Trade and Tariffs

MEGAN BAILEY | OFFICE OF THE STATE ECONOMIST
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

CEFC / RFC RETREAT
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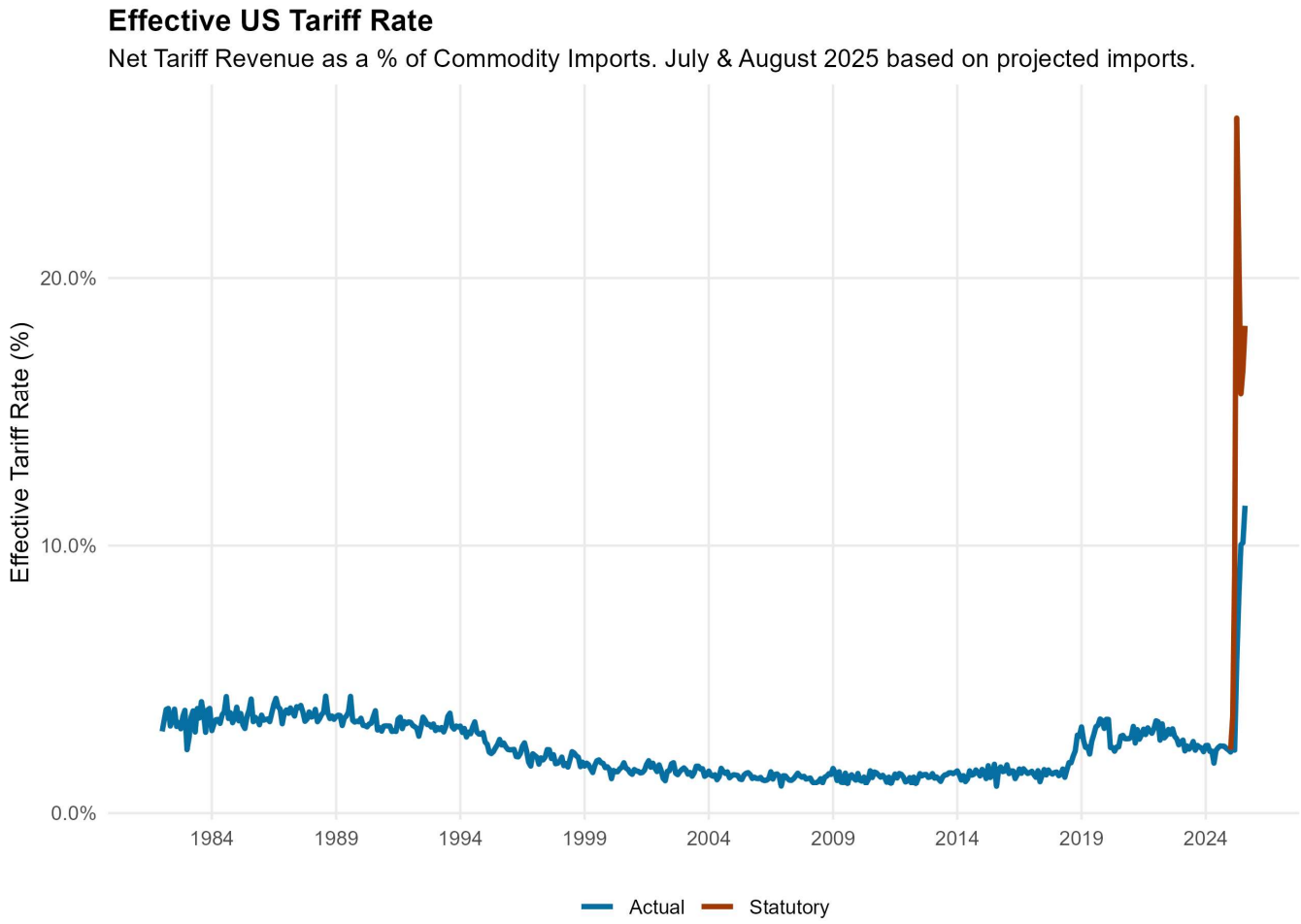
Outline

- Short-Run Effects of 2025 Tariffs (US)
- Longer-Run Effects (US)
  - Baseline Scenario: assumes current tariff policy stays in place in perpetuity
  - Alternative Scenario: assumes the International Emergency Economic Powers Act (IEEPA) tariffs are invalidated by the Supreme Court in June 2026 and not replaced with alternative tariff authorities.
    - Assuming the remaining tariffs in place as of September 3rd (primarily those authorized under Section 232) stay in force indefinitely
- Understanding Maine's vulnerability

Sources: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025, and "State of US Tariffs: September 4, 2025", Sept. 4, 2025

The current statutory average tariff rate is the highest since the early 1930s

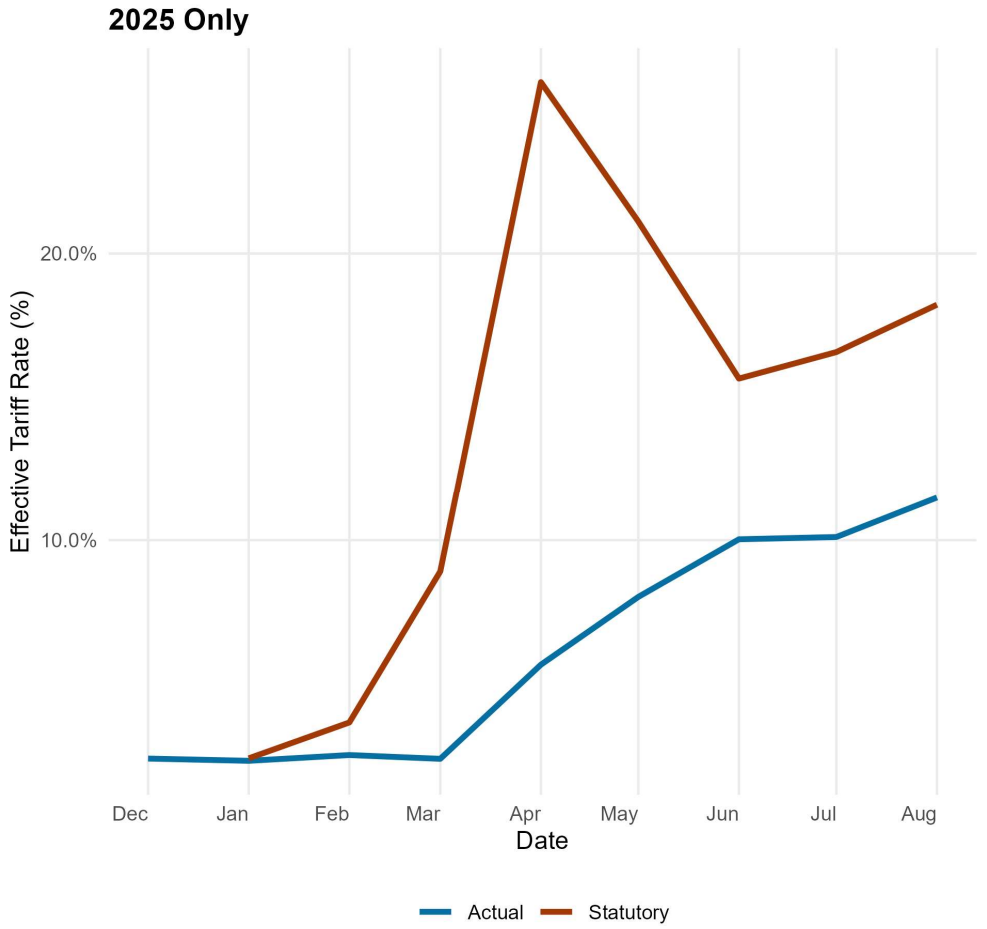
- Statutory tariff rate: rate imposed by law
- Actual tariff rate: actual average revenue collected as a percentage of imports



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

New tariffs are raising less revenue than would be expected given where policy has been set

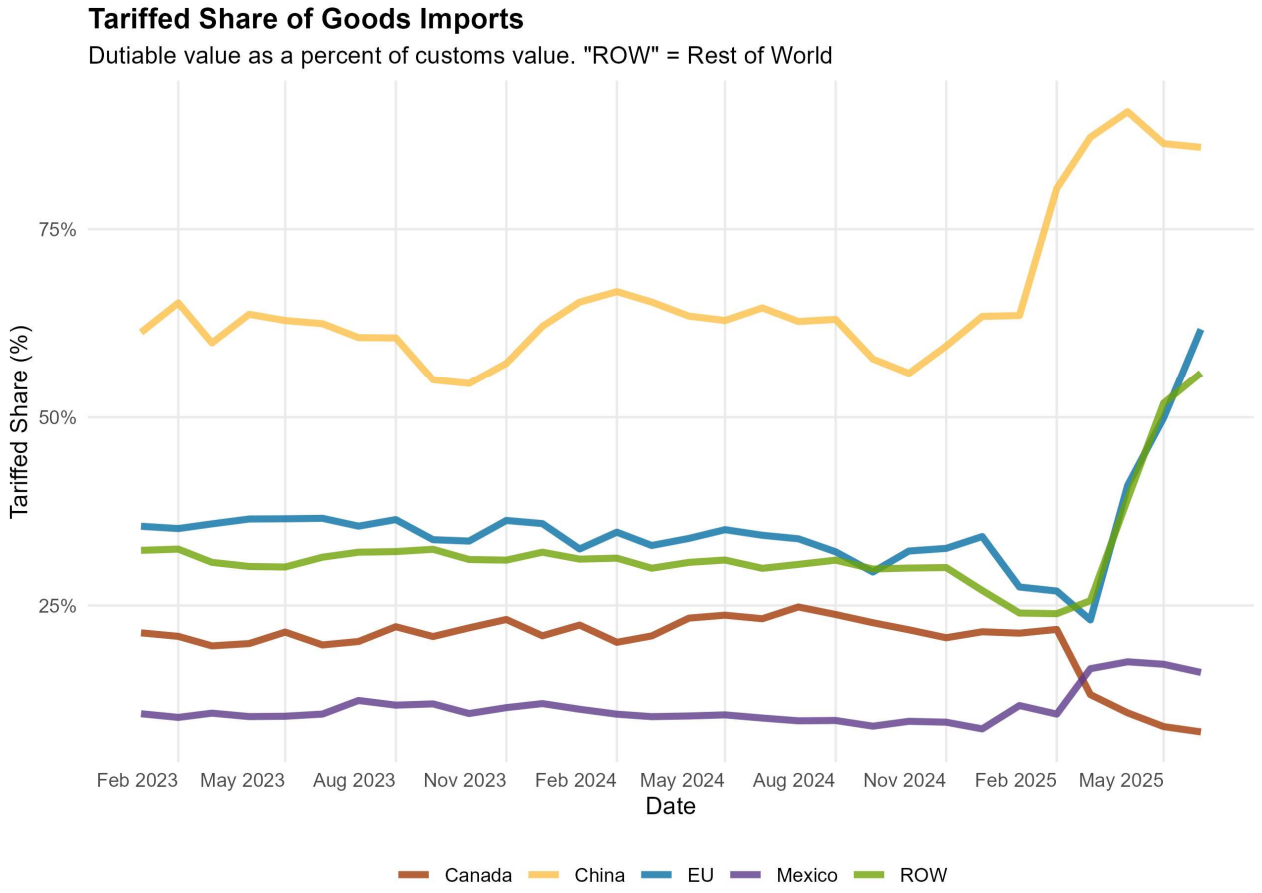
- Several factors can cause delays in tariff revenue being fully realized:
  - Consumers and businesses time short-run purchases to minimize tariffs (front-running them before they take effect)
  - Tariff policy changes also rarely apply to goods already in transit to the US
  - Tariff avoidance and evasion (importers may be taking greater advantage of tariff-free authorities from places like Canada)



