



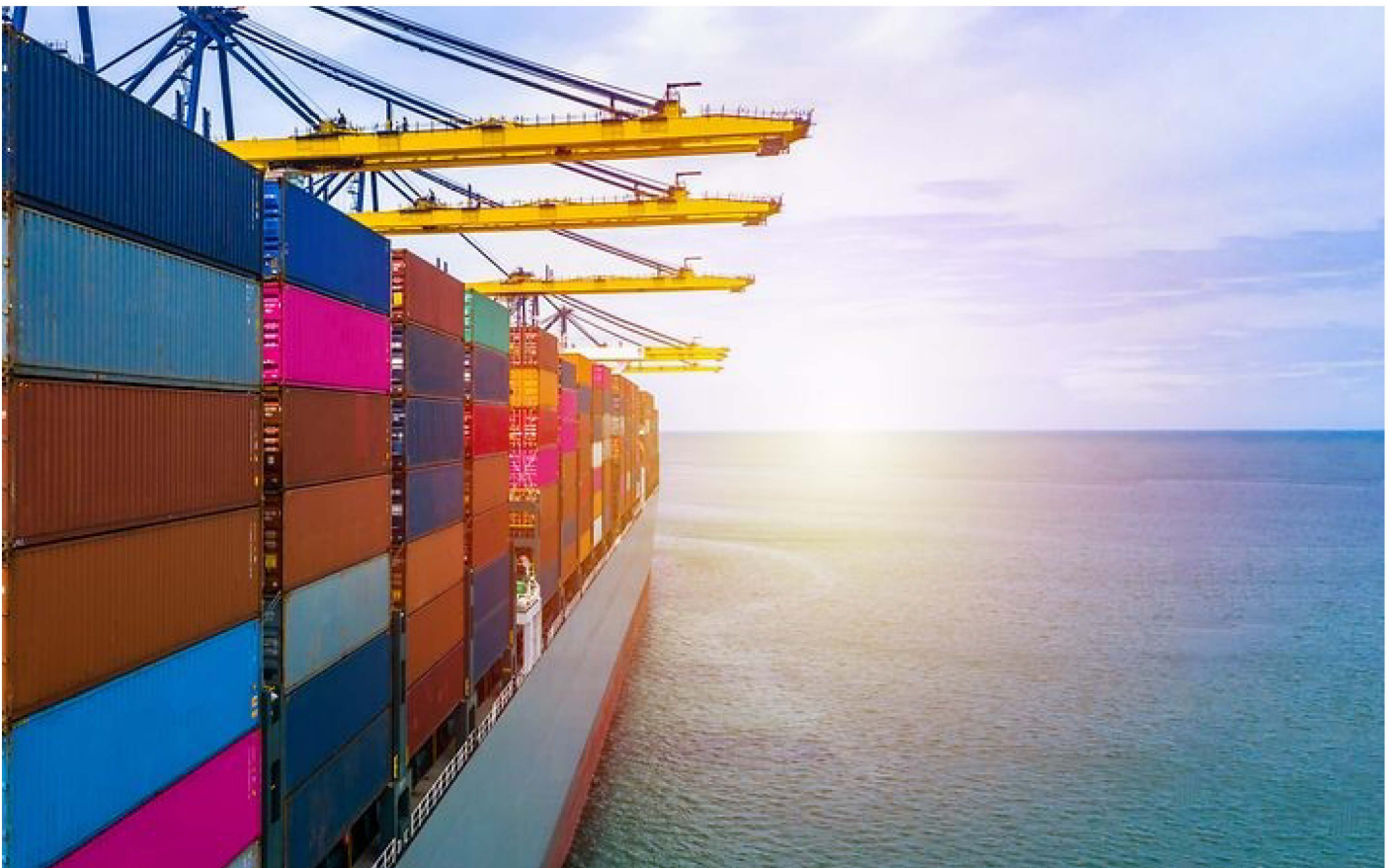
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Market View

What does a Trump presidency mean for the UK?

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At a glance

- Trump is determined to impose tariffs to promote US manufacturing, despite the risk of higher inflation.

- Starmer's government must convince Trump that supporting the UK aligns with US interests, although it is unlikely this will be straightforward.
- While diplomatic efforts show promise, the details and costs of any UK-US trade agreements remain to be seen.

Last week we discussed which markets and sectors are likely to be impacted under Donald Trump's administration. This week, we take a closer look at how Trump's win may impact the UK.

"The most beautiful word"

Trump has referred to 'tariffs' as "the most beautiful word in the dictionary"¹ and so far, he has not shied away from making his intentions clear, particularly on social media. Earlier this week, he reiterated his commitment to delivering on his campaign promise by imposing 25% tariffs on all products coming into the United States from Canada and Mexico, as well as an additional 10% on all goods coming from China. His position on tariffs against the US's biggest trade partners disrupted markets, prompting a sell-off in both Canadian and Mexican currencies and equities, while driving the dollar higher.

The prospect of similar tariffs being applied to UK goods seems increasingly likely, raising concerns about significant disruption to global supply chains, heightened costs for businesses worldwide and upward pressure on inflation.

Trading partners

The United States is the UK's largest trading partner. Last year, the UK exported £60 billion of goods to the US, which could be hit with additional taxes. In a recent report, the National Institute of Economic and Social Research calculated the impact of higher tariffs on the UK economy would result in a 0.8% drop in GDP growth next year, resulting in a £21.5 billion loss to the economy by 2025.² It also argued these tariffs would push inflation up, forcing the Bank of England (BoE) to keep interest rates higher for longer. This means the cost of government borrowing would increase, weighing on public and private investment in the UK.

