Trade Policy and the US economy

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What have we learned so far about the effect of recent changes in tariff policy on inflation, employment and economic activity?

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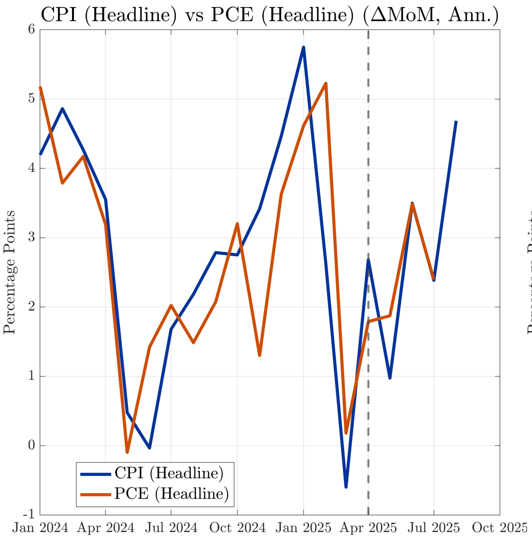
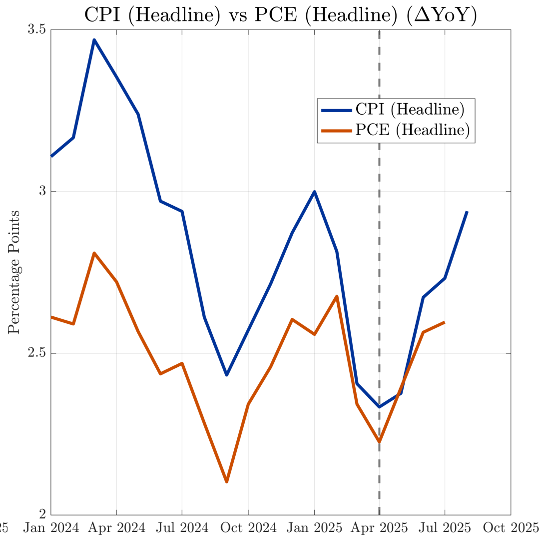
Inflation-output trade-off worsens w/ stagflationary impulse, under D + S shock

Central banks cannot fight both shocks; **final impact depends on monetary policy**

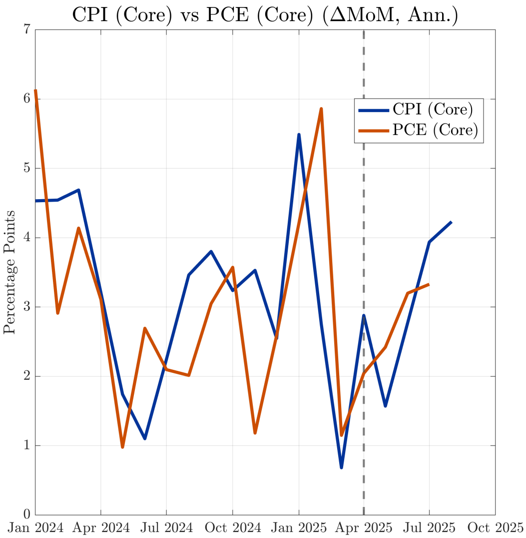
What does the data show?

