US reciprocal tariffs: Economic and property impacts

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Donald Trump's tariff bombshell

On 2 April US President Donald Trump declared a national emergency resulting from 'foreign trade and economic practices', and announced a global minimum reciprocal tariff on goods entering the US of 10% (tariffs are border taxes on goods, paid by the importer, and do not apply to services).

This 10% rate now applies to the UK, but many countries now face a much higher figure. This has been calculated on an individual country basis via a methodology that has left most economists scratching their heads. The effective Eurozone rate will be 20%, and many countries in Asia will see significantly higher rates (for example, China faces 34%, and Vietnam will suffer a colossal 46%). There are also sector-specific tariffs, with a rate of 25% applying to steel, aluminium, and cars.

This is a major global economic shift. The overall tariff rate is likely to be higher than under the Smoot-Hawley Act of 1930, credited by most mainstream economists (though not the Trump administration) with significantly exacerbating the Great Depression.

Globalism was already in modest retreat, as the pandemic and a deteriorating geopolitical environment demonstrated the value of resilience in supply chains and the dangers of overreliance on production overseas. But this significant move away from free trade towards protectionism throws into reverse the established logic of producing goods where it is most cost effective (the principle of comparative advantage).

So far, global political reaction has been relatively restrained. Some countries have immediately announced retaliatory measures (for example China), but many have delayed responding in the hope that further negotiation can avoid a broader trade war. We do not know the extent to which the tariffs are a negotiating position, and where the rates may finally end up.

Global economic impact

Although political reaction has been restrained, the same cannot be said of global financial markets, which were clearly taken by surprise at the scale of the tariffs, and equity values have fallen sharply following the 2 April announcement. On the positive side, the announcement itself has at least removed a layer of uncertainty present since the US presidential election.

The impact will vary significantly between countries and industries. Those countries very exposed to US trade and with high tariff rates, or with already weak growth rates, could move into recession territory, as their exports to the world's largest market become less competitive. This brings with it the risk of a global recession – brokerage JP Morgan currently puts this probability at 60% (up from 40% before President Trump's announcement).

The higher tariffs on cars and steel mean that these sectors are likely to see the greatest disruption. But there will be trade disruption to all goods that are exported to the US and this, plus ongoing uncertainty, will mean a fall in business confidence. Indeed, some manufacturers have already put a temporary halt on supplies to the US.

In the longer term, the tariffs will result in lower global economic output and higher average costs of production through a less efficient allocation of capital and labour and reduced competition. Global manufacturing supply chains operate via highly interconnected, interdependent networks, which are now being upended. Over time, companies will adapt their manufacturing strategies and global supply chains, although they will be less efficient overall and could take many years to fully accomplish.

Tariffs will also lead to higher inflation in the US, as manufacturers pass on some, or all, of the higher costs to consumers. Although this is a one-off impact, wage-price spirals have the potential to prolong the effect. The disruption to supply chains is also in itself inflationary.

Huge uncertainties remain, stifling business investment and decision-making. And the tariff landscape could change quickly - through negotiation, retaliation, or Donald Trump simply changing his mind. In the longer term, it is also impossible to predict what US policy will be post the next, 2028, presidential election.

UK economic resilience

The UK's tariff has been set at the 'minimum' 10% rate, ostensibly because the US runs a trade surplus with the UK. The UK government's positive approach towards the US administration has likely also helped, playing down the potential introduction of retaliatory measures. That said, the UK government has made clear its right to introduce retaliatory tariffs should further negotiations not bear fruit, and has begun consulting with UK businesses. However, it is also possible that a broader bespoke trade agreement could be agreed.

Although the headline rate is 10%, the universal tariff of 25% on cars, the UK's largest single physical export, will still apply. On the bright side, this is focussed on the luxury end of the market, and many wealthier US buyers will likely absorb any price increases.

Pharmaceuticals are one of UK's biggest exports to the US, and were initially exempted from the tariffs. However, this relief has been short lived, with Donald Trump now referencing an imminent 'major tariff' on the sector.

For individual manufacturers, the impact will vary depending on the degree to which they export to the US, are reliant on global supply chains, and could potentially sell more into other markets. It is also likely that overseas manufacturers (notably in China) will now attempt to sell more into the UK, potentially increasing competition and forcing down prices.

