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## **Macro Picture:**

**US Tariffs: Raising Revenues but Burdening  
the Economy and Households**

**By**

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**27 August 2025**

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## **US Tariffs: Raising Revenues but Burdening the Economy and Households**

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## US Tariffs: Raising Revenues but Burdening the Economy and Households

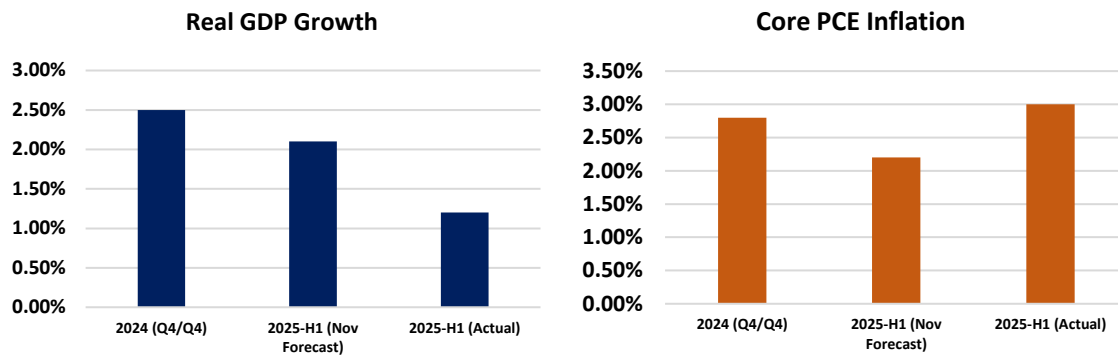
27 August 2025

### Executive Summary

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- ✦ The US economy is entering a fragile phase, with modest growth, a weakening labour market, leaving the Fed facing stagflation risks even before Trump's new tariffs fully hit consumers.
- ✦ Q2 GDP rose 3.0% annualized, but the boost came mainly from a 30% drop in imports due to tariffs. Underlying domestic demand slowed sharply. Averaging Q1 and Q2, true growth was closer to 1.2% annualized, well below 2024's pace.
- ✦ Job creation slowed dramatically. Unemployment rose, layoffs hit 750K in H1 2025, and manufacturing shed 116K jobs over the past year—its worst decline since early COVID.
- ✦ Tariffs pushed producer prices up 0.9% in July, the fastest in three years, signaling higher consumer prices ahead. Core PCE inflation unexpectedly rose to 3.0%, reversing disinflation trends, while real wages stagnated, leaving living standards no better than five years ago.
- ✦ While promoted as job-creating and bargaining leverage in trade talks, Trump's tariffs function as a tax on U.S. consumers and businesses. The new "reciprocal tariff rates" of 10–41%, alongside earlier levies, are projected to raise significant government revenue, helping offset tax cuts and narrow a federal deficit currently at 6.4% of GDP.
- ✦ CRFB projects tariff revenues could reach \$1.3 trillion by 2029 and up to \$2.8 trillion by 2034, equivalent to 0.2–0.8% of GDP, placing them alongside medium-sized taxes like a payroll or carbon levy; collections in July 2025 alone hit \$25 billion, with tariffs already accounting for 2.7% of federal revenue.
- ✦ Revenues face significant uncertainty. Court rulings could cut them to \$800 billion, while import suppression and weaker household incomes erode payroll and income tax bases; overall, tariffs may reduce GDP by 0.4–1.1% and shrink deficit savings by 10%.
- ✦ Even at the high end, tariff revenues fall short of covering Trump's \$3.4–4.7 trillion tax cut package, meaning they provide meaningful but limited fiscal relief relative to the scale of deficit expansion.
- ✦ While tariffs boost customs receipts (up 273% y-o-y in July, adding \$21bn), they function as a consumer tax: raising U.S. prices by 1.8% and cutting average household income by \$2,400 annually. Higher input costs also disrupt supply chains, dampen competitiveness, and squeeze manufacturer profit margins.
- ✦ Yale's Budget Lab projects GDP growth could be 0.5pp lower through 2025, with long-run output down 0.4% (about \$125bn annually), and unemployment rising by 505,000 jobs by end-2025.
- ✦ Despite record tariff revenues, the fiscal benefit is modest relative to ballooning deficits. In July, the federal deficit climbed 20% y-o-y, pushing federal debt toward \$37tn. With deficits at 6% of GDP, tariff revenue provides only a partial offset to the fiscal deterioration caused by slower growth and tax cuts.
- ✦ Policy uncertainty has driven firms toward private credit, a \$2tn market (up from \$500mn a decade ago) offering flexible but pricier financing than banks or bonds. Private credit now covers nearly a third of the \$3tn planned AI data center buildout by 2028, concentrated among the "Magnificent Seven" tech firms. While fueling AI expansion, this lightly regulated financing channel heightens systemic risk if the AI boom stalls.

