TRADE

5 reasons tariffs haven’t wrecked the U.S. economy

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Turmoil in financial markets over U.S. tariffs has died down in recent weeks, mostly because the headlines have moved elsewhere and the economic effects of tariffs are only coming in gradually. But now that we have some relevant data to examine, it’s worth assessing where we are in the rapidly changing global trade environment, the effects so far, and where we may be headed.

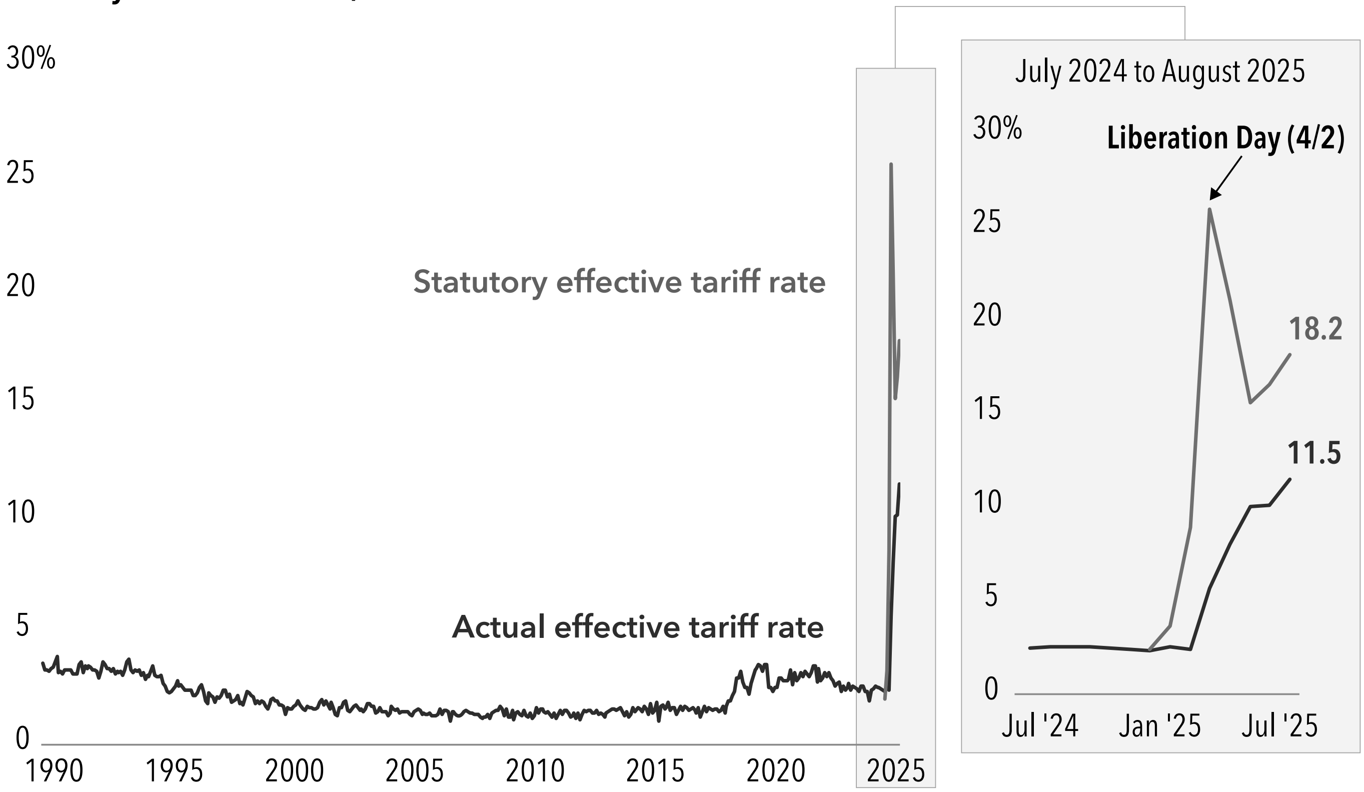
A common narrative these days is that tariff effects were all hype and no substance. But both the tariffs themselves and their effect on the economy are simply more of a slow burn than previously expected, and the argument that tariffs are costless is wide of the mark. Here’s our rationale.