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

57% of US imports from Canada were tariff-free due to USMCA compliance in June

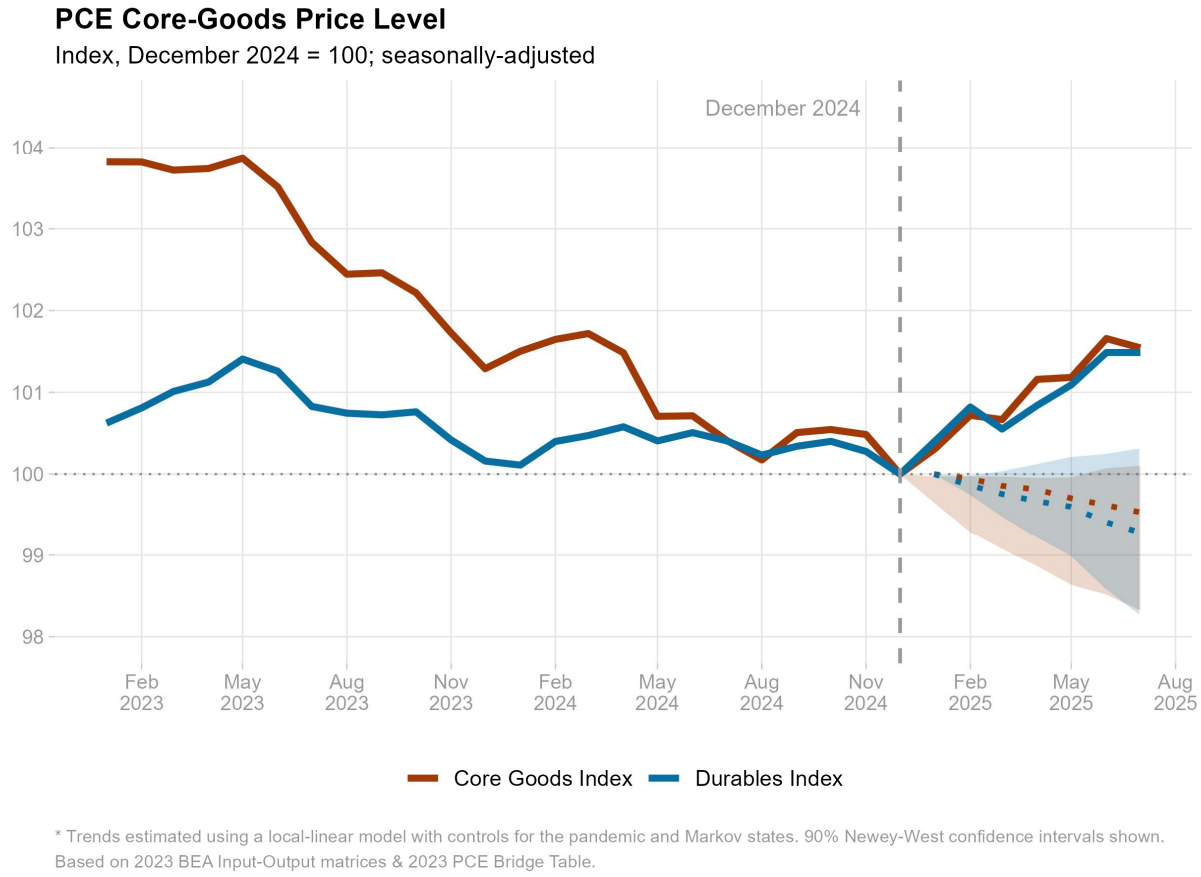
- But the share of imports from Canada that were not subject to tariffs for any reason was 92% (TBL analysis of Census data)
  - MFN rates



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

Goods prices have broken with their prior behavior and have increased since the beginning of the year

- Over the first 6 months of 2025, PCE core goods rose 1.5%, versus 0.3% over the same period in 2024
- Core goods are above TBL's estimate of the pre-2025 trend

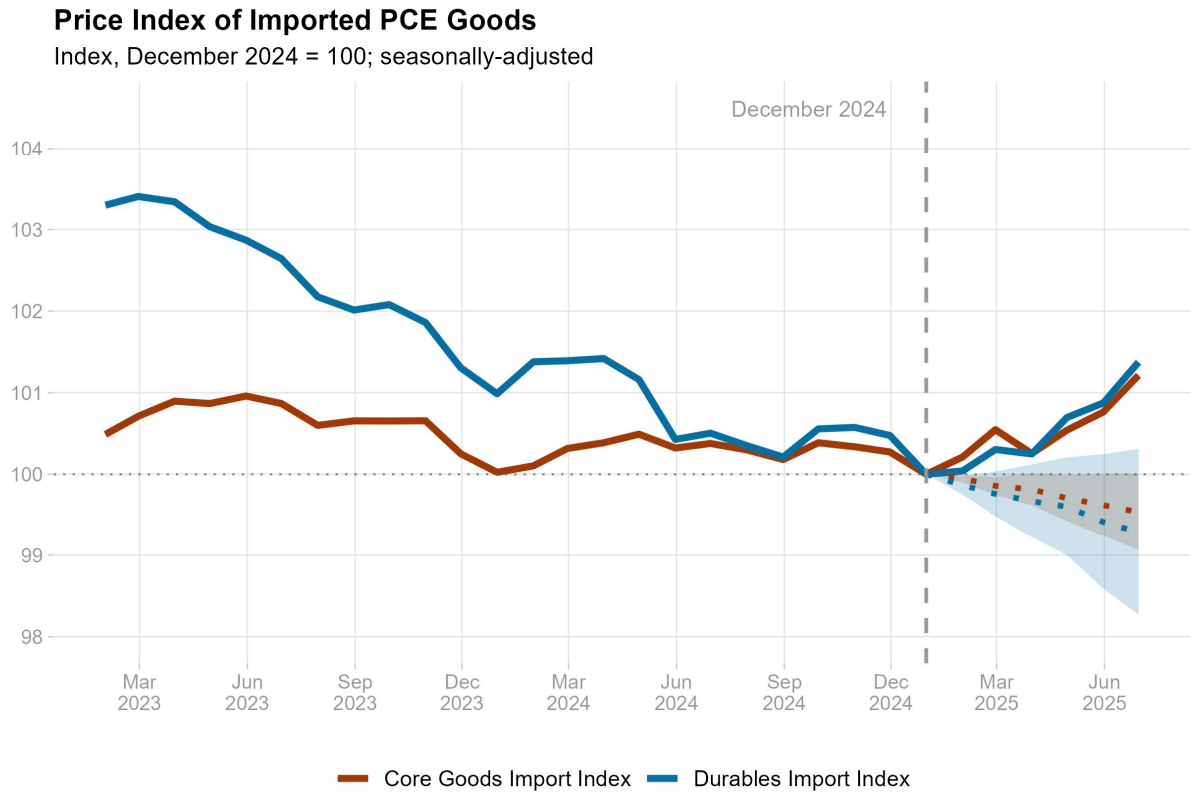


* Trends estimated using a local-linear model with controls for the pandemic and Markov states. 90% Newey-West confidence intervals shown. Based on 2023 BEA Input-Output matrices & 2023 PCE Bridge Table.

Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

Prices of imported consumer goods specifically appear to be rising as well

- Over the first 6 months of 2025, imported core goods rose 1.2%, versus 0.4% over the same period in 2024, and durables rose 1.4% (versus 0.5% in 2024)
- Both are above (1.7% and 2.1%, respectively) the pre-2025 trend



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

1.5% (core) and 1.7%(durables) YTD price increase imply a passthrough rate of 70% and 61%

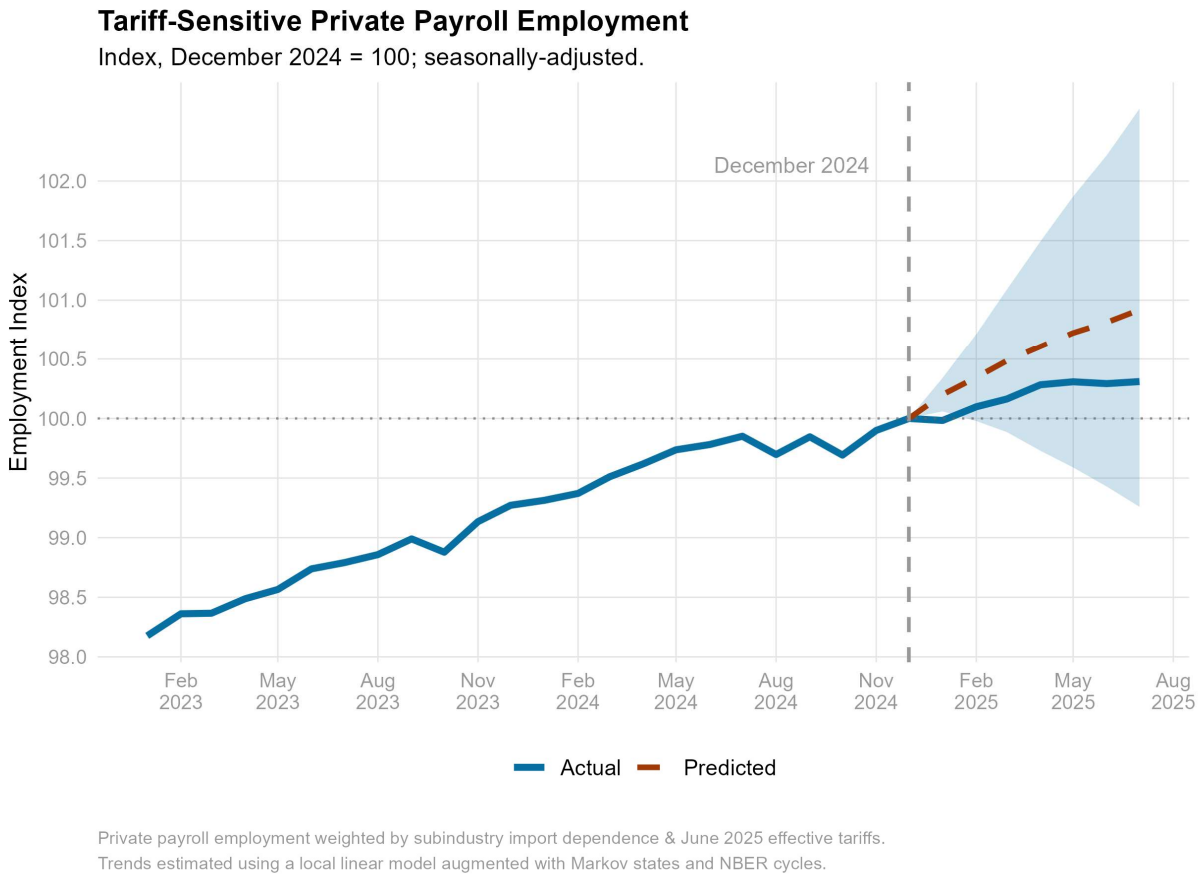
Table 1. Spot Passthrough of 2025 Tariffs to PCE Core Goods & Durables Prices, June 2025

	Core Goods	Durables
Actual Overall Effective Tariff Rate	10.0%	10.0%
Actual PCE-Weighted Effective Tariff Rate		
Jun 2024	4.2%	2.8%
Jun 2025	12.1%	12.4%
Full-Passthrough Price Effect	2.1%	2.7%
Actual Price Rise, 2025 YTD & Against Trend	1.5%	1.7%-2.2%
Consumer Price Passthrough	**69.8%-72.3%**	**60.7%-79.8%**

Table: The Budget Lab • Source: BEA, Census, USITC, The Budget Lab analysis. • Created with Datawrapper

Tariff-sensitive employment has grown by 0.3% through July

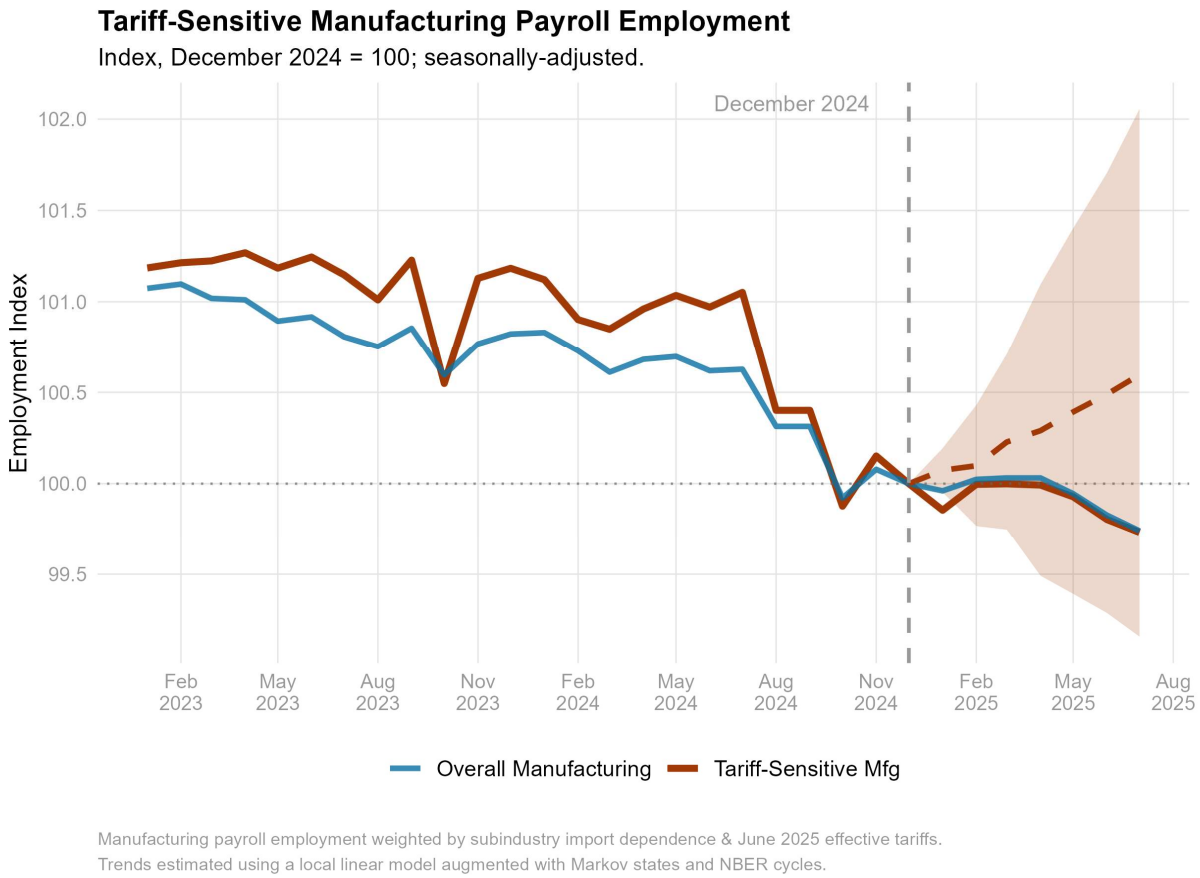
- Private payroll employment weighted by each industry's dependence on imports and actual effective tariff rates
- Only 1/3 as fast as a pre-2025 trend would have predicted, but well within a 90% CI



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

Tariff-sensitive manufacturing employment has fallen 0.3% through July

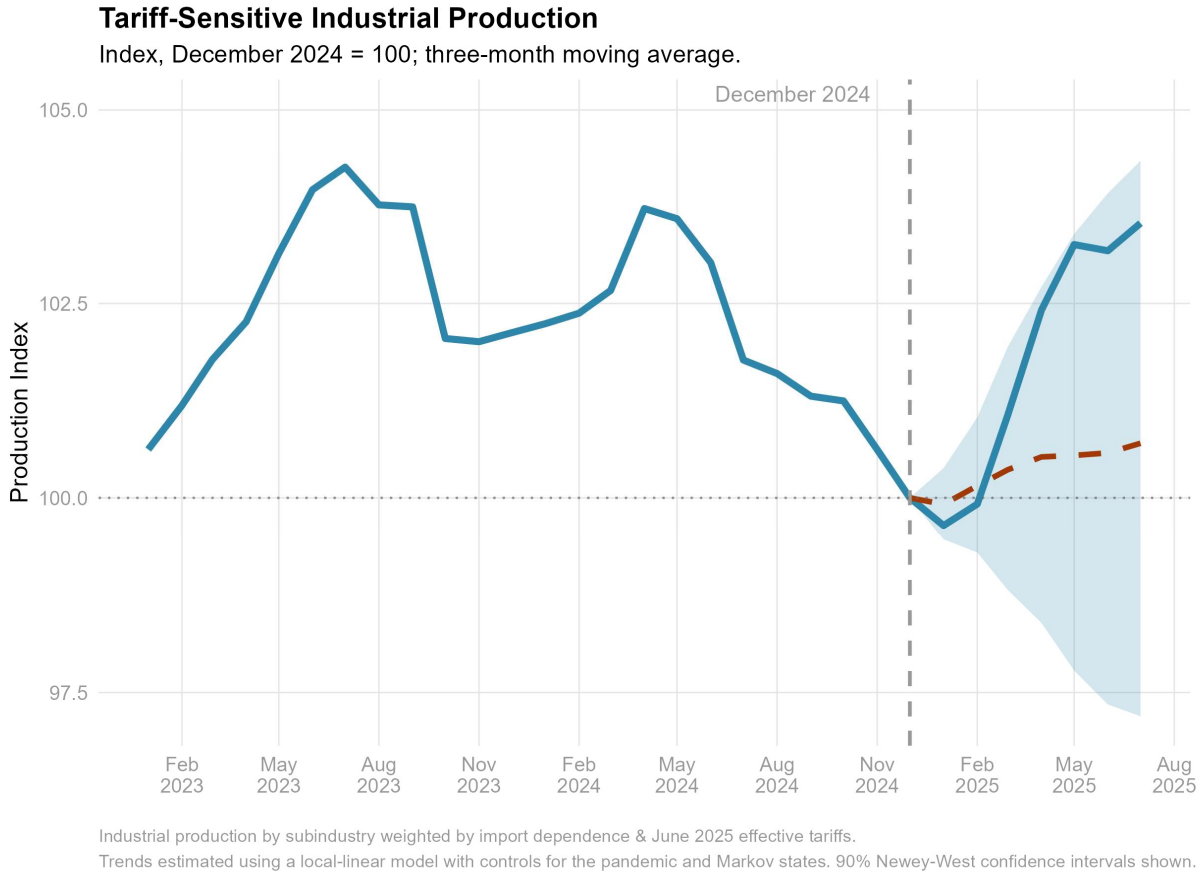
- Worse than the pre-2025 trend growth, but almost the same as overall manufacturing employment
- Manufacturing decline is still well within a 90% CI



