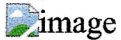


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Why Haven't Tariffs Spiked Inflation?

Research suggests actual rates are well below those that the White House touted

BY KONRAD PUTZIER

The highest tariffs in almost a century haven't caused inflation to surge. The phenomenon has puzzled economists, some of whom suspect that companies have so far simply been reluctant to pass along the extra costs to their customers.

But another argument for the limited impact is gaining traction: that tariffs being paid by importers are lower than advertised.

In a new study, Barclays economists went through census data to see what tariffs importers actually paid in May. They found that the weighted-average tariff rate—the average of all tariffs, adjusted for import volume from each country—that month was around 9%. That number is well below the 12% rate that they had previously estimated based on White House announcements, and far less than what some others have estimated.

The reason is that more than half of U.S. imports were duty-free, the Barclays study says, and because many U.S. companies and consumers bought less from countries with higher levies, particularly China.

"The real surprise in the U.S. economy's resilience lies not in its reaction to tariffs but that the rise in the effective tariff rate has been more modest than commonly thought," the Barclays report says.

JPMorgan economists argue that actual tariff rates in June were lower than headline averages suggest because importers switched to countries with lower tariffs or to domestic producers.

These lower effective tariff rates could help explain why consumer prices haven't risen as rapidly as some analysts feared. The impact of tariffs has been a charged topic. Trump this past week asserted that tariffs haven't caused inflation and called on Goldman Sachs to replace an economist who had predicted price increases.

The new tariffs raised \$58.5 billion in revenue between January and June, according to the Penn Wharton Budget Model. And inflation has crept up in recent months, with prices of imported goods such as furniture ticking higher. The latest inflation readings remain well above the Federal Reserve's benchmark of 2% year over year. In July, wholesale prices rose at the sharpest monthly rate in three years and well above economists' forecasts. ← Note

But the overall inflation picture in the first six months of the year hasn't been as ugly as many feared it would be in the wake of President Trump's tariff hikes.

Barclays research suggests that inflation hasn't increased that much partly because the U.S. hasn't collected tariffs on many goods—for now. In June, just 48% of U.S. imports were actually subject to tariffs, thanks to myriad exemptions, according to the bank's analysis of U.S. Census Bureau data.

Goods like pharmaceuticals, certain electronics and semiconductors and many imports from Canada and Mexico were exempted from Trump's so-called reciprocal tariffs. There are also partial exemptions for goods with at least 20% U.S.-made components.

Ultimately, however, the actual rates importers pay are likely to rise in months to come, according to Barclays. Many of the existing loopholes could close. Trump has threatened 250% tariffs on pharmaceuticals and 100% tariffs on semiconductors. The White House has also said that as of later this month, it is suspending the de minimis exemption, which allows dutyfree shipments to the U.S. as long as they are valued at \$800 or less. *

Others using different methodologies have pegged the tariffs at much higher rates. The Budget Lab at Yale, a policy-research center, for instance, estimates that U.S. consumers currently face effective average tariffs of 18.6%, down from 21.9% in late May. The lab's director of economics, Ernie Tedeschi, says his research also shows that the real average rate companies actually pay has been lower.

Ultimately, Barclays expects weighted-average tariffs to end up at around 15%, up from a current 10% and 2.5% last year. Other economists calculate even higher rates. That could mean much of the likely tariff hit is still in the future.

Overall tariffs paid have also been lower than headline rates suggest because many U.S. companies are importing fewer goods facing high duties, particularly from China.

But part of that, too, might be temporary. U.S. companies imported more early in the year to get ahead of tariffs, leading to lower imports in the following months. As inventories shrink, imports are likely to rise again. "It's unclear if you can decouple from China that strongly, that quickly," says Mark Cus, an economist at Barclays.

Barry Roth, who imports used cars from Canada for U.S. dealers, says he imported around 1,000 cars a month on average last year through November. In January, that surged to almost 1,500 as car dealers tried to get ahead of tariffs. Now, as many cars from Canada face 25% levies, he says he is lucky to import 400 vehicles a month.

But as dealers sell down their expanded inventories, they will either have to pay the tariffs or be left with fewer cars to sell. Either way, he says, prices are likely to rise. "It's not going to happen tomorrow, it's not going to happen next week, but it will ratchet up," Roth says.

Meanwhile, more companies say they are increasingly likely to pass tariffs on to their customers in the months ahead.

Many companies were slow to raise prices while they were waiting to see where levies would ultimately end up. Now that final tariff rates are becoming more clear, economists expect a steady trickle of companies asking their customers to pay more. "Companies are being strategic about their price hikes," says Aditya Bhawe, an economist at Bank of America.

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