Meanwhile, the Centre for Inclusive Trade Policy said if Trump's policies are implemented, UK goods and services exports to the US could fall between £19 billion to £34 billion, representing a 4% drop in total UK global exports at the higher end.³ Following Trump's win, Goldman Sachs cut its 2025 UK growth forecast to 1.2% from 1.6%, citing tariffs as the primary factor behind the downgrade.⁴

Plan B?

UK Chancellor Rachel Reeves has stated that it is too early to change the UK's economic forecasts, adding that the government would make 'strong representations' to Trump about protecting trade. She recently told MPs that the UK is "not just a passive actor in this", and said the government would underscore the importance of free and open trade between the UK, the US and globally.⁵ Indeed, the cost of these tariffs on the UK and the US would be high. According to the Centre for Inclusive Trade Policy, these tariffs would not only push US inflation higher, but also incur huge costs, with the US potentially losing \$567 billion in GDP growth annually.⁶

Should slower growth weigh on the economy, this in turn could make Labour's latest budget plans more difficult. Reeves may have to make some hard decisions, such as raising taxes further or scaling back funding commitments in areas such as the NHS.⁷

Sectors

As far as which sectors could take the biggest hit, exports such as whisky and carmakers are likely to be among those facing the most severe costs because of these tariffs.⁸ The US is the UK's second largest trading partner for cars after the EU, according to the Society of Motor Manufacturers and Traders.⁹ Eight out of 10 cars manufactured in the UK are exported.¹⁰ The US is already the largest market for Aston Martin, a company that saw its credit rating downgraded in 2018, along with a profit warning this week, at least in part due to the tariffs imposed during Trump's first term.¹¹

Since the UK is no longer part of the EU, it can negotiate a special deal with the White House, but it is highly unlikely the government can do this if it continues to maintain a policy of refusing to accept chemical modified American agricultural products.¹²

A special relationship

There is no doubt Sir Keir Starmer will have his work cut out for him in navigating diplomatic relations with the US during this period. Theresa May faced significant challenges during her dealings with Trump when she was prime minister, and many expect it will not be a completely smooth road for Starmer's administration given Trump's unpredictable behaviour.

Despite this, the Labour government enjoyed two recent diplomatic successes when it comes to Trump. Firstly, in September, Starmer and Foreign Secretary David Lammy met with the president-elect at Trump Tower in New York. Sources told the BBC that Trump apparently had to re-arrange his schedule to meet with Starmer and Lammy, seen as a "good gesture" by the soon-to-be president.¹³

Prime Minister Starmer quickly reached out to Trump in a phone call that has been credited with reinforcing diplomatic ties. Much of the credit for this effort goes to the British Embassy in Washington, led by Ambassador Dame Karen Pierce, whose skillful handling of the situation ensured the UK's position as a trusted ally. In 2018, David Lammy called Trump a "tyrant in a toupee". He now claims Trump is "often misunderstood" and understands the president-elect's America First agenda. Lammy has also met with Vice President-elect JD Vance multiple times

and is now seen as instrumental in winning over MAGA Republicans.¹⁴

Conclusion

It is widely assumed that Trump is serious about implementing his tariff plans, even though his strategy of driving up import costs to reshore US manufacturing is likely to fuel higher inflation. For Starmer's government, the challenge lies in convincing Trump that he has more to gain by favouring the UK.¹⁵ So far, the Labour government has made decent inroads to fostering what could be a fractious relationship with the UK's closest ally. But details of any actual deals the UK is able to form—and at what cost—remains to be seen.

[1] WSJ: <https://www.wsj.com/livecoverage/harris-trump-election-10-16-2024/card/trump-calls-tariffs-the-most-beautiful-word--YMVPAupw4EjBRp6yobOy>

[2] Times, National Institute of Economic and Social Research: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[3] Times, Centre for Inclusive Trade Policy: <https://citp.ac.uk/publications/trumps-tariffs-could-reduce-uk-exports-by-22-billion>

[4] Goldman Sachs: <https://www.goldmansachs.com/insights/goldman-sachs-research/uk-outlook-2025-a-gradual-pace-but-mkore-cuts-than-priced>

[5] Times: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[6] Times, Centre for Inclusive Trade Policy: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[7] Times: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[8] Times: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[9] Society of Motor Manufacturers and Traders: <https://www.smmmt.co.uk/wp-content/uploads/Global-demand-for-british-cars-2023-1.png>

[10] Society of Motor Manufacturers and Traders: <https://www.smmmt.co.uk/wp-content/uploads/Global-demand-for-british-cars-2023-1.png>

[11] Times: <https://www.thetimes.com/article/0743964a-8358-4cee-a460-80b13800a9fa?shareToken=3cc3aa0e603be374a8d1c7560215db67>

[12] UK in a Changing Europe: <https://ukandeu.ac.uk/donald-trumps-victory-means-labour-will-have-to-rethink-its-approach-to-defence/>

[13] BBC: <https://www.bbc.com/news/articles/cpvzjr8w9mxo>

[14] New Statesman: <https://www.newstatesman.com/politics/uk-politics/2024/11/after-trumps-win-expect-a-shift-in-labours-priorities>

[15] New Statesman: <https://www.newstatesman.com/politics/uk-politics/2024/11/after-trumps-win-expect-a-shift-in-labours-priorities>

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