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ECO

## Why Everyone Got Trump's Tariffs Wrong

Predictions of the duties' impact on the economy were buoyant or dire. Here's the reality.

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When President Trump declared the highest U.S. duties in nearly a century in April, he promised the tariffs would revitalize American manufacturing, bring back middle-class jobs and buoy the economy.

Economic experts weren't sold. They forecast peril for the nation's GDP, and expectations of a recession shot up.

Both missed the mark. In the days following "Liberation Day," the contrast between Trump's optimism and more dire predic tions from trade experts and economists was stark.

As businesses and consumers tried to make sense of the mixed messages, the president doubled down on promises he'd made during his 2024 presidential campaign. "The markets are going to boom, the stock [market] is going to boom, the country is going to boom," he said on April 3.

Economists and business leaders dialed up predictions of a fallout. BlackRock's Larry Fink said "most CEOs I talk to would say we are probably in a recession right now." JPMorgan Chase said a global recession was even likely.

An economic collapse hasn't materialized. Neither has an economic revival. Note

A lot of federal data is delayed, but the numbers so far show the U.S. economy has held up. The odds of a recession in the coming year have fallen below 25%. Note

While Trump's promise on tariff revenues happened to a degree, most of his others have fallen flat. The U.S. has seen little evidence of largescale reshoring. Cheaper labor abroad continues to give foreign manufacturers an edge, while uncertainty at home over the tariffs has kept many companies from making major investments or bringing manufacturing home. Note

We look at six bold predictions Trump, the White House, economists and business leaders made about the economy, what's happened and what might come next.

### Employment

THE PREDICTIONS

TRUMP: A 10% global tariff could add 2.8 million jobs. ECONOMISTS: Tariffs are more likely to cause layoffs.

Eight months into the tariff regime, Trump's policies haven't done much to boost employment. In fact, a host of large layoff announcements and other troubling labor data signal difficult times for workers.

The U.S. added 119,000 jobs in September, far more than economists had expected. But the figure was an outlier from previous months, in which job growth had lagged. As of September, the unemployment rate reached 4.4%, the highest in four years.

Economists don't rule out tariffs leading to more hiring down the road, but the picture is complex.

Many manufacturers still have to import material from overseas, much of which is now more expensive. The sector has trimmed about 54,000 jobs since Trump took office, although it's hard to disentangle what losses might be due to tariffs.

Arnold Kamler, owner of Kent International, an importer and maker of bicycles, says high tariffs on Chinesemade bike components led to the closure of his South Carolina factory and with it, the loss of 64 jobs. His business continues to import whole bikes from China and other parts of Asia, but the millions of dollars in tariffs Kamler had to pay for imported frames and parts this year made assembling bikes in the U.S. unfeasible.

"It was challenging," he said. "After the April reciprocal tariffs, we were done."



**Prices**

THE PREDICTIONS

TRUMP Tariff costs will be borne by other countries, not the U. S. ECONOMISTS: Tariffs will push up inflation.

Trump and economists largely missed the mark on inflation.

Tariffs swiftly hit Americans' wallets as major retailers from Macy's to Best Buy raised prices in response to the duties.

"The magnitude and speed at which these prices are coming to us is somewhat unprecedented in history," Walmart Chief Financial Officer John David Rainey told The Wall Street Journal in May.

But the worst inflation fears haven't come to pass. Inflation has for months hovered around 3%—higher than the Federal Reserve's 2% target , though still lower than many economists' expectations.

Tariffs touch a narrow band of consumer prices; housing and gasoline have helped keep overall inflation in check. Another factor at play: Trump's repeated policy shifts on tariffs.

Many companies have said they want to see where tariffs will ultimately settle before introducing more price changes. The still-undecided Supreme Court case on Trump's authority to impose tariffs gives them another reason to wait a bit longer.

Economists predict higher prices as companies draw down on their pre-tariffed inventory and renegotiate contracts with retailers and distributors.

If no new tariffs are announced, the Fed estimates the current ones will take nine months to work their way through the economy. That could push inflation from goods down in the back half of 2026. But "we haven't been able to predict this with any precision," said Fed Chairman Jerome Powell. "No one is."

**Tariff Revenue**

THE PREDICTIONS

TRUMP Tariffs will bring in "billions of dollars, even trillions of dollars. ECONOMISTS: Tariffs could raise $2.1 trillion over a decade, as long as they don't lower growth.

The administration scores points on this one; tariffs have raised significant revenue.

Federal coffers saw on average $25 billion a month in customs duties between April and September, when Trump was quickly ramping up tariffs, according to Treasury Department data. In 2024, $6.6 billion in customs duties were collected on average each month.

