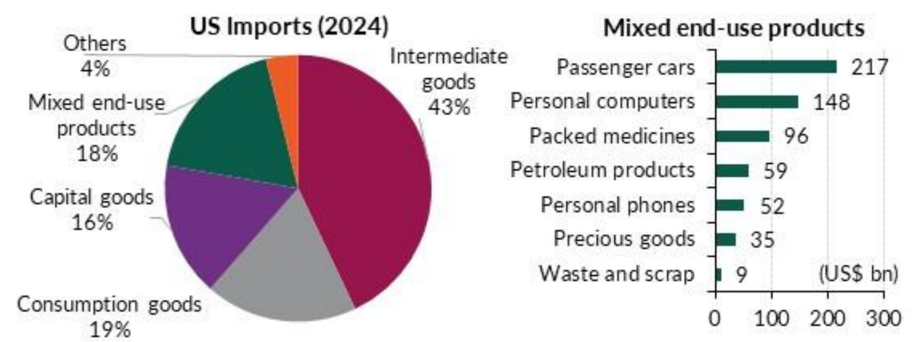
Economic Research | **Trade Wars**

Why are tariffs not hurting US consumers yet?

The jump in effective US import tariff from 2% to 9% has not yet been transmitted to the CPI. Reasons (other than front-loading/inventory): i) 60% of imports are intermediate or capital goods: to take time to transmit to consumer prices; ii) no tariffs so far on consumer goods like electronics and pharma (section 232 tariffs expected shortly); and iii) USMCA exemptions for Mexico and Canada. Thus, it could be a few months before consumer prices rise visibly. The likely political backlash when this occurs may push the US to switch to penalizing currency manipulation or debt write-downs for countries with US military presence (these may be tributes, not debt). Policy uncertainty is likely here to stay.

September 02, 2025
US Trade

Exhibit 1 - Intermediate/exempt goods are shielding US consumers from tariffs



Source: OECD, Comtrade, Axis Bank Research

Why are tariffs not affecting CPI yet? Intermediate goods imports & exemptions

We remain of the view that the US consumer will end up paying most of the tariffs via higher prices. However, the impact of effective rates rising from 2% in CY24 to 9% in July-2025, is not visible yet in CPI. Three possible reasons: i) ~60% of imports are intermediate (43%) and capital goods (16%, Fig 1): to show up in CPI in a few months; 2) At least 32% of consumer goods (incl. mixed end-use, i.e. sold to corporates; Fig 1), do not have tariffs yet, e.g., phones, medicines, petroleum (Fig 7); and 3) USMCA exempts ~80% of Canada + Mexico imports (Fig 4). Mexico, Canada, EU (intermediate goods), and China (consumer) are ~60% of US imports (Fig 2-3).

Further tariff increases are likely as 'Section 232' investigations close

'Section 232' tariffs, which are more likely to persist (unlike the reciprocal tariffs that the Appeals Court has deemed illegal: link), already affect 16% of imports (iron & steel, copper, autos, aluminium; Fig 9), with another 18% expected (electronics, pharmaceuticals). Region-specific caps may soften the impact: e.g. the EU agreement appears to set all sectoral tariffs at 15%. USMCA exemptions for Mexico and Canada (subject to 25%/35% fentanyl tariffs), mean very low effective rates (Fig 4), though it's unclear if they can bypass Section 232 tariffs. Only China may have high rates (specific rate 58% incl. tariffs since 2017; Fig 5).

As political backlash against tariffs builds, focus could shift to currency and debt

Thus, it could take a few months for consumer prices to rise. As it becomes clear that most of the tariff burden is falling on US businesses and consumers (link), the political backlash against tariffs is set to rise, adding to the judicial challenge and the operational complexity of ensuring compliance (link). We expect the US administration to then turn their attention to other objectives, like reducing the debt-to-GDP and devaluing the dollar (e.g. penalties for currency manipulation, or taxes on US debt redemptions; link). While tariff related uncertainty may have peaked for now, we think US policymaking will remain chaotic and a source of uncertainty, as history suggests is usual around pivotal moments (link).