## Key Picture: Real GDP Growth and Core PCE Inflation Rates



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Source: BEA

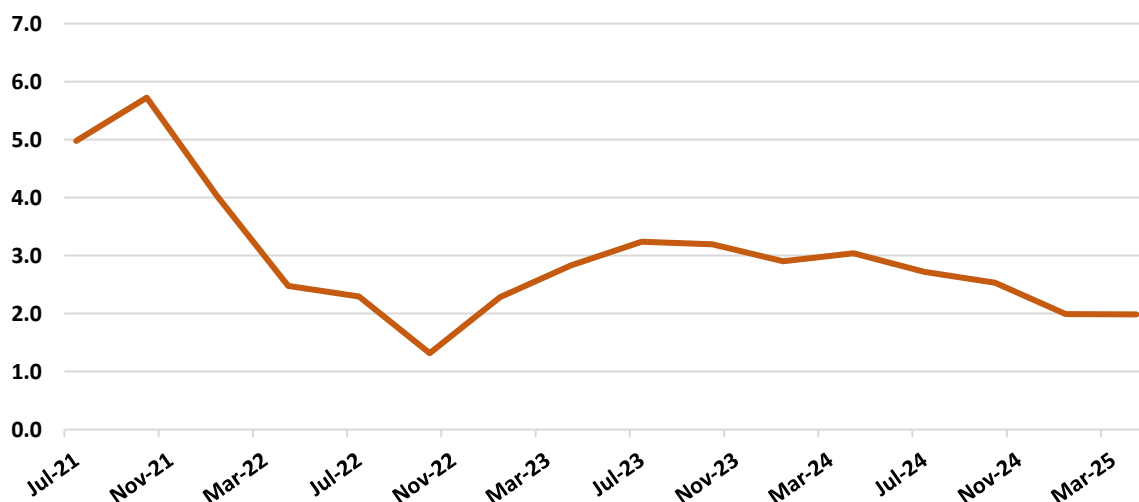
The U.S. economy is entering a more fragile phase, caught between slowing growth and renewed inflation pressures. As analysed in details below, it grew at a modest 1.2% annualized pace in the first half of 2025, with Q2 headline growth of 3.0% flattered by a sharp drop in imports rather than stronger domestic demand. Beneath the surface, underlying growth has slowed, the labour market is weakening, and inflation has re-accelerated to 3.0%, eroding household purchasing power. This is not yet a severe recessionary or inflationary environment, but the combination of softer growth and higher prices poses a serious challenge for the Federal Reserve. And all this comes before the full impact of President Trump's latest tariffs is felt, measures Fed Chair Jay Powell warns will ultimately shift the burden from businesses to American consumers.

## Macroeconomic Developments

### Growth Masks Weak Domestic Demand

The US economy expanded by 0.7% on a quarterly basis in the second quarter of 2025, equivalent to an annualized growth rate of 3.0%. This performance was driven largely by a steep decline in imports and resilient consumer spending, although these gains were partly offset by weaker investment and exports. GDP grew 2% y-o-y in the Q2, the same as in the first three months of the year, remaining the weakest performance since Q4 2022 (**Figure 1**).

**Figure 1: GDP Annual Growth Rate**



Source: Fred

The headline figure, however, masks important dynamics. Growth was boosted mainly by a sharp 30% drop in imports as tariff increases began to take effect. The fall in imports meant net trade (exports minus imports) rose significantly, adding to GDP. Stripping out the effects of trade and tariffs, underlying domestic demand weakened noticeably: real final sales to private domestic purchasers, which combines consumer spending and private fixed investment, slowed to just 1.2% growth, down from 1.9% in the first quarter.

Investment was the weakest component. Private inventory investment contracted, led by reductions in nondurable goods manufacturing (notably chemicals) and broad-based declines in durable goods wholesale trade. Overall investment growth slowed to just 0.4% in Q2 from 7.6% in Q1. Within this, equipment investment rose 4.8%, well below the exceptional 23.7% increase in the previous quarter, while investment in new structures such as factories, data centers, and offices fell 10.3% after a 2.4% decline in Q1.

