

WHO PAYS FOR TARIFFS?

KEY TAKEAWAYS

- 1 The effect of tariffs on U.S. growth and inflation depends on who absorbs the cost: foreign exporters, American firms or consumers.
- 2 Inflation hasn't picked up as much as expected because tariffs are still being paid at a lower rate than headline figures suggest, but this may change.
- 3 Evidence shows that firms are starting to pass tariffs on to consumers, leading to price increases in the most tariff-exposed categories.

When the U.S. imposes tariffs, someone foots the bill — but who? The answer isn't obvious, and it matters a lot for future growth, inflation and interest rates.

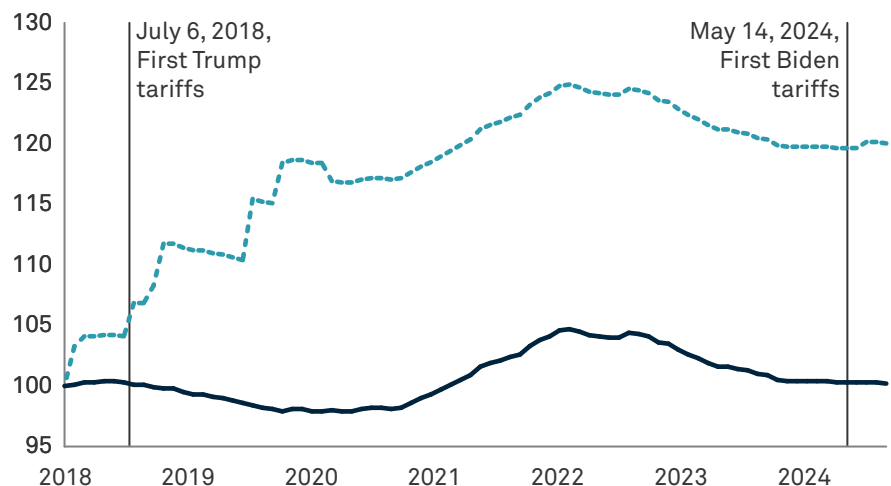
If foreign exporters cut their prices to absorb the tariffs, U.S. growth isn't directly affected — aside from a potential temporary slowdown due to heightened uncertainty — and domestic prices remain broadly stable. Over time, growth (and inflation) could even rise if tariff revenues are recycled through increased fiscal stimulus. This is the narrative promoted by the U.S. administration, which argues that foreign countries are paying the tariffs, while the resulting revenues help fund the new fiscal package.

But if the cost falls on American firms or consumers, tariffs are a tax on the economy, and growth slows. The inflation impact in this case depends on who takes the hit. If firms absorb the cost, margins shrink, and there is no direct effect on consumer prices. If the cost is passed on to consumers, inflationary pressures rise and real income growth falls.

PRICE OF CHINA EXPORTS TO THE U.S.

Index, USD, January 2018 = 100

— Excluding tariffs
- - - Including tariffs



Source: BNY Investment Institute, Peterson Institute for International Economics (PIIE), Fathom Consulting. Data ending 12/31/24.

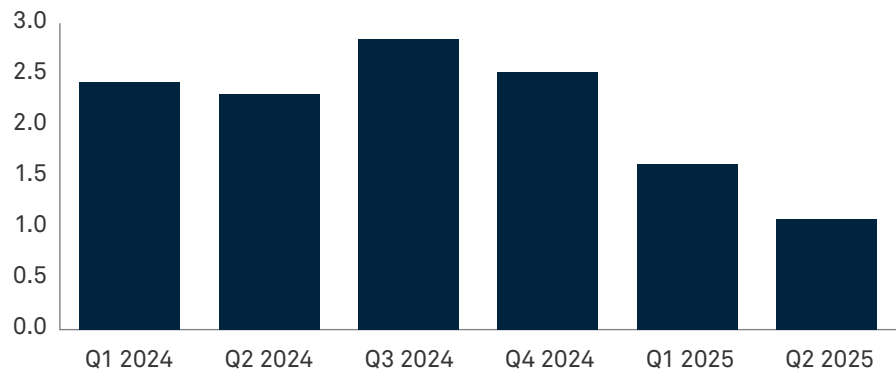
Growth has weakened, but inflation appeared to remain relatively stable, surprising to the downside relative to expectations.