1. The actual paid tariff rate is only about 11% today

Companies are using all kinds of methods to delay or avoid the pain, including front-running the tariffs using various bureaucratic ways to avoid paying, and rerouting trade. There is still a gap between the roughly 17% statutory rate and what companies are paying, which is closer to 11%. The Trump administration’s decision to modify some tariffs over the summer also means that even the statutory rate is much less drastic than it looked on April 2, or “Liberation Day,” when Trump announced a broad package of import duties affecting every U.S. trading partner.

Where tariffs rates ultimately settle will depend on further announcements from the White House and any future negotiations, particularly with large trading partners such as China, Canada and Mexico. However, a level of 15% seems likely once all pre-tariff inventories are run down and trading relationships adjust to the new regime.

U.S. tariffs are higher now, but less drastic than expected
Monthly U.S. tariff rates, 1990-2025



Sources: Capital Group, The Budget Lab (Yale), U.S. Census Bureau, U.S. Treasury Department. Latest data available through August 2025, as of September 19, 2025. Statutory effective tariff rate is the legally specified tax on imports by a government, whereas the actual effective tariff rate is based on the actual tariff revenue collected by the government divided by total import value.

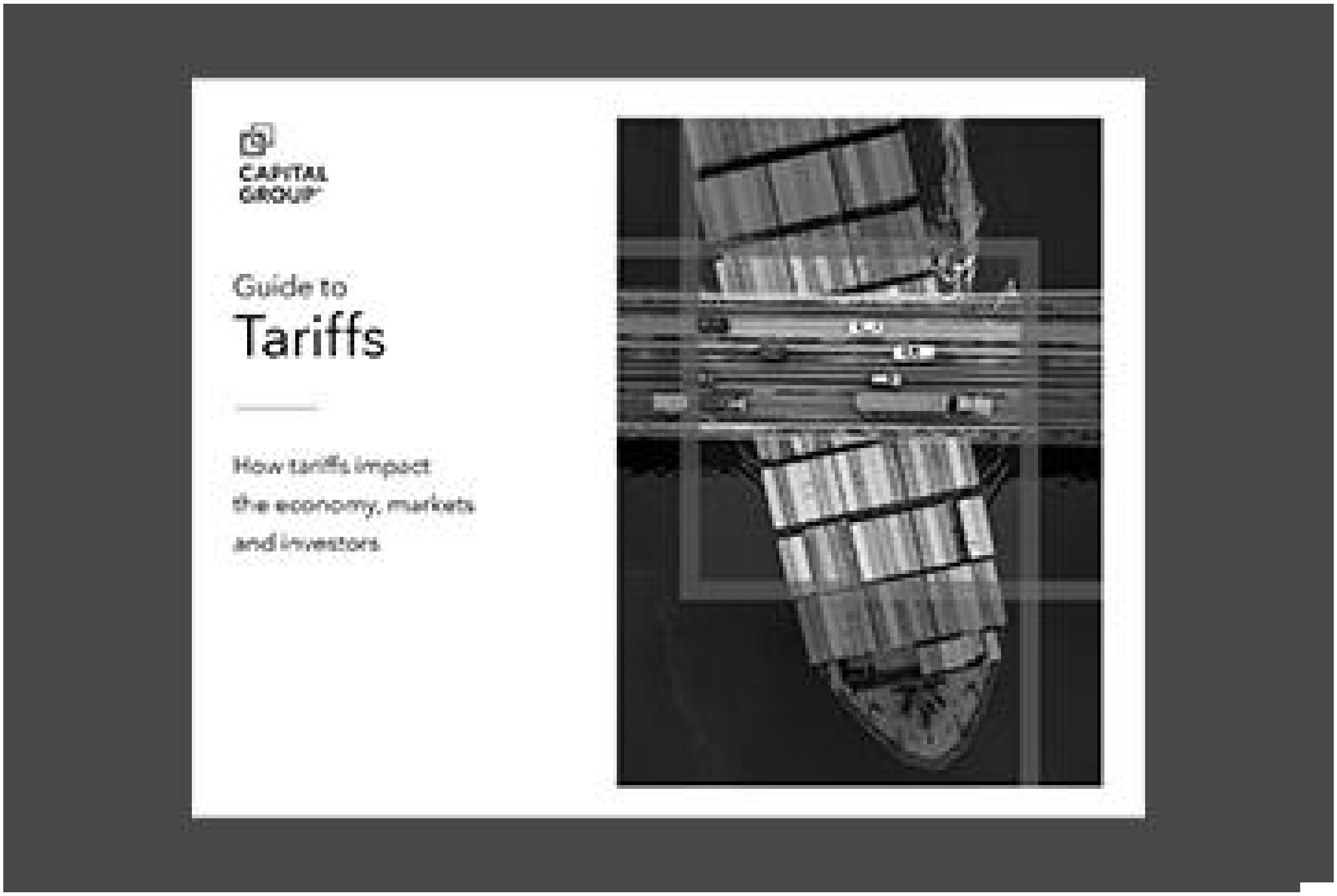
Feedback

2. The macroeconomic impact was predictable

The rule of thumb that many have used as a benchmark is that a 1% increase in tariffs will raise inflation by 10 basis points and hinder GDP growth by 5 basis points. Since tariffs were roughly 2% last year and are about 11% now, that translates into 0.8% on inflation and 0.4% on growth.

How does that compare to what we've seen? There was a meaningful weakening in gross domestic product (GDP) growth during the first half of the year, much of it attributable to the turmoil around tariffs and trade. Consensus estimates for full-year GDP are now roughly 0.6 percentage points lower than they were during the lead up to Liberation Day. There are many other factors that affect GDP growth, but we believe a big slice of the downgrade is due to the uncertainty around trade.

For inflation, it's reasonable to ascribe at least a few tenths of a percent of the current 2.9% inflation to cumulative tariff effects. Many forecasts suggest a slight uptick in inflation in the months ahead, even while we are seeing a slowdown in key areas such as housing and the labor market. We believe a good amount of the inflation increase is tariff related, which means that we're probably not that far off the rule of thumb estimates.



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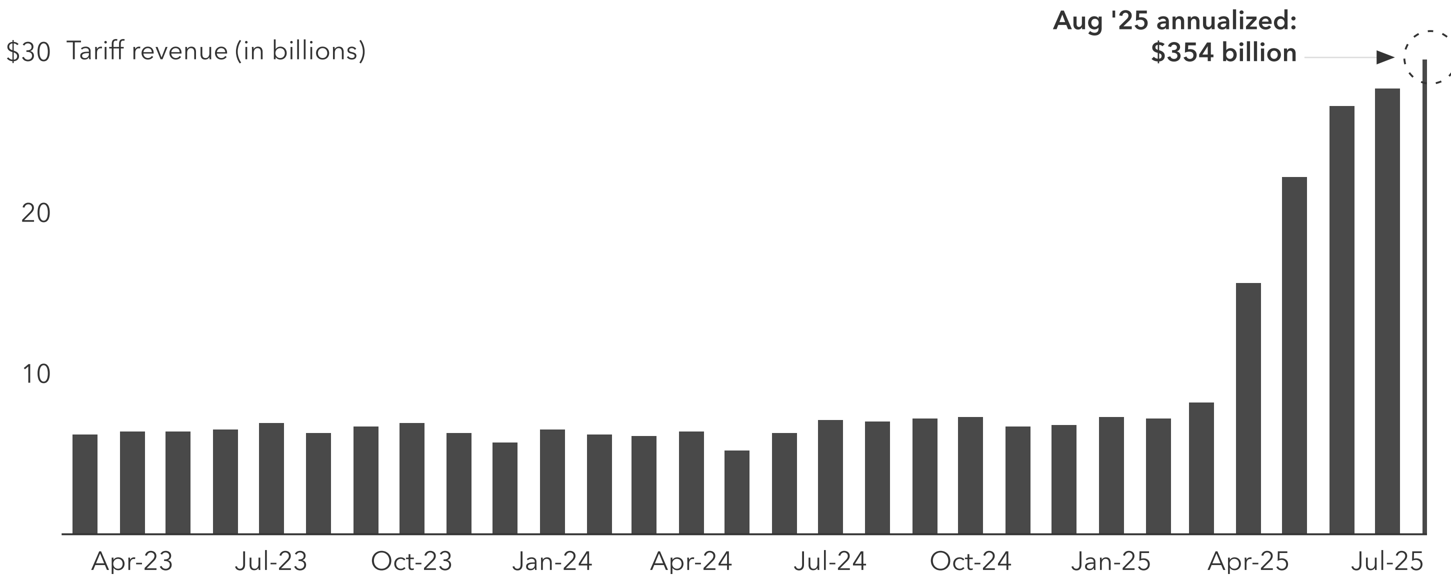
3. We haven’t seen the full effect of a gradual rise in prices