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

While tariff-sensitive manufacturing employment is down (slightly), tariff-sensitive output is up

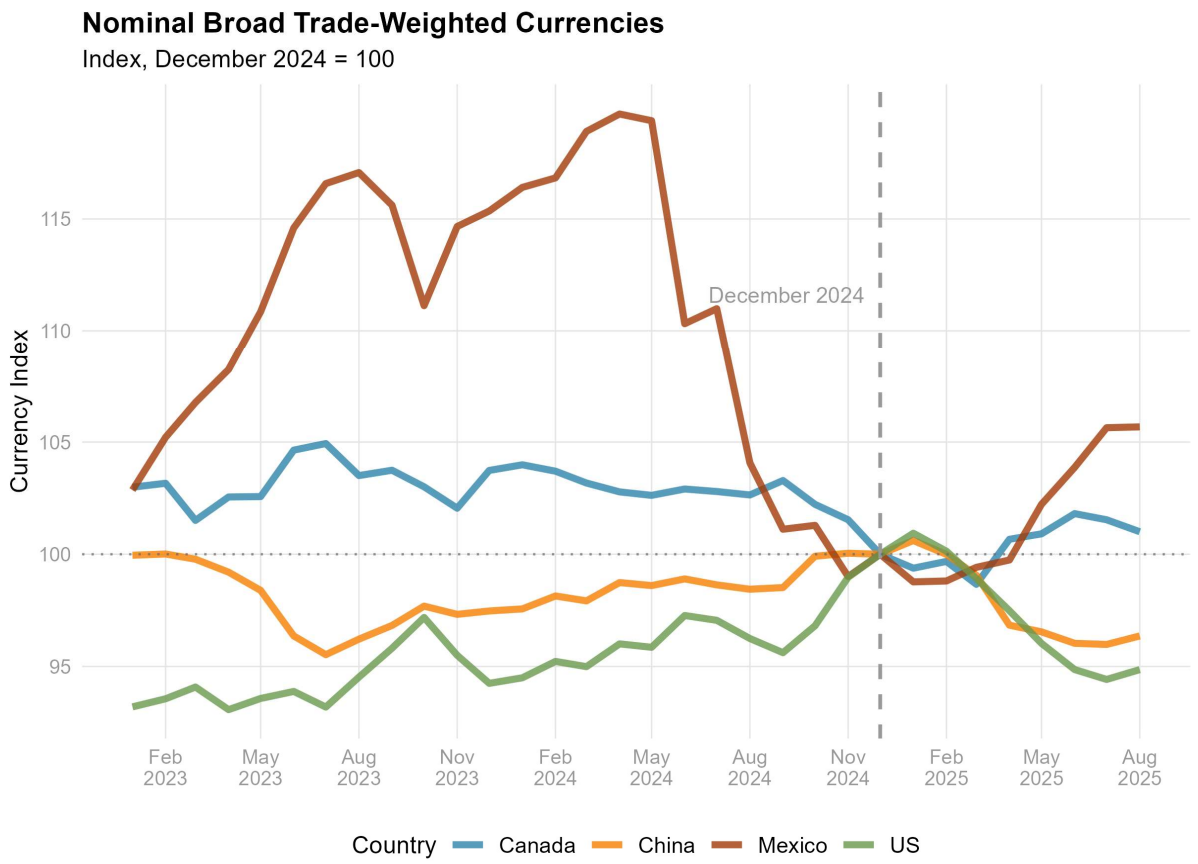
- Grown 3.5% since December of 2024; still within the 90% CI
- Production returning to early 2024 levels after having fallen in late 2024



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

The US dollar is still more than 5% weaker from last December's monthly average

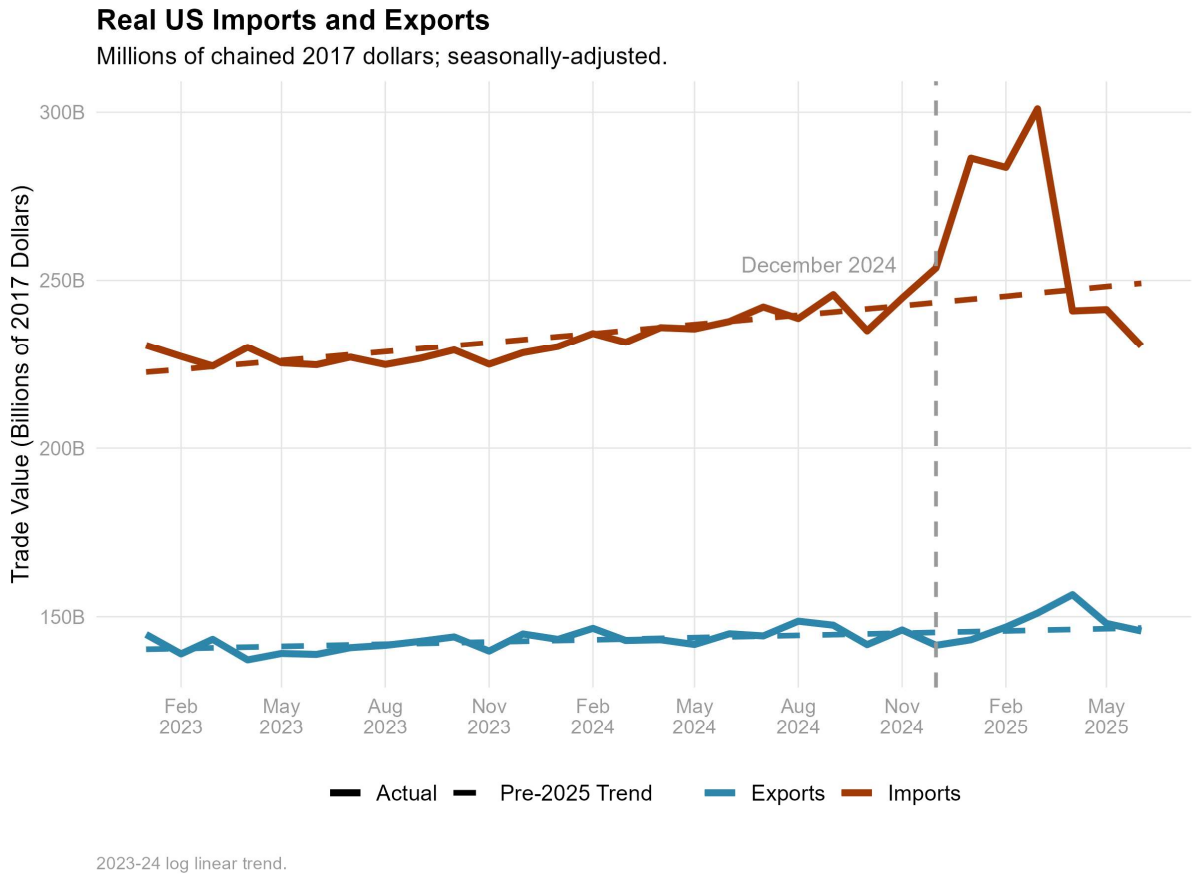
- Inconsistent depreciation among the targets of US tariffs
- Currency movements will affect the price of imports for consumers.
- Weakening US dollar (and Chinese renminbi) is otherwise raising the price of imports in those countries



