Market View
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The Levy Lowdown *(Vol. III)*: Party in the U.S.A.?

By Ethan Currie

*Note: For more tariff and trade analysis, readers are encouraged to visit the NBC Economics & Strategy **website** or check out prior 'Market View' reports providing 'The Levy Lowdown' (**Vol. I** & **Vol. 2**). More to come, we're sure…*

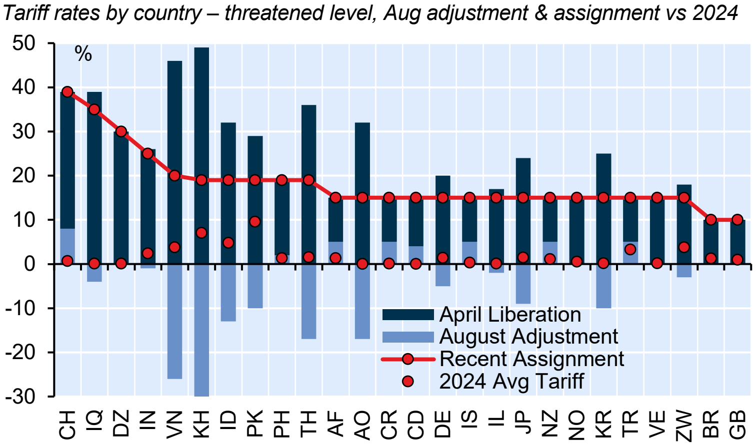
Are you losing track of the trade deal developments yet? We wouldn't blame you, considering the flurry of key dates, deadlines, deferrals, legal deliberations, and duties data we've been subject to. Fresh trade data this morning revealed that the U.S. merchandise deficit continued to shrink in June. That's primarily the result of falling imports due to both earlier front-loading and higher costs in the form of tariffs. With adjusted 'reciprocal' levies set to take hold starting Thursday, it's no wonder two-way trade with the tariff capital of the world is dipping.

While U.S.-assigned tariff rates have come down from their threatened April levels, they are still massively inflated relative to last year (Chart 1). Indeed, the average effective tariff rate (AETR) resides at levels not seen since WWII. While we await 'hard' data via customs revenues and trade balances to settle on the 2025 figure, we estimate that the U.S. AETR is above 15% according to current policy (Chart 2). This number remains fluid as trade behaviour adjusts and presumably, countries with more favourable tariffs may see relatively more U.S. business.

Outside of reciprocal levies, and court rulings which could challenge the imposition of such under the IEEPA, sectoral tariffs remain very much in focus. Fentanyl-related levies on Canada, Mexico, and China make trade deals for these partners a unique case. Thanks to the USMCA, Canada's exposure remains better than most, and the 'headline' 35% is not representative of the overall tariffs being paid. Still, we see punitive broad-based tariffs, if sustained, and associated uncertainty / volatility weighing on long-run domestic and global growth. Clearly, this administration is more protectionist than Trump's **first time in office**, which is clear when comparing customs duties. It's also consistent with a stickier term premium. However, it might not be so obvious when aligning equity and Greenback performance (Chart 3-6). The full impact of this year's trade war is still to be seen, in our view.

Chart 1: "Reciprocal" tariffs – have we really improved?

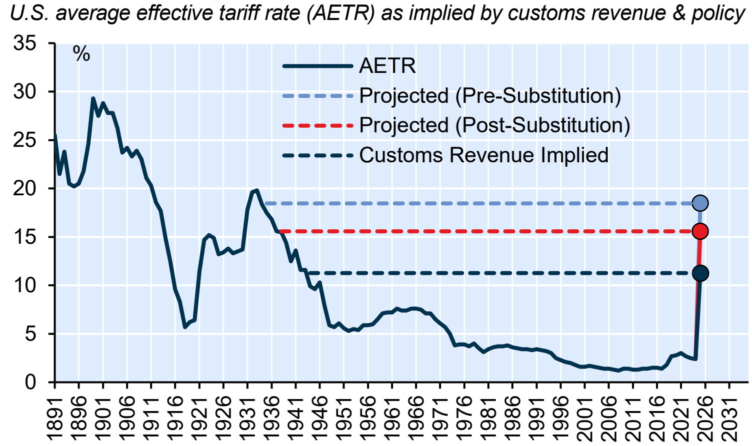
Tariff rates by country – threatened level, Aug adjustment & assignment vs 2024



Source: NBC, Bloomberg, White House, USITC | Note: 2-letter ISO country codes used; 2024 avg tariffs are collected duties / customs value; 'Reciprocal' levies as presented above do not include CA/MX/CN, which are subject to fentanyl-related rates

Chart 2: Levies climbing to levels not seen since WWII

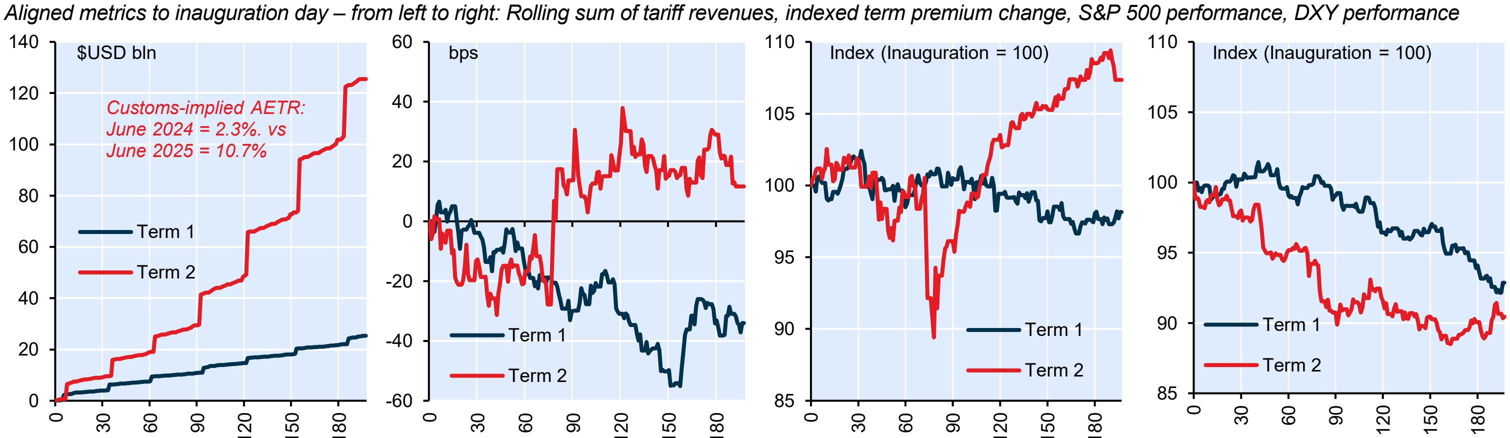
U.S. average effective tariff rate (AETR) as implied by customs revenue & policy



Source: NBC, Bloomberg, White House, USITC | Note: 'Substitution' refers to shift in trade compositions. Pre-substitution calculates the AETR using 2024 weights, post-sub uses 2025 YTD; Customs revenue implied AETR uses July duties collected over June import level

Chart 3-6: Perspective on tariffs & market conditions at the start of each DJT presidential term

Aligned metrics to inauguration day – from left to right: Rolling sum of tariff revenues, indexed term premium change, S&P 500 performance, DXY performance



Source: NBC, Bloomberg, USITC | Note: Figures aligned to 20-Jan-2017 (first inauguration) and 20-Jan-2025 (second inauguration); Term premium is Adrian, Crump & Moench 10Y UST

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