But Trump has proven less prescient about his other bold revenue prediction. "It could replace the income tax," he told Fox Noticias in April.

Tariff revenues don't come close to the levels needed for that.

Total duties collected in fiscal 2025—which includes both Trump's new tariffs and existing ones—hit about $195 billion, more than double the $77 billion collected the prior year. In 2024, individual income taxes tallied $2.4 trillion, or about half of total federal revenue.

Future collections hang on the Supreme Court's decision on Trump's authority to impose the tariffs, expected in coming days.

If the court strikes down tariffs imposed under the International Emergency Economic Powers Act, monthly revenue collected would fall by more than half. More than $100 billion already collected might also need to be refunded.

Trump would likely attempt to recover lost revenue by raising duties using other laws.

**Economic Growth**

THE PREDICTIONS

TRUMP A 10% global tariff alone will grow the economy by $728 billion. ECONOMISTS: Warned a potential recession could shrink GDP.

Tariffs haven't tanked the economy. In fact, GDP in the second quarter reached its strongest quarterly growth in nearly two years: a seasonally and inflation-adjusted annual rate of 3.8%. The third quarter is tracking close behind at around 3.5%.

Few economists at the start of 2025 could have foreseen the degree to which the AI-investment boom would power the economy past any negative effects from tariffs. Barclays estimates AI-related spending in the first half of the year increased GDP by an annualized 0.8%, about half of the period's growth.

A resulting stock-market rally has, in turn, helped fuel continued consumer spending— a key economic driver.

Trump has also walked back and delayed many of his threatened duties. For instance, the president in April ratcheted up tariffs on China to 145%. That was cut to 30% a few weeks later, and in October, capping a string of trade deals, the administration reached an agreement in which it further dropped the duties to 20%.

U.S. importers are paying less than the stated tariff rate on many products, as they've substituted lower-tariff items for those that had higher duties, sometimes by sourcing from other countries. The Tax Foundation estimates that while the weighted applied tariff rate on all imports has risen to 15.8%, the effective rate only rose to 11.2%. In 2024, the effective tariff rate was about 2.5%.

Heading into 2026, economists expect continued AI investment and tax cuts to buoy economic growth.

**Manufacturing**

THE PREDICTIONS

TRUMP We will supercharge our domestic industrial base. ECONOMISTS: Tariffs alone can't revive manufacturing, nor does the sector necessarily need resuscitating.

Trump's tariff strategy might be working against its own aims on manufacturing.

U.S. factory activity has contracted for nine straight months, with the Institute for Supply Management's purchasing managers index for manufacturing at 48.2 in November, below the 50 mark that separates expansion from contraction.

Many manufacturers have pointed to the ever-shifting tariff landscape, which they say is making it impossible to plan ahead or move forward on big investment decisions.

The White House points to announcements by a host of companies planning to invest billions toward beefing up U.S. manufacturing, including Apple, Toyota, Nvidia and TSMC. Some of those plans may have gone forward regardless of the tariffs. Big projects will likely take years to materialize, if they happen at all, as government policies could shift again in that time.

For tariffs to bring back manufacturing that moved overseas over the course of decades, duties would need to be high enough to make U.S. production of those products competitive.

But tariffs that high could also hurt the sector in the short term, because many supplies and other manufacturing inputs currently needed in the U.S. can only be found abroad.

**Trade Balance**

THE PREDICTIONS

TRUMP Tariffs will flip the trade deficit into surpluses, or at worse, the U. S. will break even. ECONOMISTS: A trade deficit isn't necessarily a bad thing, and trade balances are ultimately driven by saving and investment patterns, not tariffs.

Tariffs have unquestionably scrambled U.S. trade this year. The country's goods deficit swelled in March as firms rushed to stock up before "Liberation Day" duties hit. It then plummeted in April, after the 10% global baseline tariff took effect.

During September, the goods deficit shrank to $79 billion, down from $86.1 billion in August. It was the lowest level in about five years, largely driven by short-term trades in gold. Year-to-date, the goods deficit is still higher than it was during the same period last year, Commerce Department data shows.

Trump frames the trade deficit as inherently harmful and casts his tariff program as the fix. Many economists say his premise is off. A deficit isn't automatically a red flag for the economy—in fact, it can be a good thing.

When Americans spend more than they save, the resulting deficit supplies foreign investors with dollars, which often get reinvested in U.S. assets. That steady inflow of capital has long underpinned U.S. economic strength, economists argue.

By contrast, the deficit has typically narrowed during recessions as spending and import demand fall.

As long as Trump continues to surprise the market with tariffs, trade will remain volatile.



 