That tariffs only apply to physical goods is a significant positive for the UK, which is a heavily service-based economy (services account for around 80% of output, with manufacturing less than 10%). This structural advantage means the direct impact on the UK's GDP should be relatively limited, and is likely to be smaller than the indirect effects from weaker US and global demand. Indeed, only 15% of UK goods exports go to the US, representing just 2.2% of UK GDP (Oxford Economics). Furthermore, there could even be some modest upside for the UK, if US consumers substitute purchases from the EU (20% tariff) for UK products (10% tariff).

Even a modest deceleration in growth would eliminate Rachel Reeves' wafer-thin 'headroom' outlined in the recent Spring Statement, and this could mean further tax rises and / or spending cuts in the forthcoming autumn Budget. The UK government may also provide some targeted support for some disproportionately affected sectors (which would further increase budget pressures).

Prior to 2 April, we expected UK economic growth of around 1% in 2025 (this is the consensus and OBR view, although the Bank of England was already forecasting a lower 0.75%). Growth will now inevitable be lower (unless the US changes tack). Analysis by Oxford Economics following the announcement suggests that growth in 2025 will be just below their previous forecast of 1%, with a more significant downward revision for 2026 from 1.5% to around 1%.

The potential impact on inflation is perhaps less clear cut. The UK's CPI inflation rate is already projected to peak at 3.7% this year, well above its 2% target. There would certainly be upward pressure on prices if the UK were to introduce reciprocal tariffs, or if the cost of products and raw materials increased globally. Conversely, a reduction in demand caused by the tariffs would reduce inflationary pressures. Further cuts to the base rate this year were a virtual certainty prior to 2 April, and on balance, cuts will probably now be a little more rapid to bolster demand. But the Bank of England will need to balance the growth and inflationary risks carefully.

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Implications for UK real estate

The combined impacts of lower economic growth and business confidence, greater volatility in financial markets, supply chain disruption and higher uncertainty is likely to reduce overall occupational demand for commercial property, and mean lower rental growth. Importantly, however, we expect the overall impact to be very modest. Indeed, analysis by Oxford Economics predicts only a 0.3 percentage point hit to all-property average rental growth this year. Given that the impact of tariffs will be highly uneven, the property impact will also vary according to sector.

With tariffs impacting manufacturers rather than services, the industrial / logistics sector stands to see the most significant effect from US tariffs. Short-term supply chain issues are likely, with some firms temporarily halting exports to the US while they assess the situation.

However, there are some potential positives. The post-pandemic trend towards reshoring / 'just-in-case' storage could be accelerated, leading to increased demand for warehousing. Some sectors are resilient – for example defence, which has little exposure to US exports, plus a government commitment to increase spending.

The broader logistics market will continue to be driven by structural change within the retailing sector. Rental growth may be slightly lower than we would have previously expected, but given its resilience, it should remain the top performing of the main commercial sectors.

The UK's service sector should experience little direct impact, as the tariffs only affect physical goods. So key areas where we sell our expertise into the US, such as finance and data technology, should be unaffected. This will help insulate the office market. Nonetheless, occupier demand levels will feel the impacts of greater stock market volatility, lower growth, and the heightened level of business uncertainty. There is also a risk (small at present) that if the UK introduces retaliatory tariffs, the US could respond with countermeasures that do reduce our ability to sell our services there.

The impact on the retail and hotel sectors should be limited, with potentially lower economic growth, consumer confidence (already quite weak) and any uptick in unemployment acting as a headwind.

The housing market should also see minimal impact, given the expected modest downgrade to economic growth, although buyer confidence could fall a little. However, if the economic shock were to be greater than the central view and the UK were to enter a recession, buyer demand would become much more vulnerable.

Development activity may fall, not only due elevated uncertainty and lower confidence around occupational demand, but also a more direct impact on the cost of raw materials. The impact is difficult to forecast. For example, the universal US tariff of 25% could cause global steel prices to rise (and the UK could apply a reciprocal tariff). Alternatively, low-cost steel originally intended for the US may be redirected to the UK, pushing prices down (and with negative implications for the UK's struggling domestic steel industry). Greater currency volatility would add an extra layer of uncertainty. If construction activity were to fall, this will be supportive of rental levels, particularly in those markets where the supply/demand already favours landlords.

We have become used to economic upheaval, from the 2008 Global Financial Crisis to Brexit, the pandemic and the energy price shock. The overall impact of US tariffs on the UK real estate market should be modest compared with many previous shocks. UK bond yields have already moved lower due to fears over lower economic growth (although US bond yields have risen), increasing the gap with property yields, and therefore the attractiveness of property to investors. The UK property market remains a safe store of value for domestic and global investors in unpredictable times.

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