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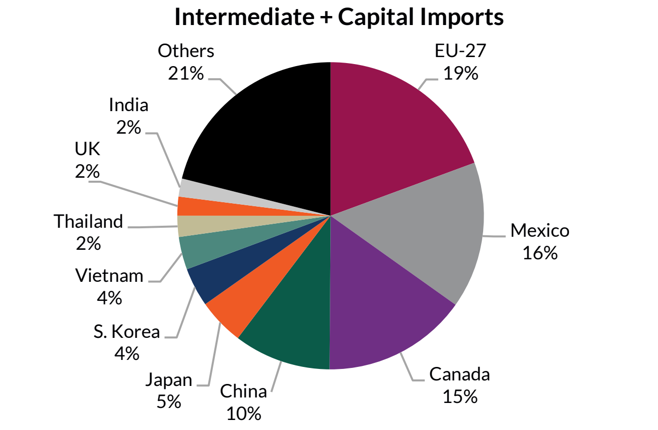
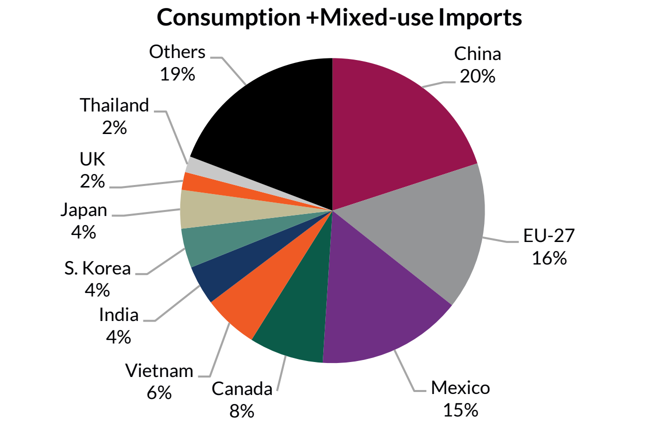
Exhibit 2 - EU (19%), Mexico (16%) and Canada (15%) dominate US Intermediate + Capital goods imports



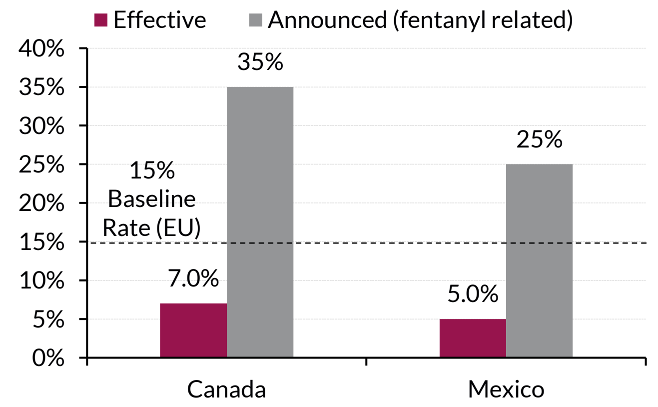
Source: OECD, Comtrade, Axis Bank Research

Exhibit 3 - China (20%), EU (16%) and Mexico (15%) are top sources of US Consumption + Mixed use imports



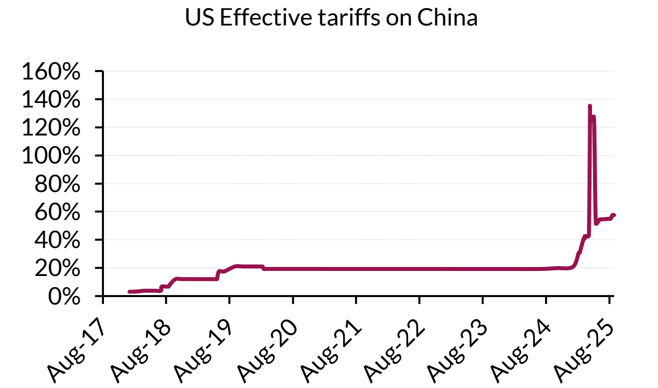
Source: OECD, Comtrade, Axis Bank Research

Exhibit 4 - Assuming ~80% trade under USMCA, effective rates for CA and MX well below 15% baseline