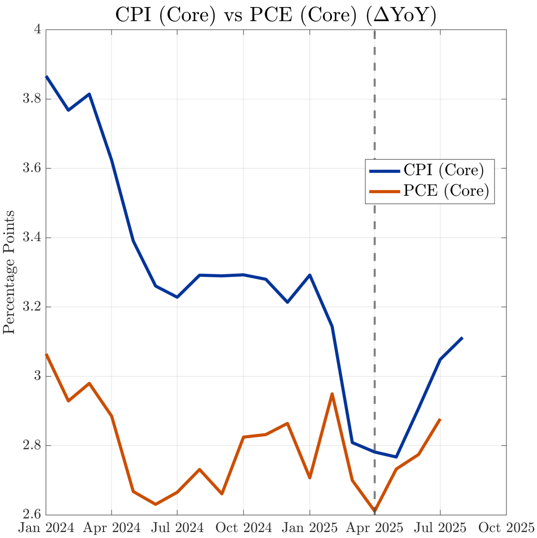
Headline Inflation: ↑ 2.7%



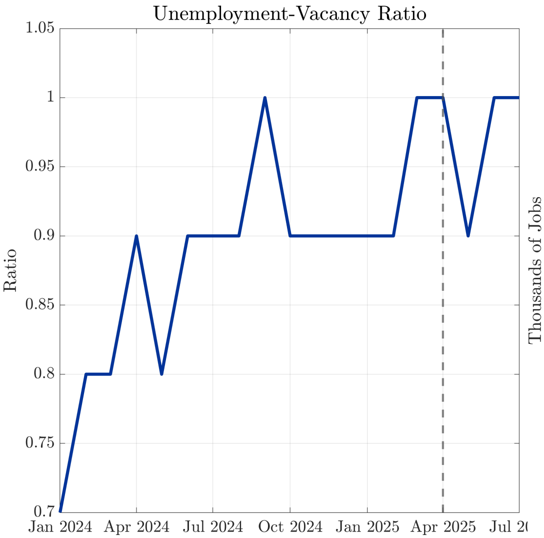


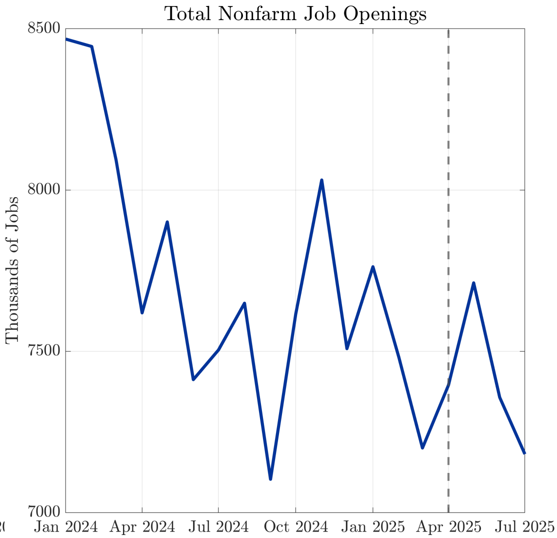
Core Inflation: ↑ 2.9 %



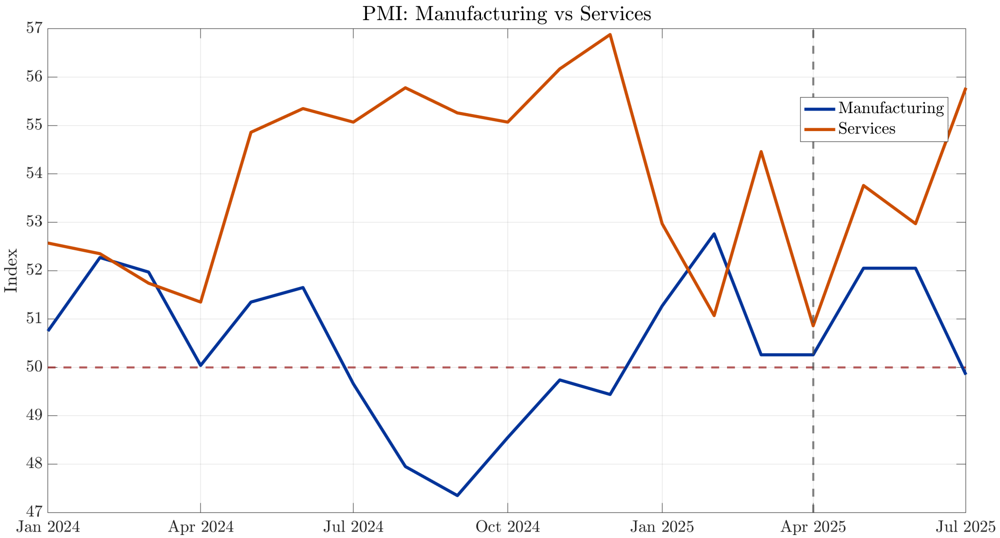


Labor Market Weakening

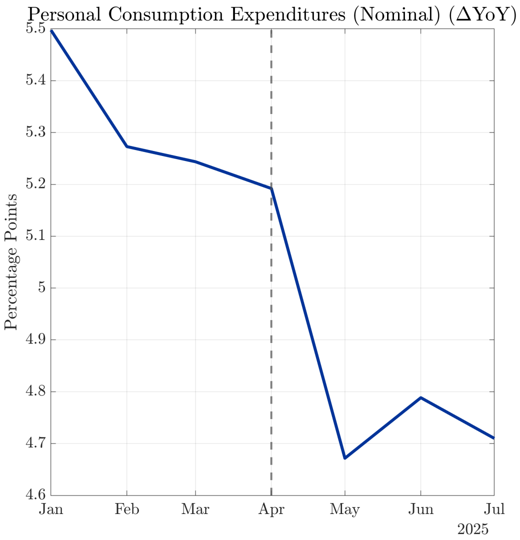


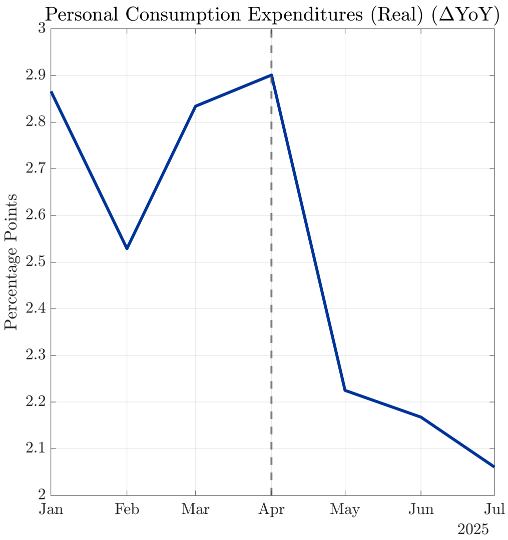


Economic Activity: Mixed

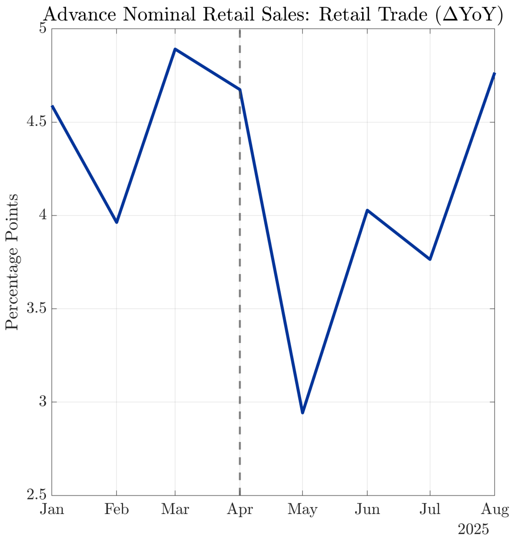


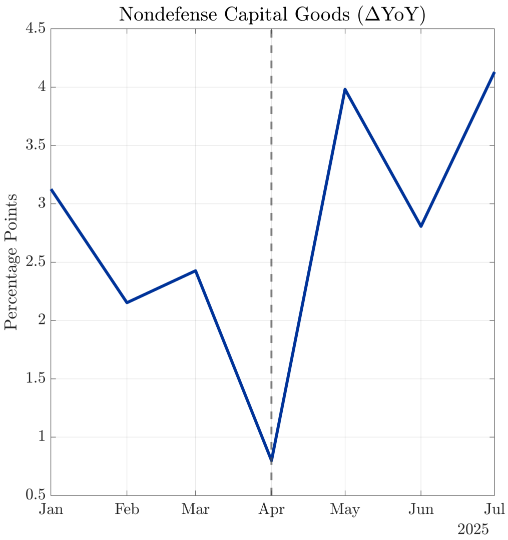