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

Real imports surged in the wake of tariff announcements before plunging in April

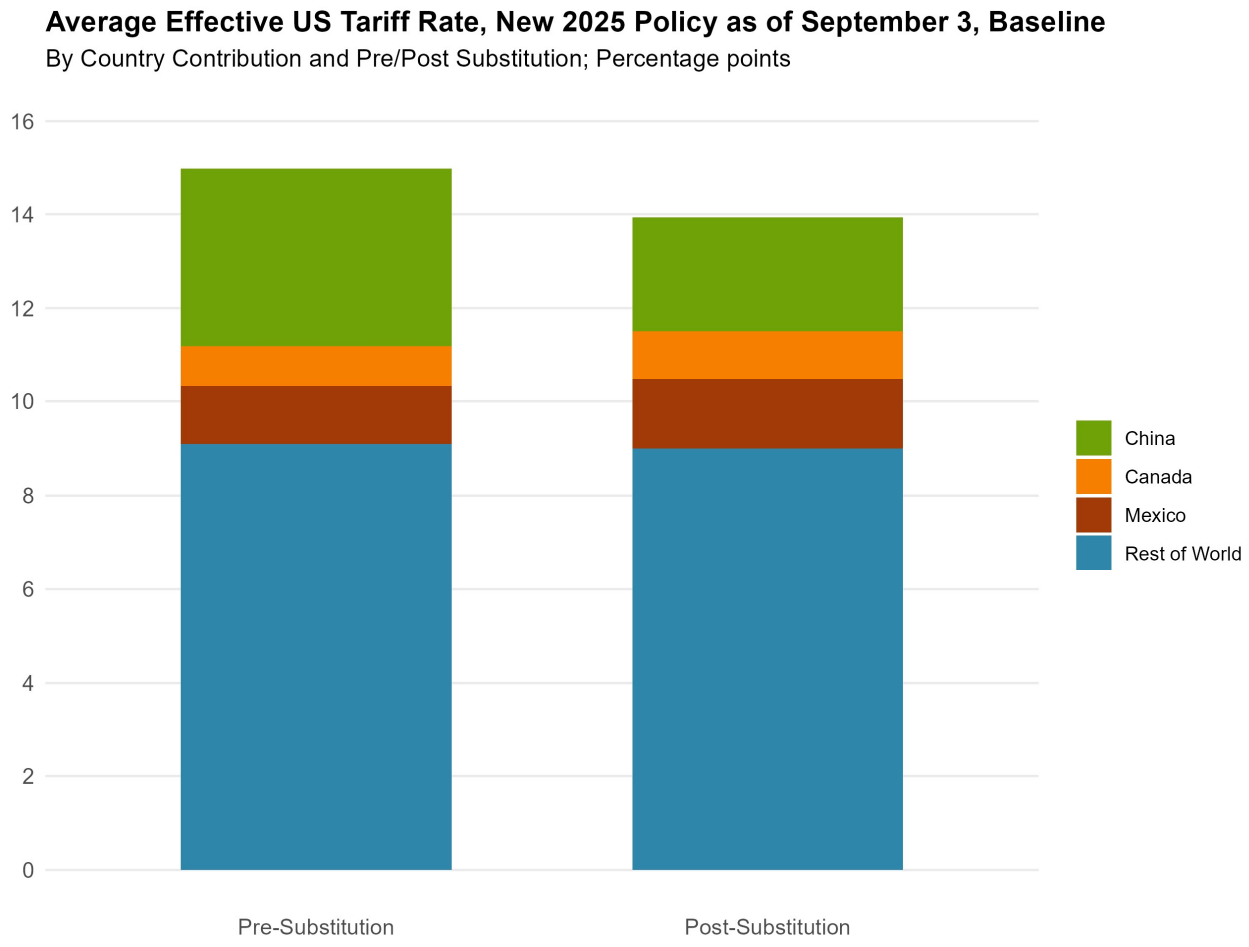
- As of June, real imports were more than 7% below the 2023-24 trend.
- Real exports also rose initially (more modestly than imports) before falling in May and June, where they ended up 0.6% below trend



Source: The Budget Lab, "Short-Run Effects of 2025 Tariffs So Far", Sept. 2, 2025

The timing of the transition from “pre” to “post” substitution is uncertain.

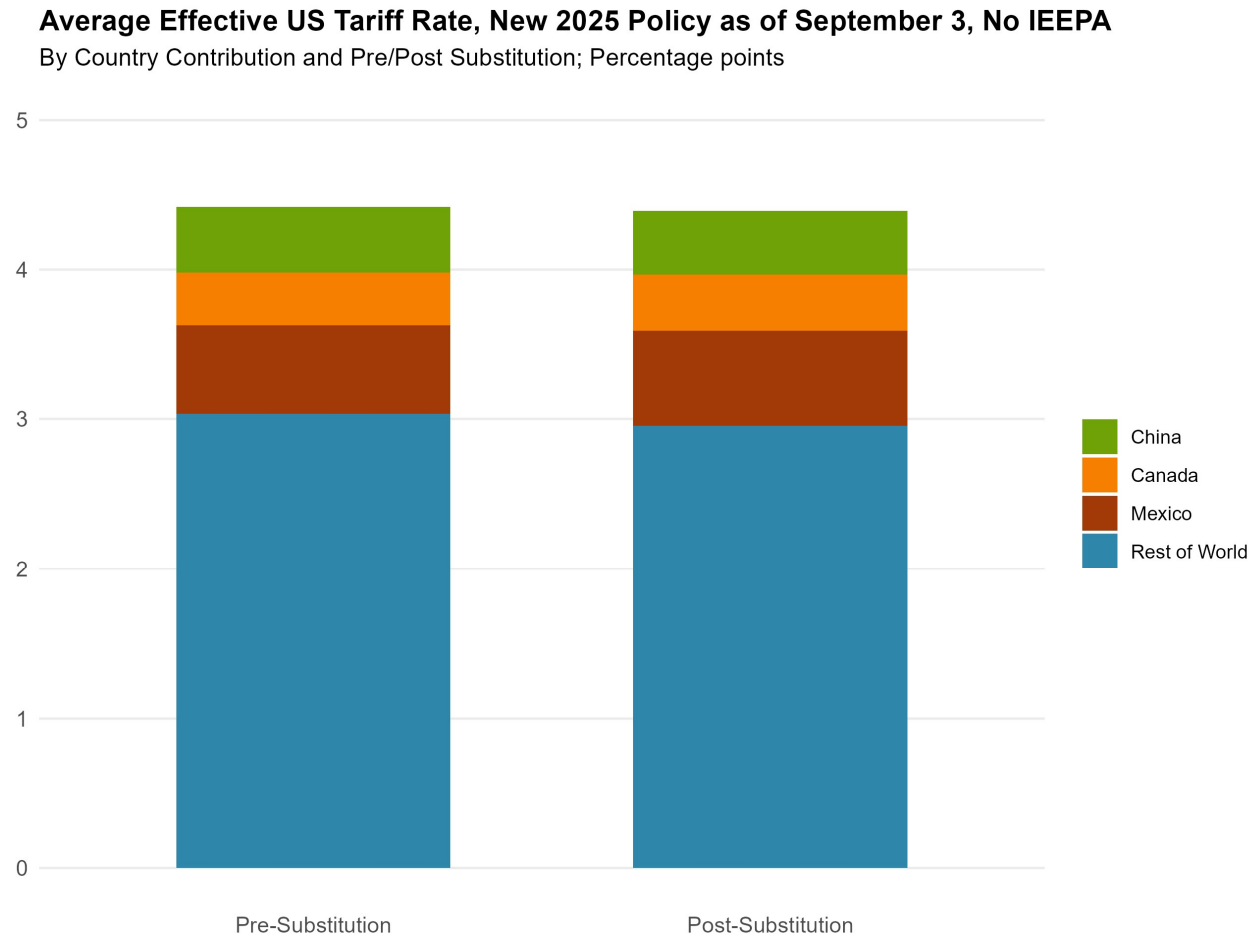
- Pre-substitution, the 2025 tariffs are the equivalent of a 15 pp increase
- Post-substitution, the 2025 tariffs are estimated to be a 14 pp increase



Source: The Budget Lab, “State of U.S. Tariffs: September 4, 2025”, Sept. 4, 2025

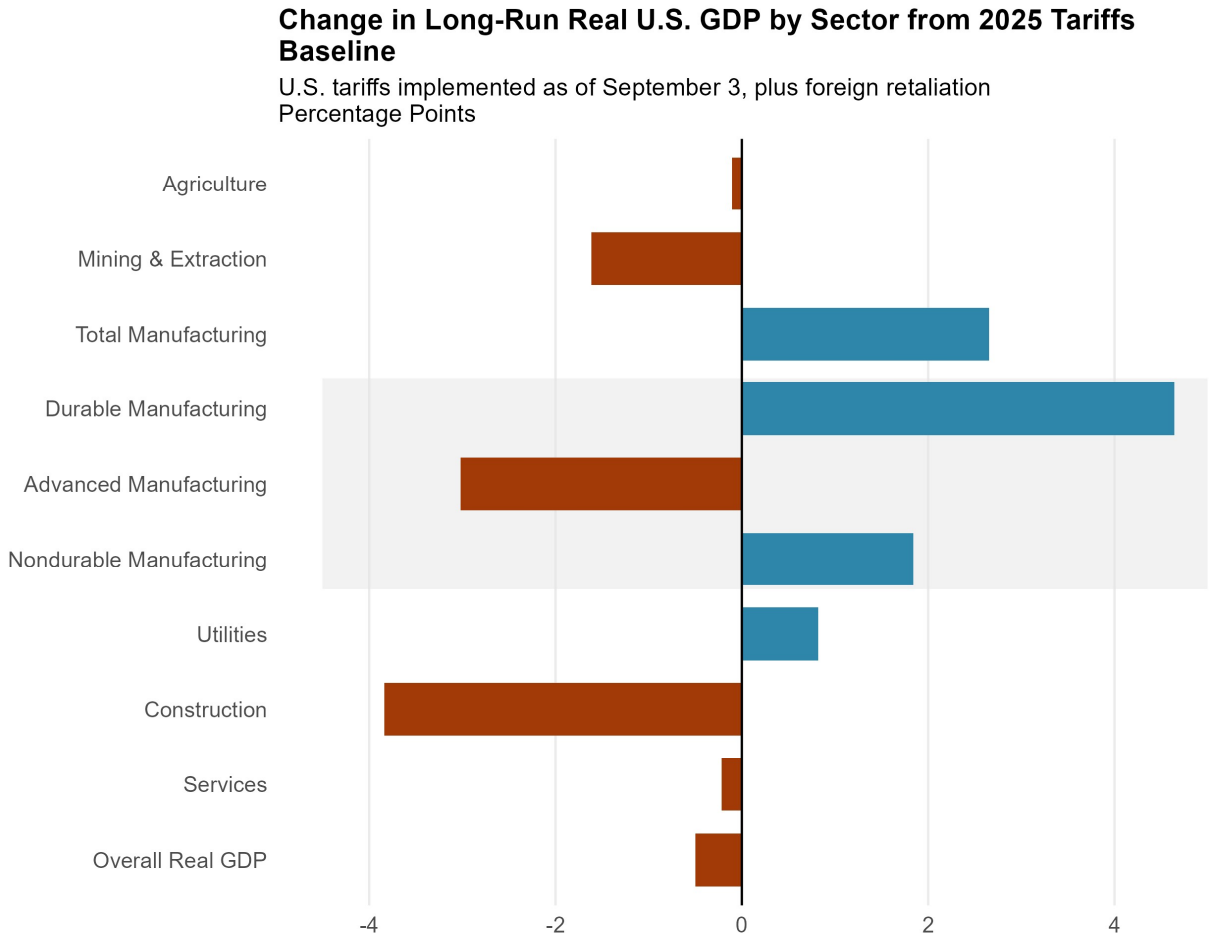
If the IEEPA tariffs are deemed illegal:

