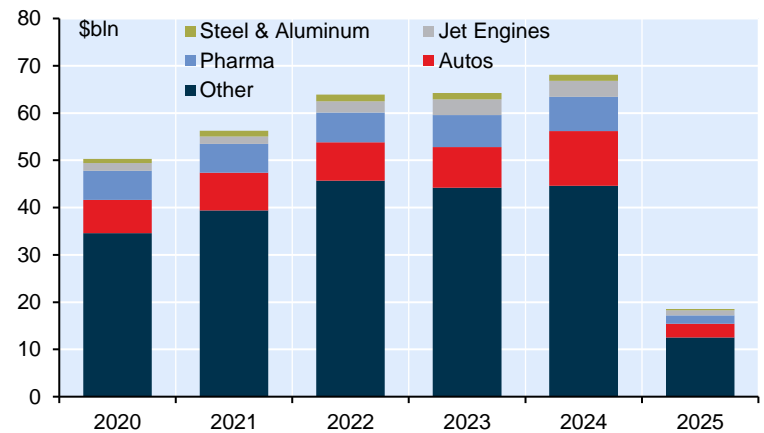
Total U.S. import shares by trading partner, 2024



Source: NBC, U.S. Census | Note: 'ROW' refers to 'rest of world' trading partners

Chart 2: ... and recent tariff carveouts are limited in scope

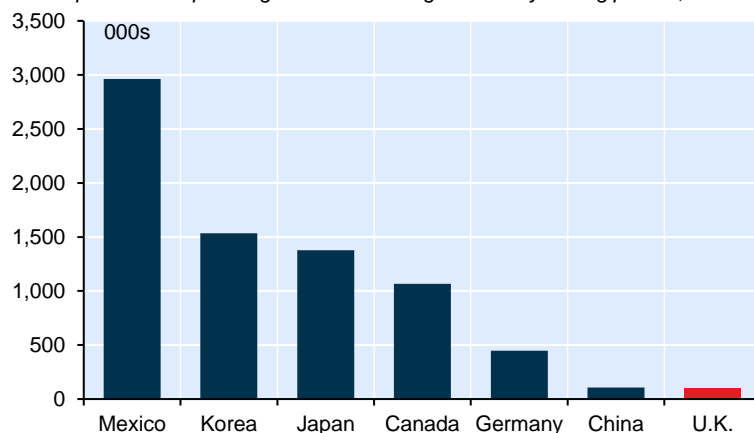
U.K. exports to the U.S. by product category, since 2020



Source: NBC, U.S. Census | Note: 2025 is YTD through March, uses HS2 codes

Chart 3: Larger TRQs would be needed for Canada, others

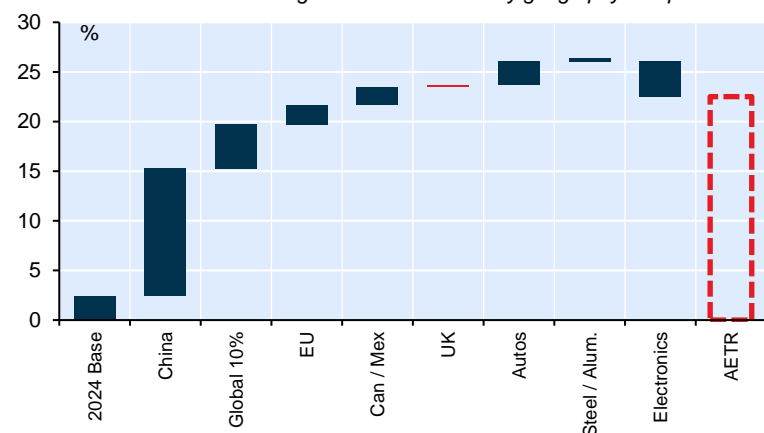
U.S. imports of new passenger vehicles and light trucks by trading partner, volume



Source: NBC, U.S. International Trade Administration

Chart 4: China relief required for significant damage control

Contributions to the U.S. average effective tariff rate by geography and product



Source: NBC, U.S. Census | Note: 'AETR' refers to U.S. 'average effective tariff rate'



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