Consumption: Nominal and Real (YoY): ↓





Retail Sales and Investment (YoY): ↑





What do models predict?

Global Network Model, Global Linkages Lab

https://www.globallinkages.org/

W/O networks inflation is over-, unemployment is under-estimated

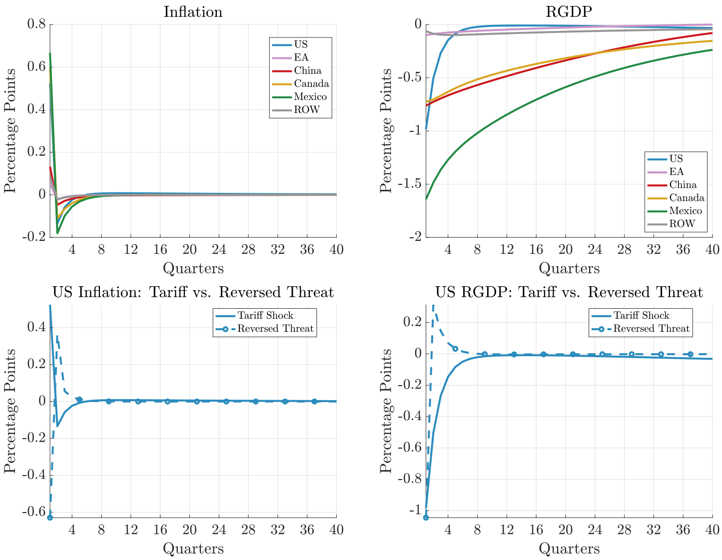
Road test model with 2018 tariffs (small permanent shock, no retaliation)

Barbiero & Stein (2025) estimates 0.1 to 0.2pp increase in CPI $\rightarrow$ model predicts 0.07pp.