- Pre- and post- substitution, the 2025 tariffs are the equivalent of a 4.4 pp increase, bringing the effective tariff rate to 6.8%



Source: The Budget Lab, "State of U.S. Tariffs: September 4, 2025", Sept. 4, 2025

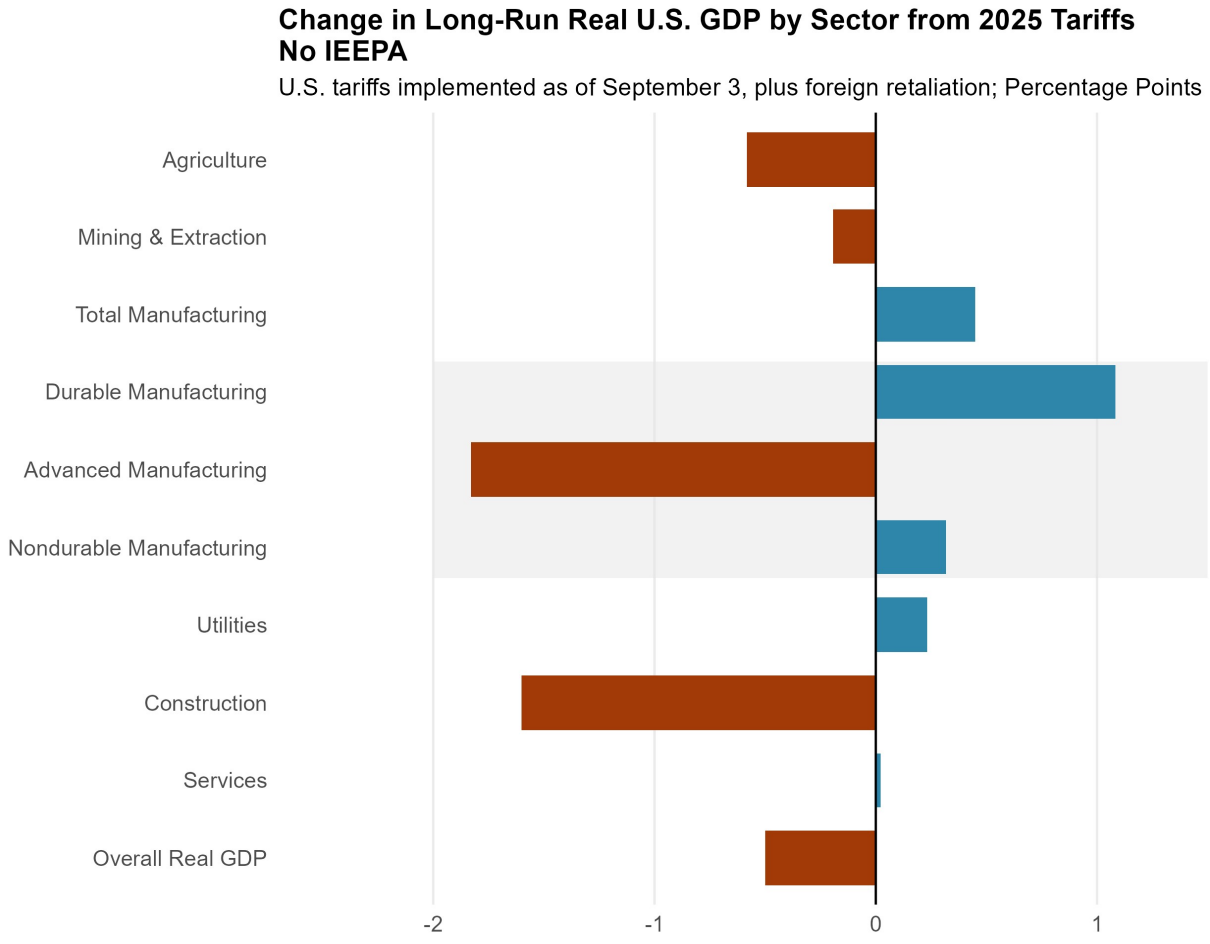
In the long run, tariffs are estimated to shrink the overall US economy by 0.4%



Source: The Budget Lab, “State of U.S. Tariffs: September 4, 2025”, Sept. 4, 2025

If the IEEPA tariffs are deemed illegal:

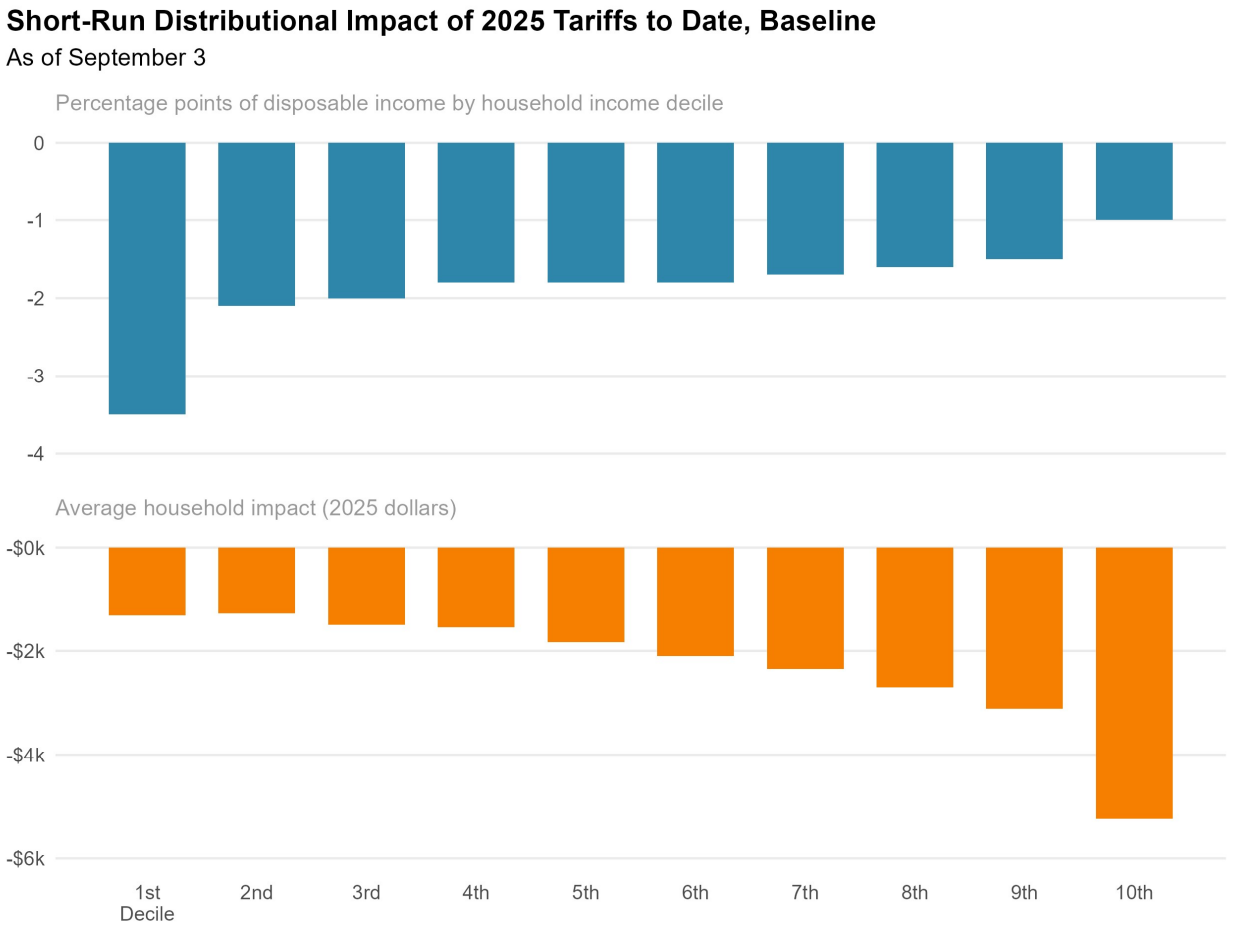
- In the long-run, tariffs will shrink the overall size of the US economy by 0.1%



Source: The Budget Lab, "State of U.S. Tariffs: September 4, 2025", Sept. 4, 2025

Tariffs are a regressive tax, especially in the short-run.