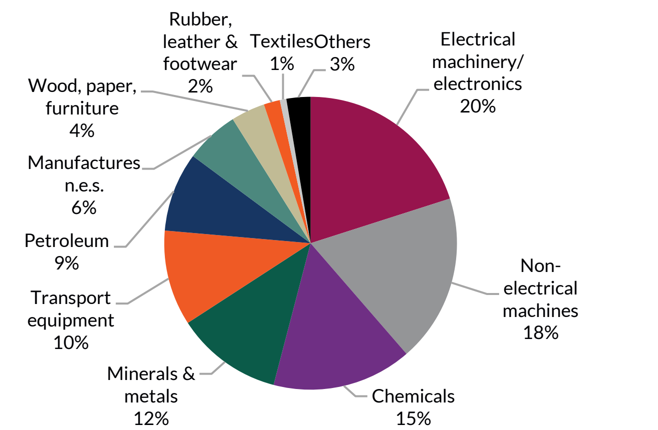
Source: Comtrade, Axis Bank Research

Exhibit 5 - Effective tariffs on China are at 58% when Trump Term 1 + Biden term tariffs are included



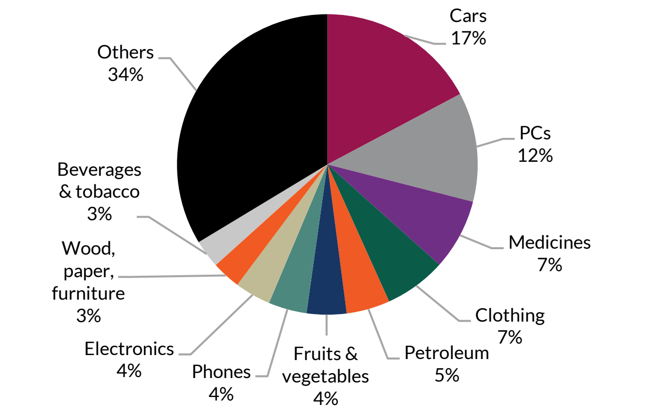
Source: Chad P. Bown. 2025.

Exhibit 6 - Key intermediate/capital imports: machines (38%), chemicals (15%), and minerals & metals (12%)



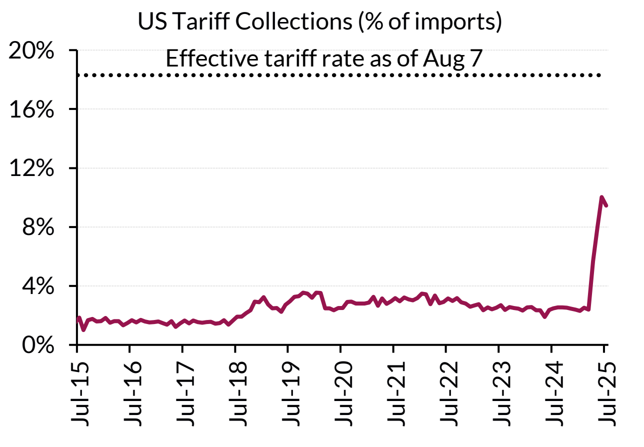
Source: OECD, Comtrade, Axis Bank Research

Exhibit 7 - Electronics, petroleum, pharma (~32% of consumption imports) are currently tariff-exempt



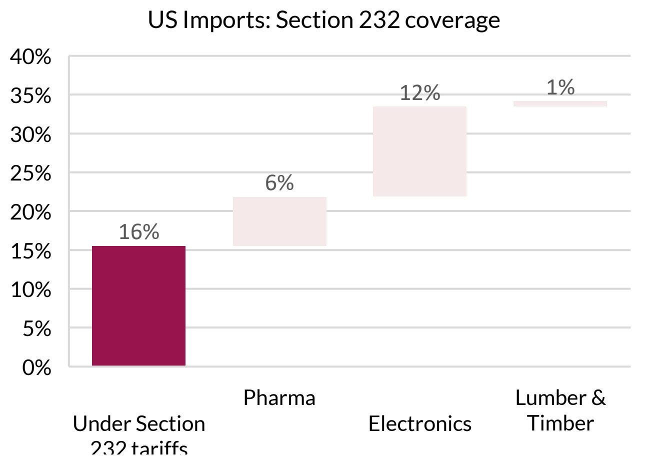
Source: OECD, Comtrade, Axis Bank Research

Exhibit 8 - Tariff collections at 9% in July will catch up with the effective rate of 18% now