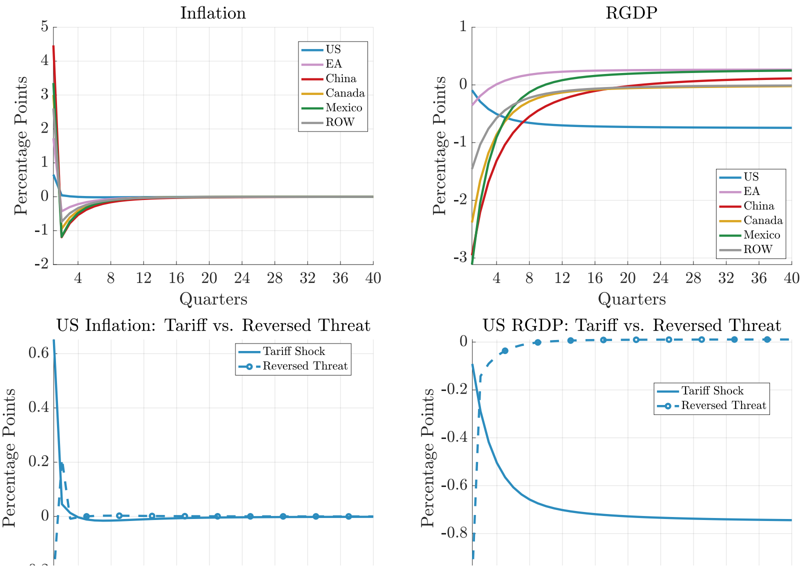
Fajgelbaum et al. (2020) estimate combined producer and consumer losses totaling 0.4% of U.S. GDP $\rightarrow$ model predicts 0.3%.

USD appreciated by ~6% from June 2018-December 2018 $\rightarrow$ model predicts ~4%.

Inflation-Output Tradeoff (less-permanent tariff, tariff threat w/ MP)



Inflation-Output Tradeoff (near-permanent tariff, tariff threat, no MP)



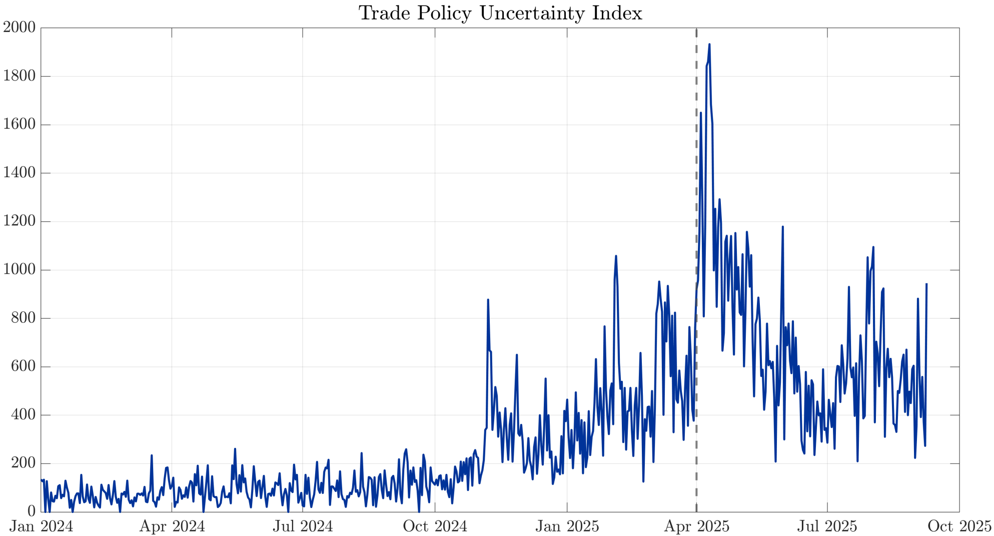
Why Small Effects?

- GLL-SR+LR: 0.2-0.5pp inflation; 0.5-1 percent output decline
- YBL-SR: 1.7pp inflation; 0.2 percent output decline
- BIS over 3-years: 3pp inflation; 1.5 percent output decline
- FED over 3-years: 1.1pp inflation; 1.1 percent output decline

