

Infographic 4: Impact of Tariffs and Trade Policy on the US Economy in 2025

Introduction

Trade policy, particularly the imposition of tariffs, continues to be a significant factor shaping the US economic landscape in 2025. This infographic examines the ongoing effects of tariffs, recent policy shifts, and their implications for various sectors of the US economy.

Current Trade Policy Landscape

The US administration has recently implemented a series of policy moves that have reshaped the global trade environment. Notably, a temporary 90-day reduction in tariffs on Chinese goods, lowering rates from a peak of 145% to 30%, was announced. China reciprocated by cutting tariffs on US exports from 125% to 10% [4]. Despite this temporary reprieve, the average US tariff rate remains at 14%, the highest since 1939, underscoring the enduring nature of this supply-side shock [4].



Key Aspects of Trade Policy:

- **Tariff Reductions:** While some tariffs have been temporarily reduced, the overall tariff burden remains substantial, impacting import costs and consumer prices.
- **Reciprocal Actions:** The reciprocal tariff cuts by China indicate a potential for de-escalation, but the long-term trajectory of trade relations remains uncertain.
- **Trade Agreements:** Efforts to diversify trade partnerships, such as the broad framework for a US-UK trade agreement, aim to mitigate risks associated with volatile geopolitical environments [4].

Economic Impact of Tariffs

Tariffs have a multifaceted impact on the US economy, affecting consumer purchasing power, business investment, and overall economic growth.

Impact on Consumer Spending:

- **Reduced Purchasing Power:** Tariffs increase the cost of imported goods, which can translate into higher prices for consumers, thereby reducing their purchasing

power [4].

- **Shift in Consumption Patterns:** Consumers may shift their spending towards domestically produced goods or seek cheaper alternatives, leading to changes in consumption patterns.

Impact on Businesses:

- **Increased Input Costs:** Businesses that rely on imported raw materials or components face higher input costs due to tariffs, which can compress profit margins [4].
- **Supply Chain Disruptions:** Tariffs can disrupt global supply chains, forcing businesses to seek alternative suppliers or reconfigure their production processes.
- **Investment Decisions:** Uncertainty surrounding trade policy can deter business investment, as companies may postpone expansion plans or delay capital expenditures [4].

Figure 1. U.S. Real GDP Level Effects of 2025 Tariffs to Date

U.S. tariffs enacted through April 2
Percentage point change against baseline

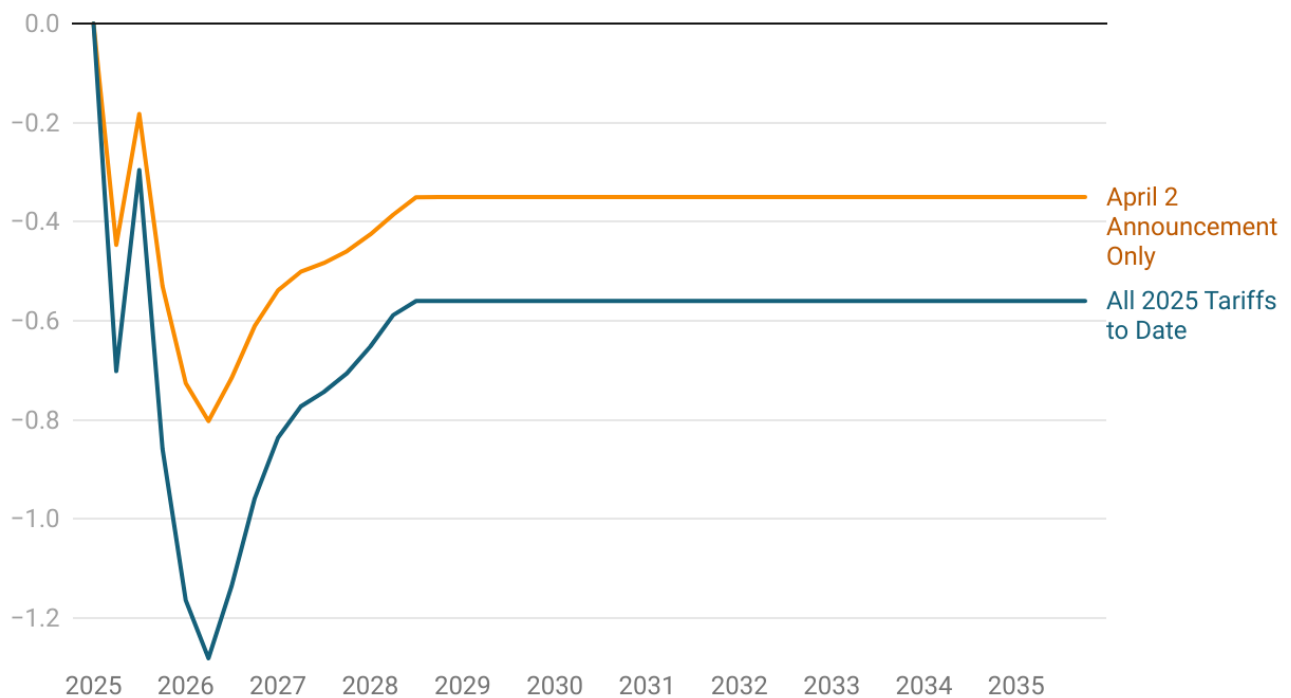


Chart: The Budget Lab • Source: S&P Global, GTAP v7, GTAP-RD, The Budget Lab analysis. • Created with Datawrapper

Impact on Overall Economy:

- **Inflationary Pressures:** Tariffs contribute to inflationary pressures by increasing the cost of goods and services [1, 4].
- **Slower Economic Growth:** The combined effect of reduced consumer spending, increased business costs, and investment uncertainty can lead to a deceleration in overall economic growth [4].
- **Trade Deficits:** Despite the aim of reducing trade deficits, tariffs can sometimes lead to unintended consequences, such as retaliatory tariffs from trading partners, further complicating trade balances.

Challenges and Outlook

The future of US trade policy in 2025 remains uncertain, with potential challenges that could further impact the economy.

Potential Challenges:

- **Policy Volatility:** The possibility of renewed tariff increases or shifts in trade policy could create further instability and uncertainty for businesses and consumers.
- **Global Trade Tensions:** Escalating trade disputes with major trading partners could lead to a more fragmented global economy, impacting US exports and economic competitiveness.
- **Domestic Political Landscape:** The upcoming political landscape and potential changes in administration could bring about significant shifts in trade policy, creating a need for businesses to adapt quickly.

Conclusion

Tariffs and trade policy will continue to exert a significant influence on the US economy in 2025. While temporary tariff reductions offer some relief, the underlying challenges of elevated tariff rates and policy uncertainty persist. Businesses and consumers should remain prepared for potential shifts in trade dynamics and their broader economic implications.

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