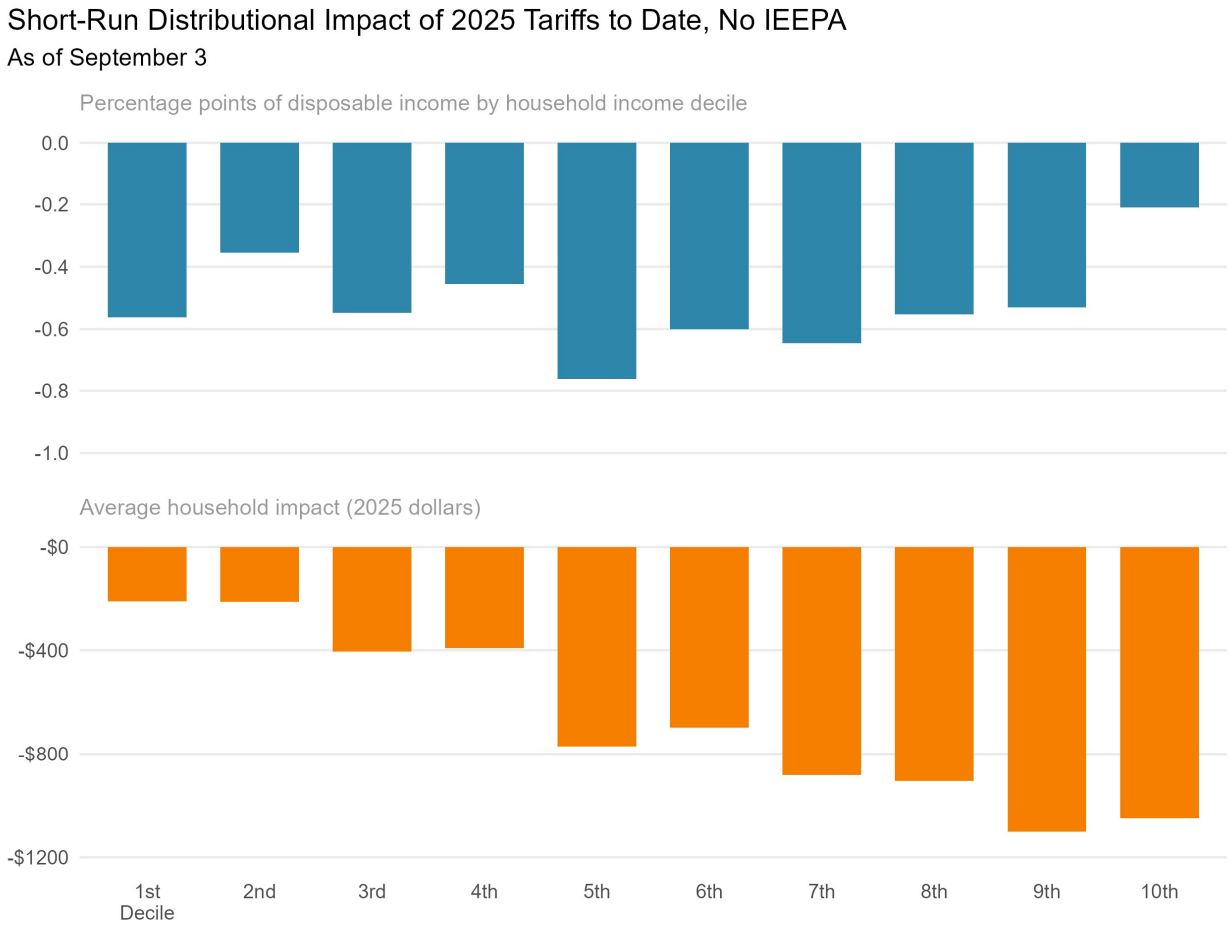
- Tariffs burden households at the bottom of the income ladder more than those at the top.
- Short-run burden on the first decile is more than 3x that of the top decile (-3.5% vs -1.0%)
- Average annual cost to households rise $1,300 for those in the lowest decile, $5,200 in the highest. The median cost is $2,000 per household.



Source: The Budget Lab, "State of U.S. Tariffs: September 4, 2025", Sept. 4, 2025

If the IEEPA tariffs are deemed illegal:

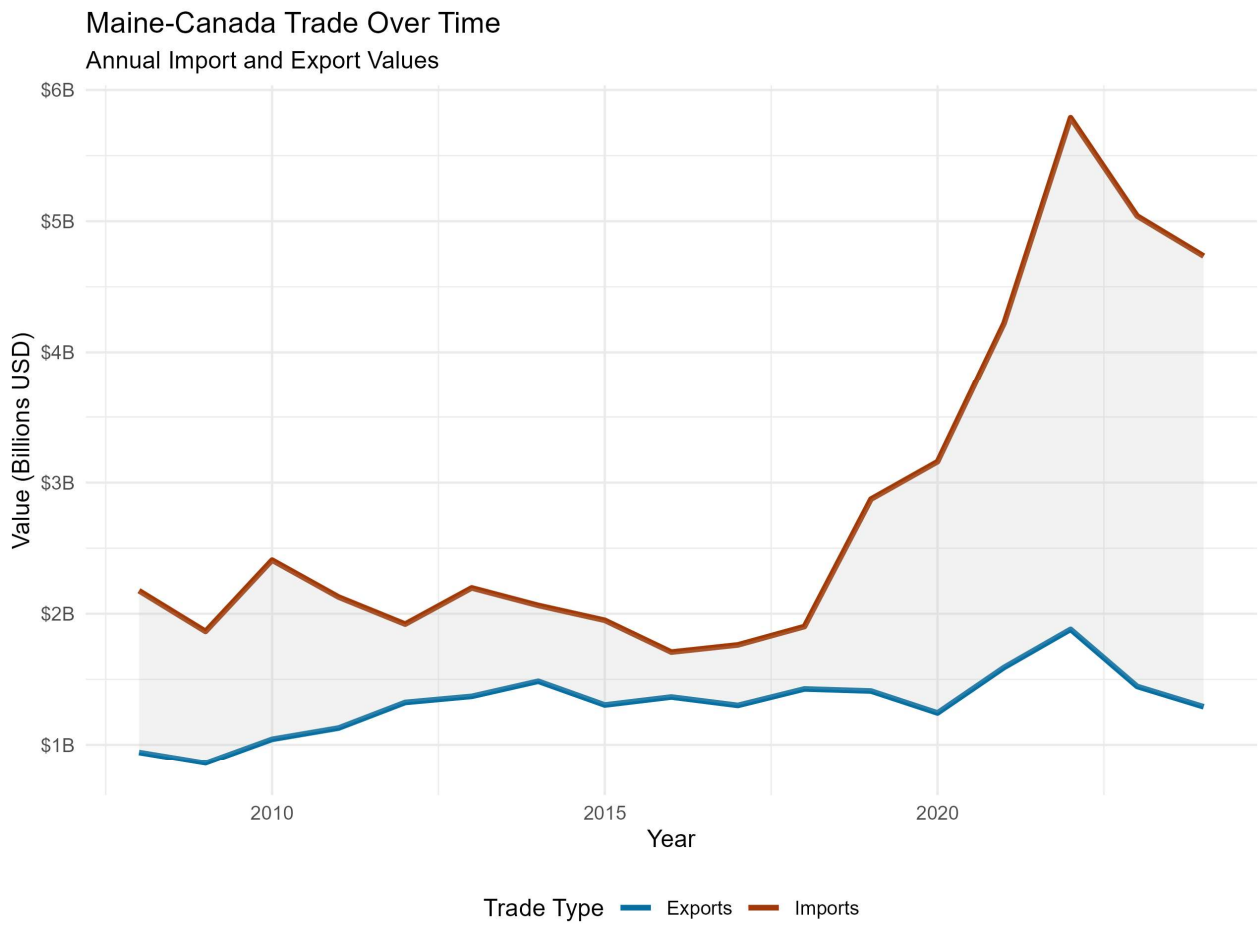
- The regressivity is about the same as in the baseline (short-run burden on the first decile is more than 3x that of the top decile)
- Average annual cost to households in the first and top deciles rise to $211.4 and $1,049, respectively
- Median cost is $739 per household



Source: The Budget Lab, "State of U.S. Tariffs: September 4, 2025", Sept. 4, 2025

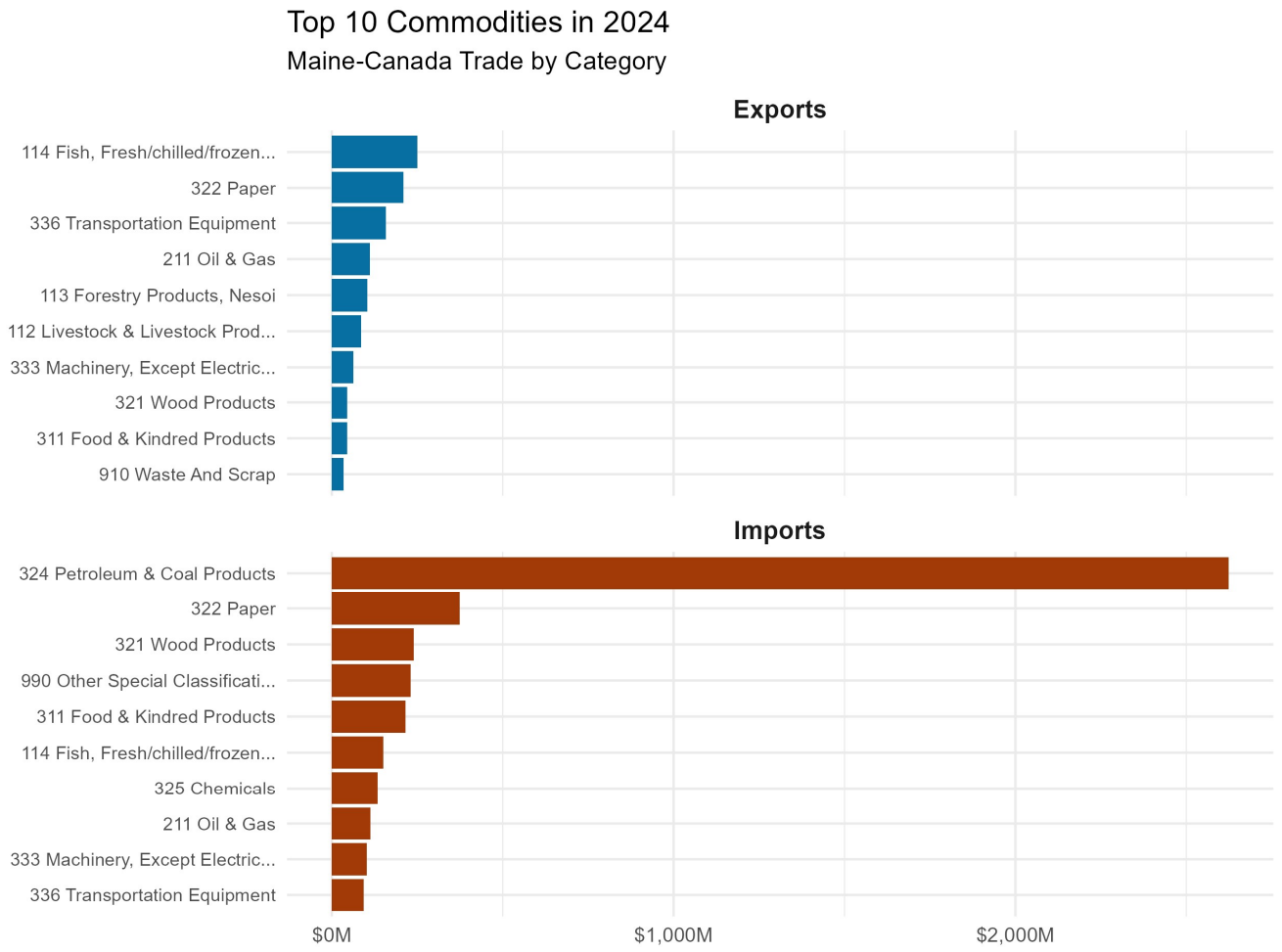
The story of Maine and international trade is largely a story of Maine and Canada.