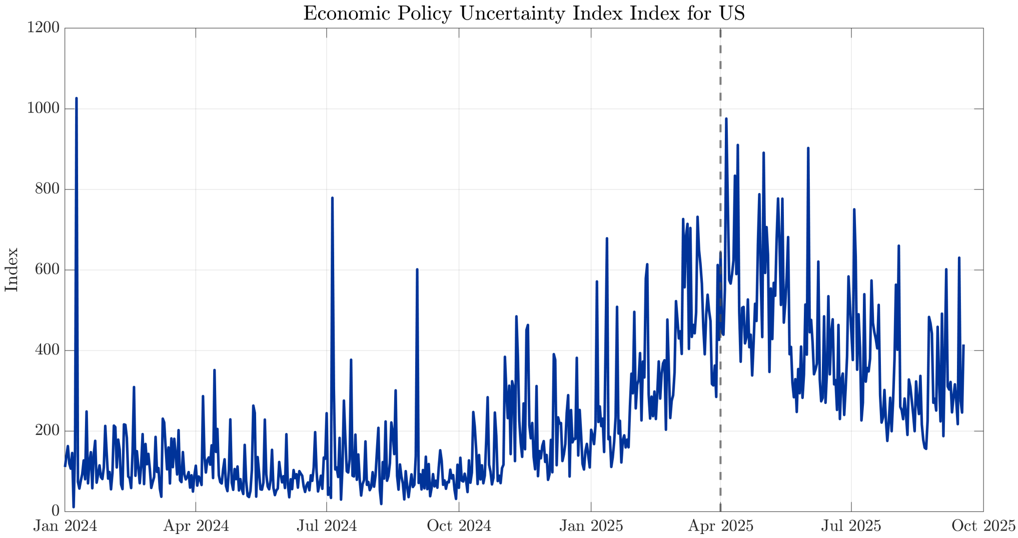
1. U.S. imports less
2. Tariffs are smaller then expected
3. There are exemptions (1 trillion)
4. Use of inventories
5. There is deflationary shock: uncertainty

What are the most important economic effects of uncertainty about tariff policy?

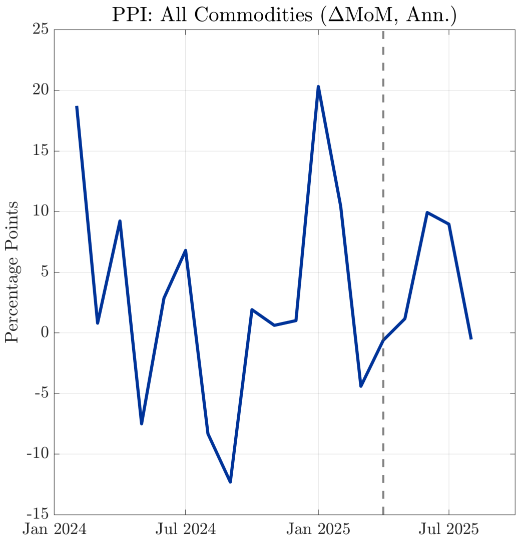
Trade Policy Uncertainty: Iacoviello (2023)

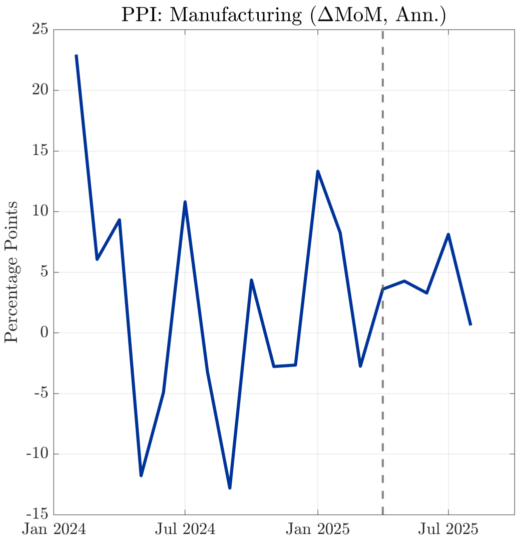


Economic Policy Uncertainty: Baker et. al. (2025)

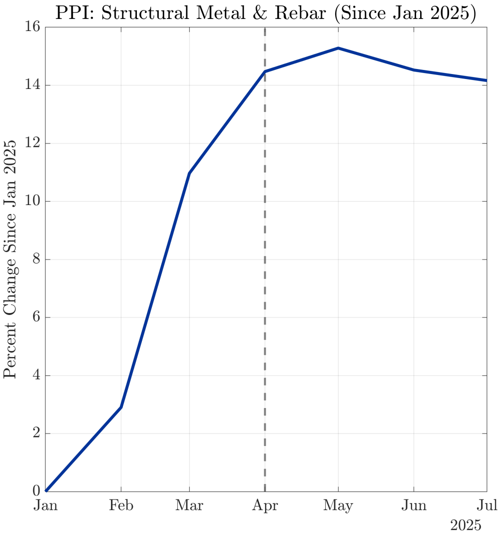


Uncertainty leads slow pick up in PPI (MoM)