Looking through these fluctuations, the broader picture is one of moderate growth. Real GDP was 2.0% higher in Q2 2025 compared to the same period a year earlier, unchanged from the pace in Q1. The U.S. economy continues to outperform the Eurozone and Japan but is expanding at less than half the rate of China.

[As economist Jason Furman underlines](#), the quarterly figures were significantly affected by timing distortions that shifted reported activity from the first quarter into the second. The data suggest that firms front-loaded imports in Q1 to get ahead of tariff increases. This resulted in unusually high imports that quarter, much of which accumulated as inventories. In Q2, imports normalized to roughly their 2024 pace, while inventories were drawn down. As a result, headline growth in Q2 appears stronger than underlying conditions would suggest, while Q1 was understated. A more accurate assessment is obtained by averaging the two quarters, which yields an annualized growth rate of just 1.2% (**Key Picture**). This pace is notably weaker than the expansion recorded in 2024 and falls short of the projections made in November 2024 for the first half of 2025.

#### *Weakening Employment Trends*

The latest U.S. labor market report was notably weak. According to the Bureau of Labor Statistics, payrolls increased by only 73K in July, while May and June figures were revised sharply lower. As a result, just 106K jobs were created between May and July, compared with 380K in the preceding three months. The unemployment rate also moved higher, marking the weakest labor market conditions since the immediate post-pandemic slump.

Layoffs have surged to nearly 750K in the first half of 2025, the highest since the pandemic. The technology sector, once a key driver of job creation, is now posting net losses, and employment growth across industries remains well below pre-COVID levels or the 2022 tech boom. Manufacturing has been especially weak, shedding 116K jobs over the past year, the fastest pace of losses since early COVID, driven largely by sharp declines in transportation (–49K) and electronics (–32K).

#### *Inflation Rebounds*

Inflation developments add to the concern. Fed Chair Jerome Powell warned that goods price inflation is likely to rise over the summer as President Trump's tariffs filter through to US consumers, who he noted will shoulder part of the cost. U.S. producers raised prices at the fastest pace in over three years last month as tariffs pushed up costs. The producer price index jumped 0.9% from June to July, far above the 0.2% expected, after being flat the prior month. Analysts warn the surge in wholesale prices will soon feed through to consumers, heightening inflation concerns despite July's steady 2.7% consumer price increase. Core PCE inflation was expected to fall from 2.8% in 2024 to 2.2% in the first half of 2025, but instead rose to 3.0% (annualized). This represents a notable re-acceleration rather than the anticipated disinflation.

Since the end of the pandemic slump, consumer prices have risen by about 20%, while wage growth has slowed toward 3% annually, eroding any real gains in living standards. As a result, average real weekly earnings for full-time workers are back to where they were five years ago, just before the pandemic.

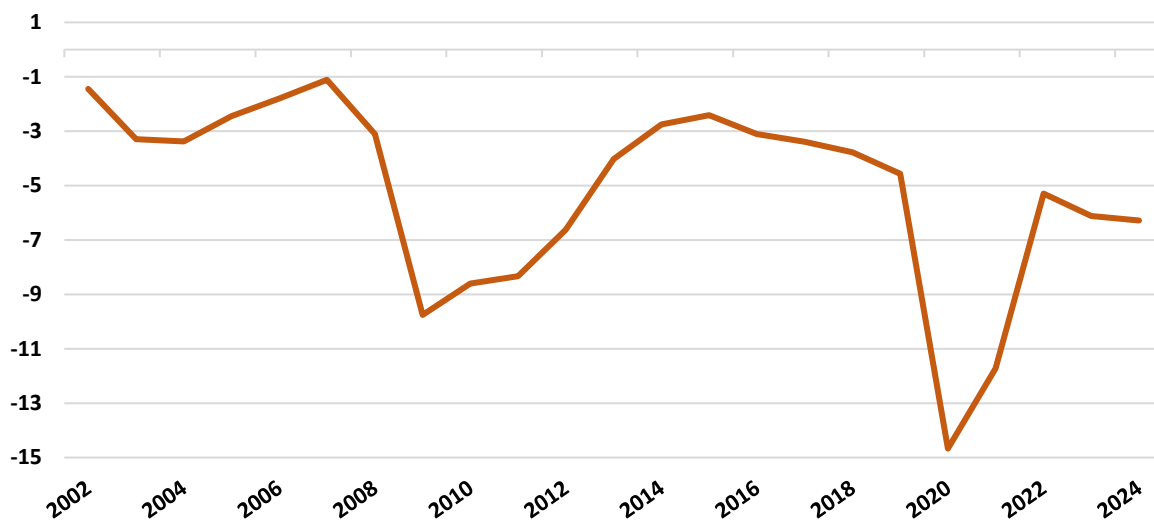
## Tariffs as a Tax on Americans

### Tariffs as a Multipurpose Tool

The Trump administration frames tariffs as a multipurpose tool. Trump and his advisers argue they will pressure firms to relocate production to the U.S., creating jobs and raising wages. Tariffs are also portrayed as leverage in trade negotiations and as a revenue source to offset domestic tax cuts. Tariff revenues could help government finances by providing an additional tax income stream that can be used to reduce budget deficits that currently stands at 6.4% of GDP (**Figure 2**).