- 70% of total imports and 42% of total exports in 2024



Source: USA Trade Online, Note: dollars are nominal

Heritage industries (like forest products and fishing) are deeply interconnected with Canada



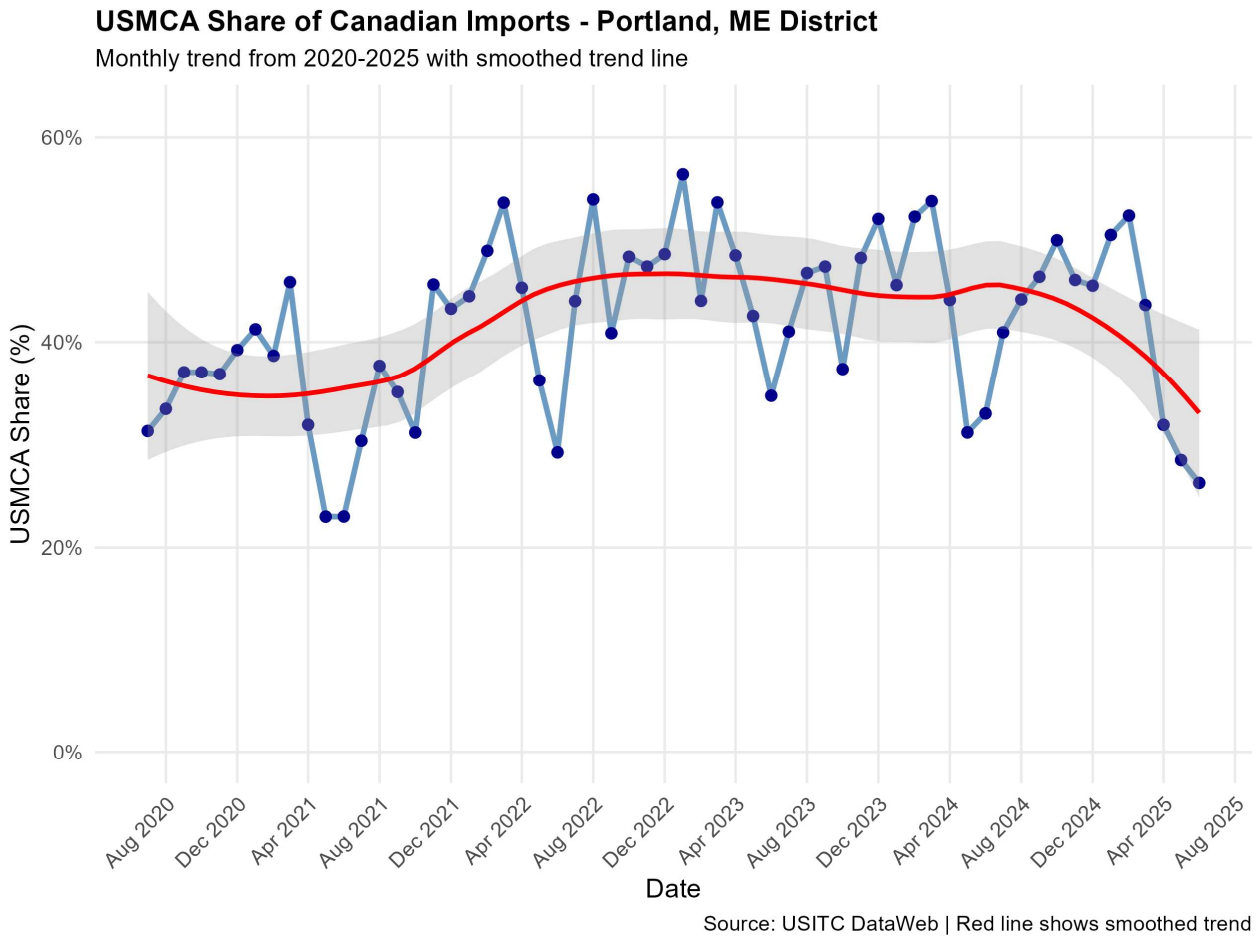
Source: USA Trade Online

Direct imports are only one piece of the puzzle…

- Combining BEA, Census, USITC, and proprietary data to understand which industries may be more vulnerable
- Taking standard regional economic measures and playing with weighting and the creation of indexes (based on value etc.) to gauge risk
- In talks with folks from REMI about larger modeling effort

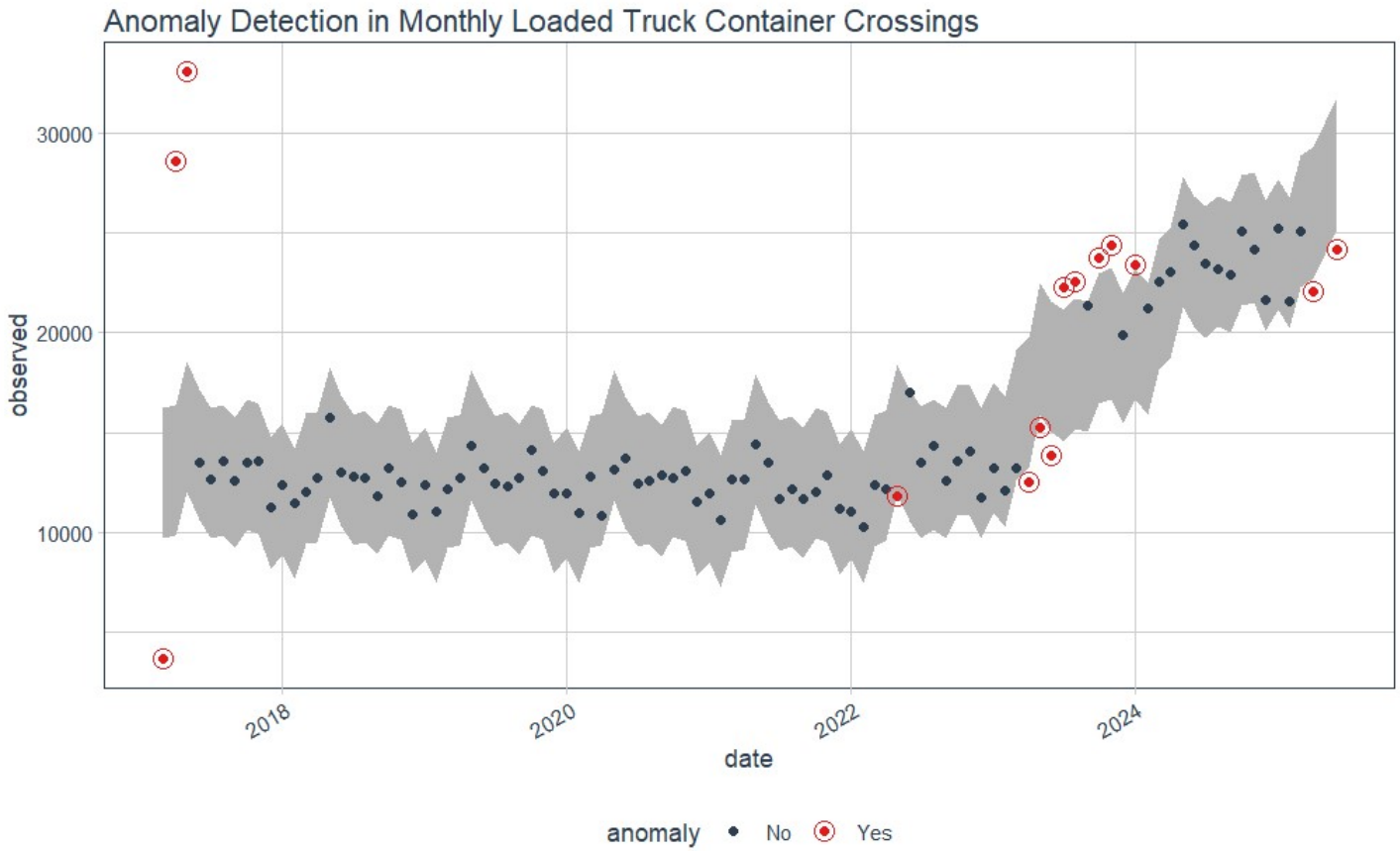
Regional Purchase Coefficient	Z-Score Based Method (Log of LQ)
Proportion of a specific commodity's demand that is met by local producers	Measures how concentrated an industry is in a particular region relative to a larger reference area

Understanding the scale of the effect requires an understanding of which goods are (not) subject to tariffs



Because the data at a state level isn't great, we've been trying to find unique or alternative data sources…

- Logistics data could be useful in theory, but is very volatile



Source: US Department of Transportation, Bureau of Transportation Statistics ; Seasonal-trend decomposition using Loess conducted by OSE staff

"The unpredictability of the situation has resulted in a moving target for many businesses, resulting in a chilling effect on whether people decide to make investments…many have said that they're waiting for the dust to settle before making any big decisions."

- Wade Merritt, Maine International Trade Commission