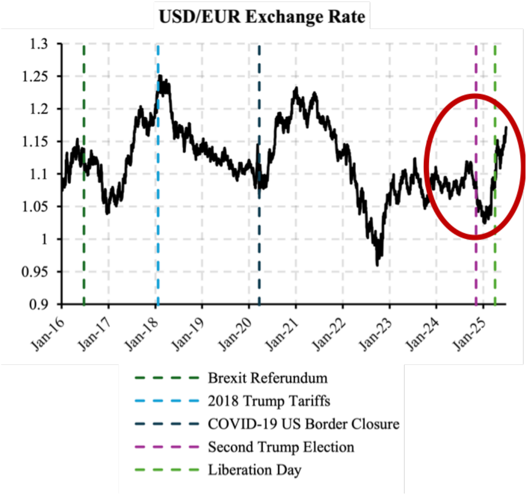


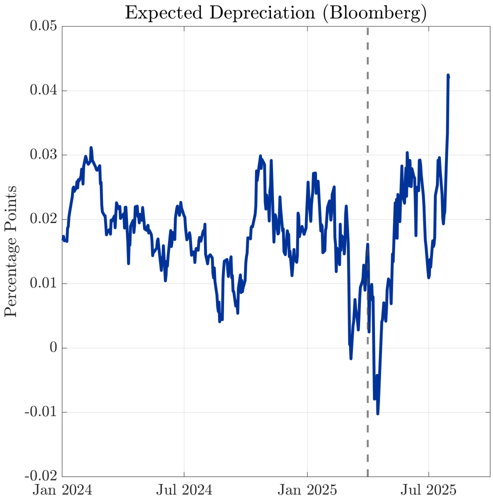
Importance of supply chains under no import substitution



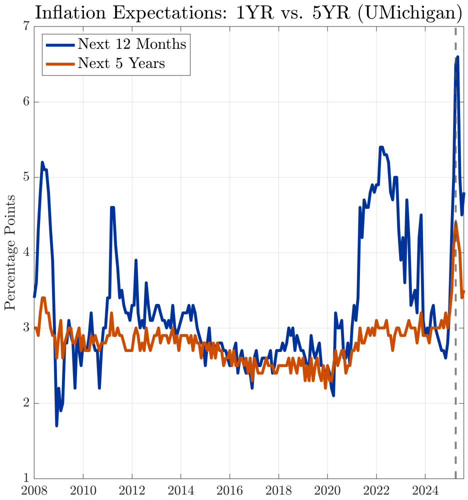
- If there is tariff revenue, then import substitution is less than full
- “Rebar” is hard to substitute input with also strong complementarity to other inputs
- The PPI on Rebar increased by **14%** from Jan 2025 to date.
- Average Retail Price: **35% increase**
  - From \$1000 per ton to \$1350 per ton
  - Fall inventory will be replenished at post-tariff price, costs will increase more every weak!

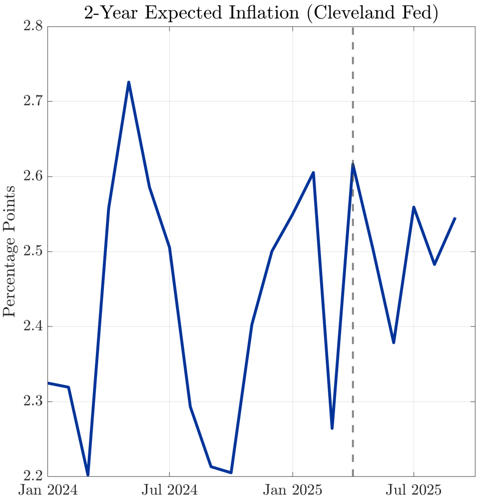
Uncertainty has a significant impact on the dollar...