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**Figure 2: Federal Deficit as Percent of GDP**



Source: FRED

On August 7, the Trump Administration finalized a new set of “reciprocal tariff rates” ranging from 10% to 41%. If maintained, these measures, together with earlier tariffs, including the 10% baseline levy, and other recent trade actions, are expected to generate substantial fiscal revenue for the U.S. government.

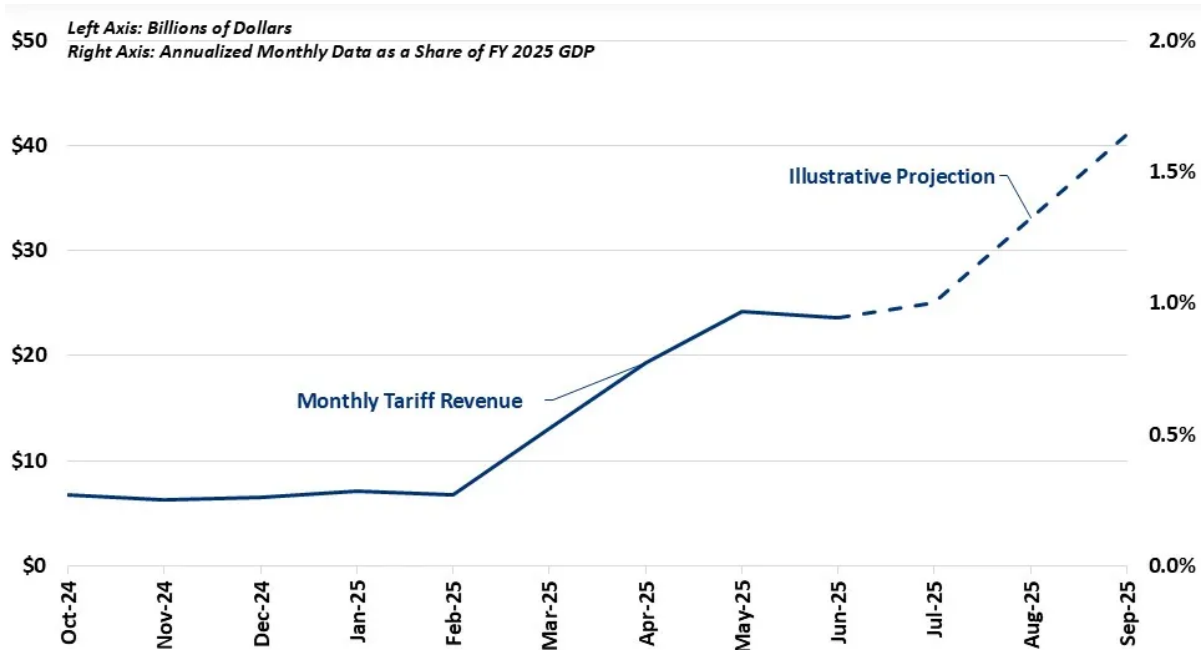
### Impact on Fiscal Revenues

According to the [Committee for a Responsible Federal Budget \(CRFB\)](#), tariff revenues have become both “meaningful” and “significant.” If made permanent, tariffs enacted under the Trump administration could generate \$1.3 trillion by the end of his current term and [\\$2.8 trillion through 2034](#), equivalent to 0.2 to 0.8% of GDP. That would put tariffs in the same fiscal league as other medium-sized taxes, such as a 1 percent payroll levy or a modest carbon tax.

Collections have risen sharply, with \$25 billion collected in July alone, more than triple the level from late last year. In fiscal 2025 to date, tariffs have accounted for 2.7% of total federal revenue, more than double their typical share. Some analysts project this could climb to 5% if current policies remain in place.

Yet these headline figures obscure important risks and trade-offs. The U.S. Trade Court has already ruled some tariffs illegal, pending appeal. If upheld, revenues could shrink to just \$800 billion through 2034. Even if they remain in place, tariffs suppress imports and lower household incomes, offsetting gains by reducing other tax receipts such as income and payroll taxes.