In line with what we observed during the first trade war in 2018 when the U.S. imposed tariffs on Chinese goods, we, as well as most economists and investors, expected tariffs to be borne primarily by U.S. consumers, slowing growth and driving inflation higher. But the evidence has been mixed so far. Growth has weakened, but inflation appeared to remain relatively stable, surprising to the downside relative to expectations.

Part of the reason inflation hasn't picked up as much as expected is that tariffs are still being paid at a lower rate than headline figures suggest. Despite headline announcements suggesting an average effective tariff rate close to 20%, actual tariffs paid have been more consistent with a rate around 10%.

U.S. REAL FINAL SALES TO PRIVATE DOMESTIC PURCHASERS

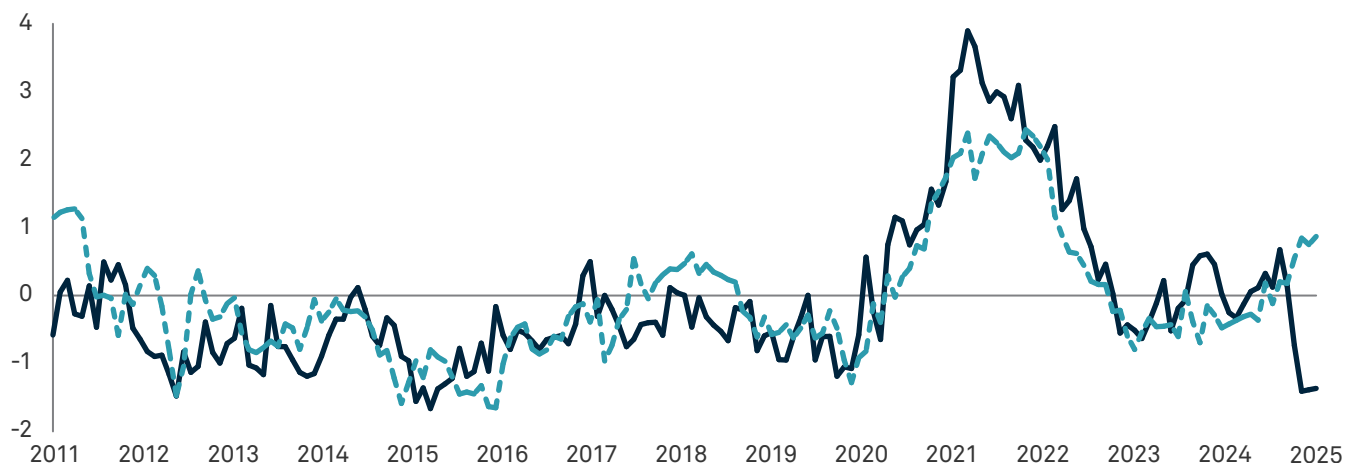
Quarter over quarter, percent, annualized



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

ISM PRICE EXPECTATIONS & U.S. INFLATION SURPRISES

— Standard deviation of U.S. Inflation Surprise Index
- - - Standard deviation of ISM Prices (weighted manufacturing and services components)



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

Several factors explain this gap:

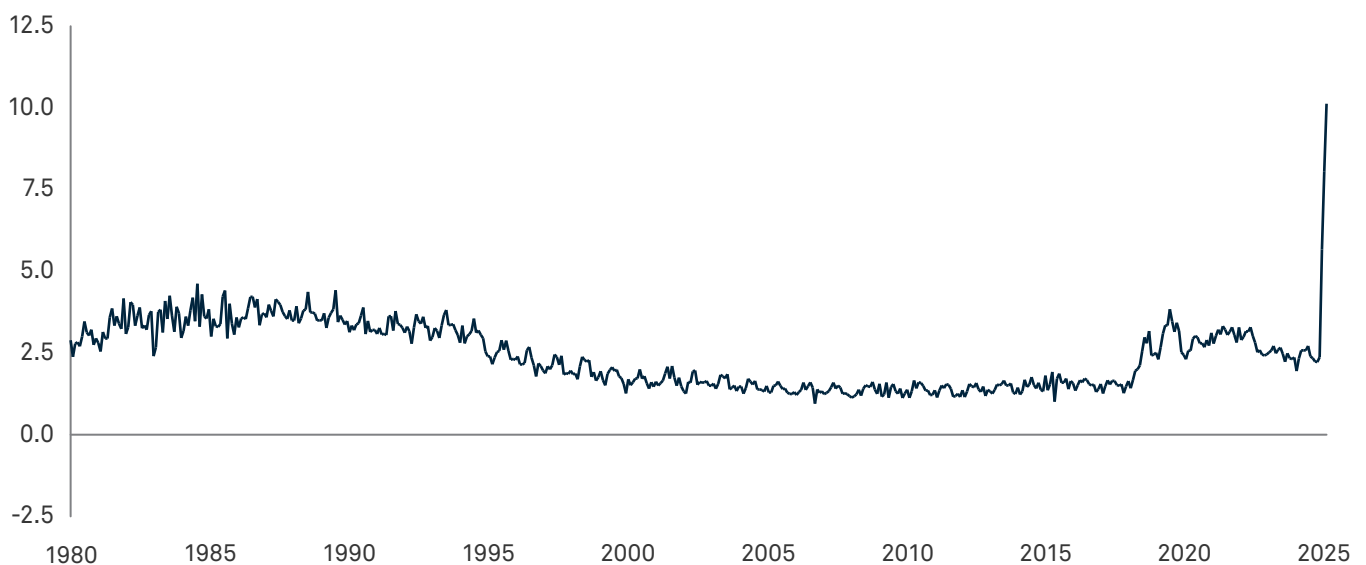
- Timing delays between tariff announcements and implementation.
- Deferred payment schemes, allowing importers to pay duties up to six weeks later.
- Stockpiling in bonded warehouses lying beside ports, in the hope that tariffs will be lowered soon. Goods can be stored tariff-free for up to five years, or until they are released into supply chains, which is now more likely given greater certainty on the tariff regime.
- Small-package exemptions, with shipments under \$800 entering tariff-free (except from China). These account for 7% to 10% of total consumer goods imports and will be subject to full duties from August 29.
- Transit timing, where goods already en-route when tariffs are announced are taxed at the previous rate.

Together, these factors have softened the immediate impact of tariffs on prices — though this will change as exemptions expire and inventories clear.

Even so, who is paying the roughly 10% in tariffs that have been collected so far? Early evidence suggests it's not primarily foreign producers. While there was some initial price adjustment — U.S. import prices from China fell by about 2% between February and May — this effect has been modest and may already be reversing, with prices rising by 0.5% in June. More broadly, U.S. nonfuel import prices have remained largely stable, indicating that foreign exporters have not significantly lowered prices to absorb the tariffs. And more granular analyses suggest that foreign exporters may have only absorbed up to 20% of the costs of tariffs. This points to a growing likelihood that the cost is being passed on domestically and, given the apparent lack of goods price pressures seen in the past months, is currently mostly sitting within firms.

LIVE EFFECTIVE TARIFF RATE ON GOODS IMPORTS

— Live proxy based on duty receipts, percent



Source: BNY Investment Institute, Macrobond. Data as of 8/7/25.

Our view is that tariffs will push growth in headline consumer prices above 3% in the coming months.

It will be some time before we get comprehensive evidence on what happened to domestic firms' margins, since initial estimates of corporate profits are only included in the third estimate of GDP, which comes out three months after the end of the quarter.

That said, there is mounting evidence that even if tariffs were initially absorbed by firms, they have started to be passed through to final consumers. Price increases are beginning to show in the most tariff-exposed categories, which saw a nearly 1% rise in June. More broadly, CPI core goods prices excluding autos, rose by 0.5%, the most for three years.

We think what we've seen so far represents around 20% to 25% of the total impact on inflation over the coming months. Our view is that tariffs will push growth in headline consumer prices above 3% in the coming months, and evidence so far is consistent with our expectation. This complicates monetary policy as it appears that two targets of the Fed's dual mandate — stable prices and maximum employment — will come into tension with one another.

U.S. CORE GOODS INFLATION

Year over year, percent



Source: BNY Investment Institute, Macrobond. Data as of 8/13/25.

Views from the BNY Investment Institute

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GLOSSARY

Bonded warehouse is a storage facility authorized to hold dutiable goods, such as imports or exports, without the immediate payment of customs duties or excise taxes.

Consumer price index (CPI) is an index used to measure inflation, based on the prices in a basket of goods and services, meant to be representative of those we typically spend our money on.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide.

Standard deviation is a statistical measure of the degree to which an individual portfolio return tends to vary from the mean, based on the entire population.

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