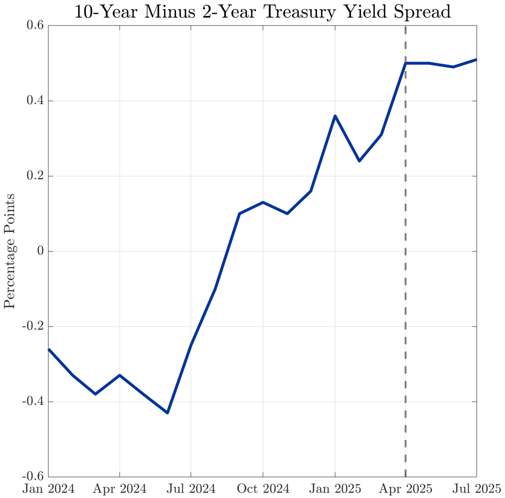


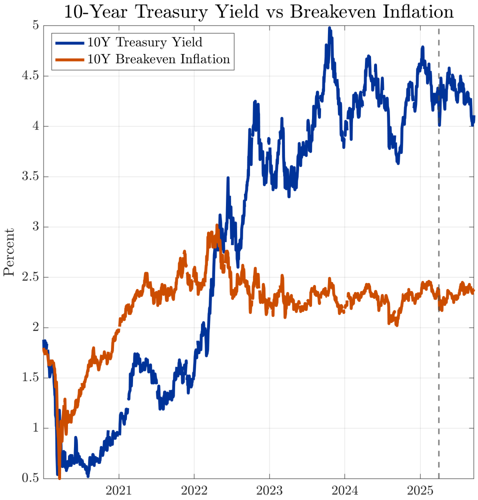
..and on inflation expectations





SR, LR Risks and Spreads



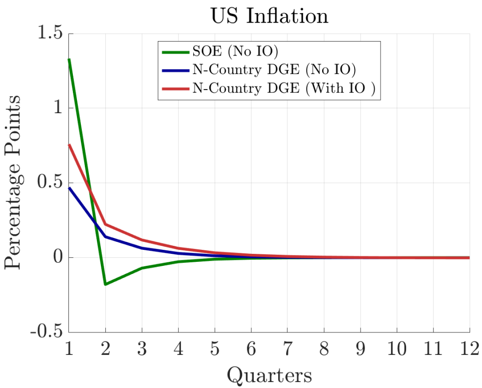


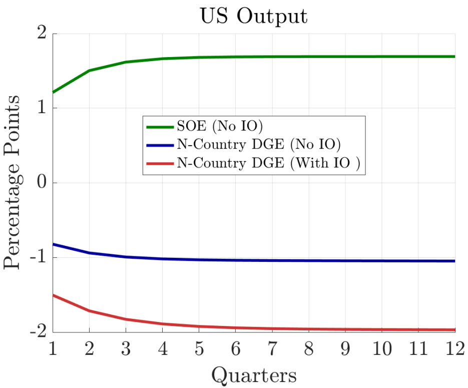
Summary

1. Extensive country-sector tariffs should work as a stagflationary impulse
2. Data so far did pick up some of this
3. Implemented tariffs (if not reverted) will start showing up more in inflation numbers once firms start filling more orders at ta-riffed prices
4. Unless more uncertainty leads to a deflationary impulse

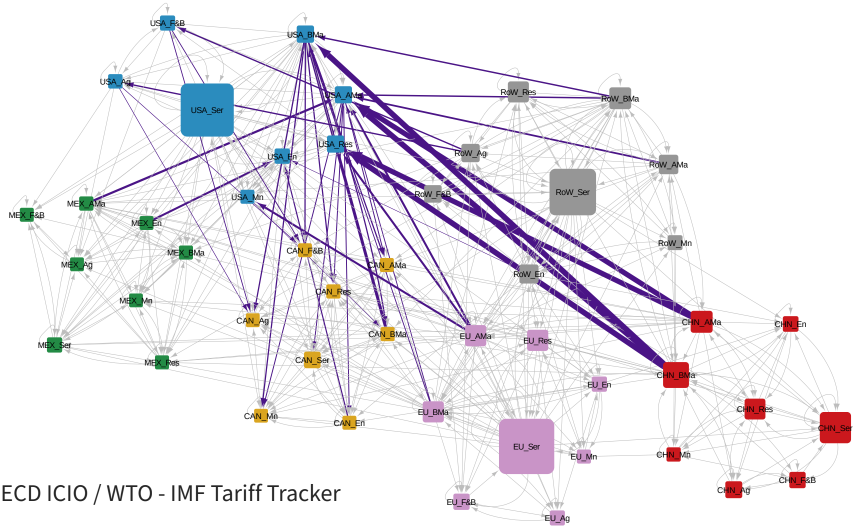
Appendix

Inflation-Output Tradeoff with near-permanent tariff and w/o MP Response: Model Comparison