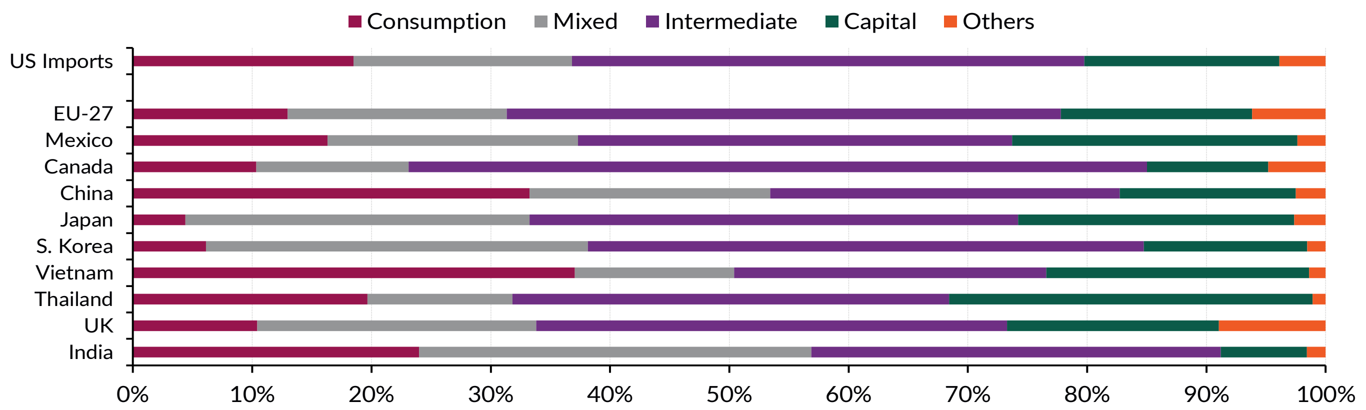
Source: Axis Bank, Company

Exhibit 9 - Est. current coverage of Section 232 tariffs is 16%, electronics and phrama could add another 18%



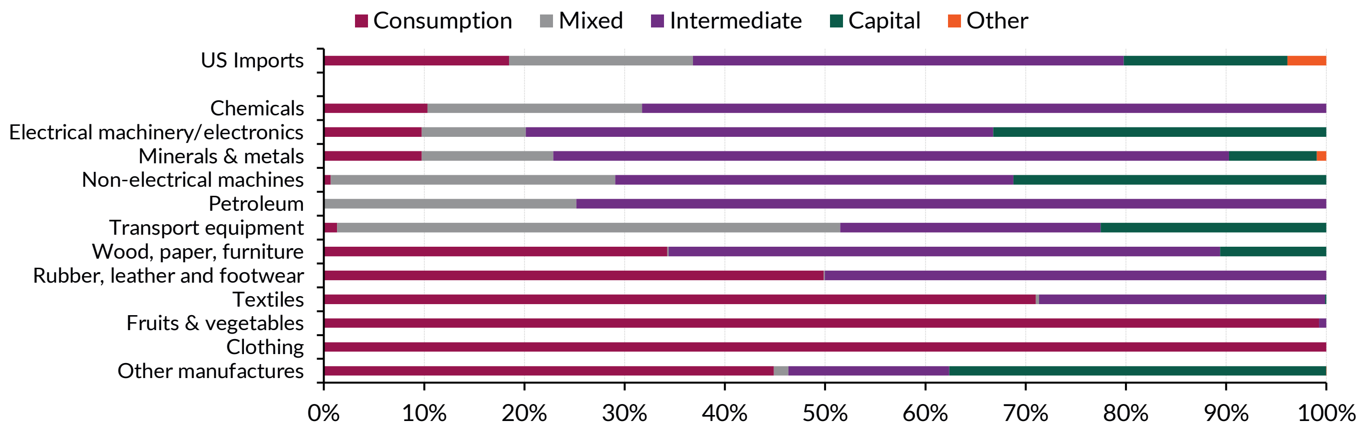
Source: Comtrade; Axis Bank Research;

Exhibit 10 - US imports mix: By trading partner



Source: OECD, Comtrade, Axis Bank Research

Exhibit 11 - : US imports mix: By sector



Source: OEDC, Comtrade, Axis Bank Research

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