It’s worth noting that we have only gradually moved up to the current 11% tariff rate. Looking at the actual revenue raised from tariffs, we started at roughly 2% tariffs pre-Liberation Day, and we have seen a roughly linear increase to 11% in the June and July data.

U.S. government revenue from tariffs has climbed sharply



Sources: Capital Group, U.S. Treasury Department. Customs duties used as a proxy for tariff revenue. Latest data available through August 2025, as of September 18, 2025.

That means two things. We haven't yet seen the full effect of this gradual increase in prices, and inventories are still depleting, allowing companies to gradually pass tariff costs through to consumers. There is still a gap between actual and statutory tariff rates, meaning that tariffs should increase as temporary avoidance becomes more challenging. Some companies are delaying cost increases, hoping that the tariffs will prove temporary. (Pending the outcome of various court cases, maybe some of them will.) But without a dramatic change, both the effective tariff rate and the subsequent macroeconomic effects are set to rise.

Neither of these points spell an impending recession, in our view. Imports of goods are only 11% of U.S. GDP, so it would probably take something akin to "Liberation Day: Part 2" to really sink the U.S. economy. However, it does mean that inflation and growth are both being pushed in the wrong direction. It is difficult to determine the exact impact on consumer prices since the general weakening of the economy is pushing inflation in the other direction. This might allow some pundits to argue that tariffs don't raise prices. But it's still there in the underlying data and should give Federal Reserve officials cause for concern as the pressure for interest rate cuts increases.

4. Trade negotiations are ongoing

While we expect the trade drama to resurface periodically, when tariff announcements start reappearing, they will hopefully come with fewer market fireworks than we saw on Liberation Day. We already know that trade and tariff talks will resurface next year during the renegotiation of the U.S.-Mexico-Canada trade agreement. Mexico and Canada are both preparing for that event with some trepidation. We would also expect the talks to have effects beyond the Americas. One focus area for the U.S. will be to get both Mexico and Canada to go along with higher tariffs on China. Recently, we've seen developments on that front with Mexico introducing higher tariffs on some Chinese goods, including cars.

Issues surrounding the Fed, interest rates and fiscal policy will likely be more important than trade tariffs in 2026, especially as the midterm elections come into view. But I would still expect trade to be a close second, as opposed to a "solved" issue that gets put in the rearview mirror.

5. Globalization is changing profoundly

Despite the extreme uncertainty over tariffs this year, global trade activity is forging ahead. Nations are still trading with each other and the data so far this year shows no slowdown in non-U.S. trade levels. Globalization isn't ending; it's changing in ways that we haven't seen in decades. Supply lines are being redrawn, rules are being rewritten, and the costs of doing business are rising.

Globalization marches on — to a different tune

World trade as a % of world GDP

Sources: Capital Group, OECD, World Bank. World trade is calculated as the sum of exports and imports of goods ar services and is represented above as a share of global gross domestic product (GDP). Latest data available is througl 2024, as of September 18, 2025.

Feedback

Globalization as we knew it — the post-World War II, Washington consensus — is clearly fading. In the years ahead, physical goods may not flow as freely as they once did. There may be more of a regional approach to free trade, including smaller trading blocs. And the reality is, we probably won't know exactly what the new consensus looks like for a while. It took decades to write the old rules of globalization, and it will be a long process to arrive at the new world trading order.

Read important disclosures

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GDP measures the monetary value of final goods and services — that is, those that are bought by the final user — produced in a country in a given period of time.