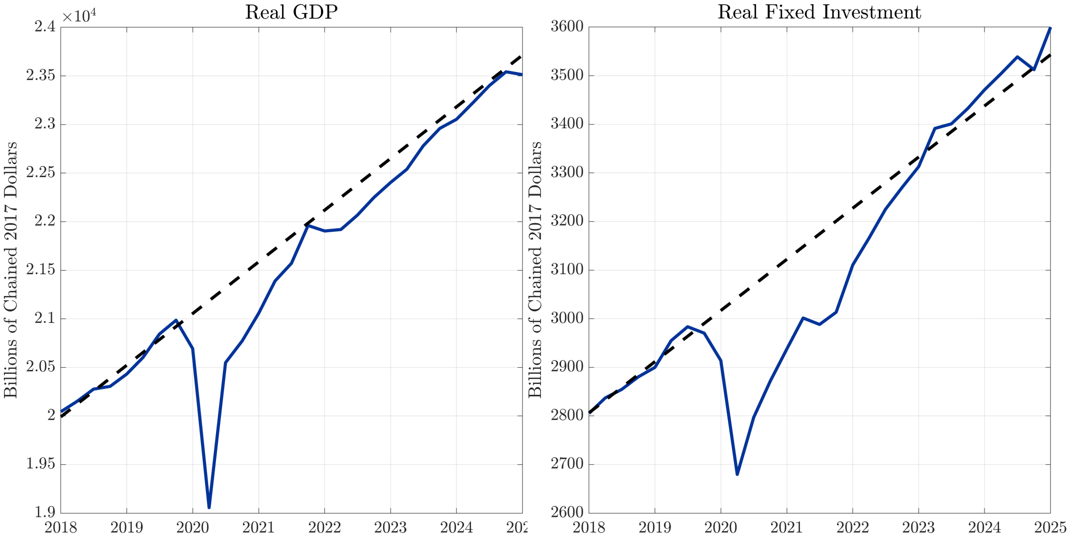


Geopolitical Risks from Country-Sector Tariffs

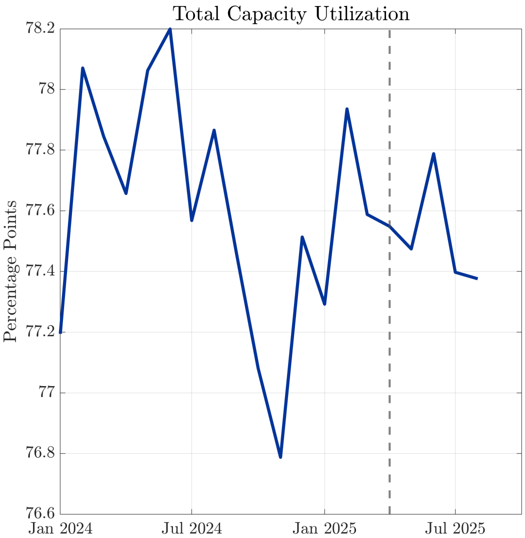


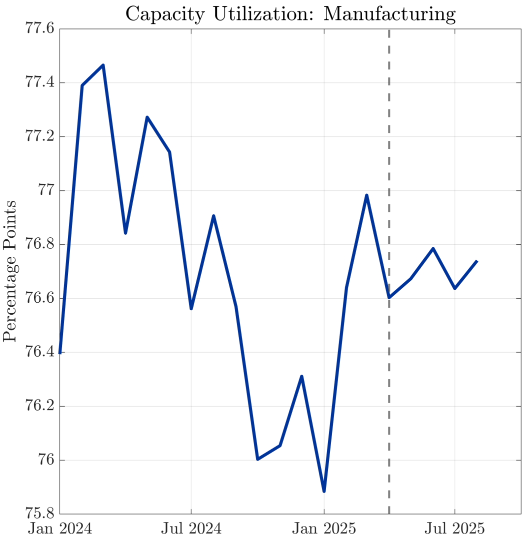
Source: OECD ICIO / WTO - IMF Tariff Tracker

Output and Investment

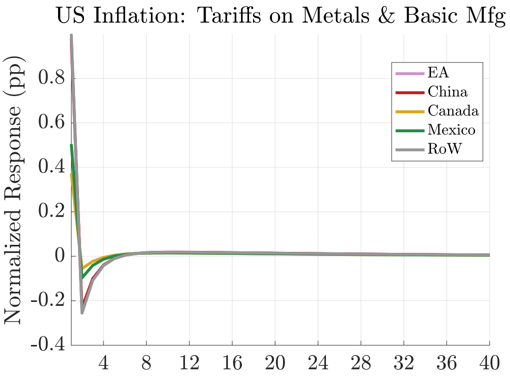


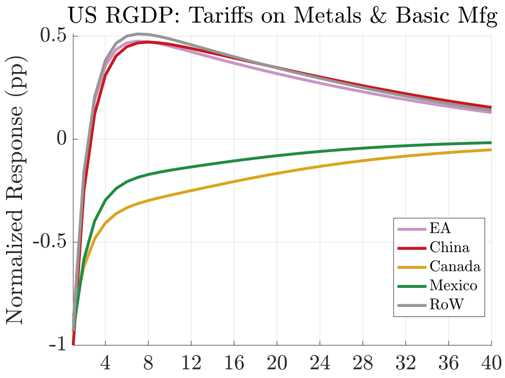
Investment: Capacity Utilization—Stable





Effects of Chinese/ European vs MCA Steel Tariff Differ





USD Against Major Currencies, following tariff wars and elections

(a) January 2018 – February 2020 (b) November 2024 – June 2025