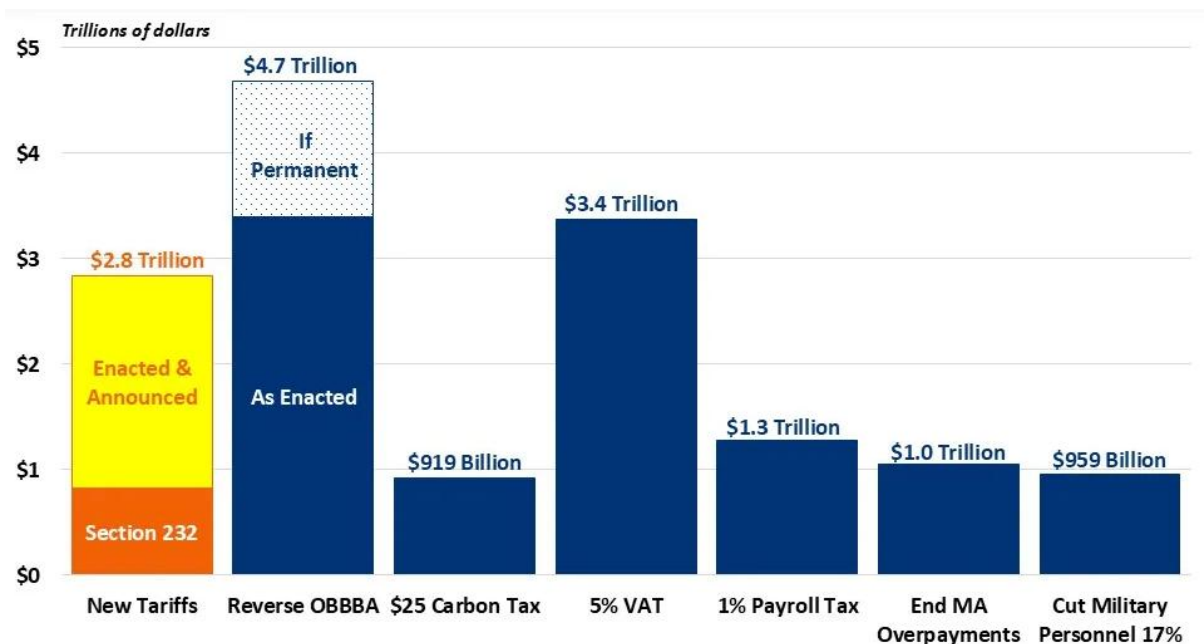
**Figure 3: Tariffs Are Generating Significant Revenue**



Source: [CRFB](#)

CRFB's estimates are already lower than a static projection, simply raising the average tariff rate from 2% to 17%, because tariffs are expected to reduce imports by roughly a quarter (\$10 trillion) and lower after-tax incomes, which in turn reduces payroll and income tax revenue. Broader macroeconomic effects are also excluded: tariffs are projected to reduce output by 0.4–1.1%, shrinking deficit savings by around 10%. On a dynamic basis, deficit reduction falls to [\\$1.7–\\$2.6 trillion through 2034 \(or \\$500–\\$800 billion if the court ruling is upheld\)](#). These figures may still understate risks linked to trade tensions, market volatility, and pressure on the dollar.

**Figure 4: Tariffs Are Large Relative to Other Offsets**



Source: [CRFB](#)



Even at the upper end, tariff revenues remain modest compared to the fiscal impact of Trump's One Big Beautiful Bill Act (OBBBA). That legislation is projected to increase the deficit by \$3.4 trillion—and by \$4.7 trillion if made permanent. In other words, tariffs raise substantial sums in isolation but fall well short of offsetting the revenue losses from Trump's flagship tax cuts (**Figure 4**).

### Broader Economic Fallout

However, the same tariffs intended to support US manufacturing are raising input costs, disrupting supply chains, and weakening competitiveness. At the core, tariffs function as a tax on imported goods. They are paid by U.S. importers to the Treasury, though the costs are eventually passed on to consumers. [The Budget Lab at Yale estimates](#) combined 2025 tariffs will raise U.S. prices by 1.8% in the short run, equivalent to an average household income loss of roughly \$2,400.

Additionally, while tariff revenues have indeed increased, their contribution is modest relative to a federal budget deficit of about 6% of GDP and is outweighed by losses from corporate tax cuts and a slowing economy. Moreover, the U.S. trade deficit remains around 50% higher than a year ago and is expected to widen further in 2025 as GDP growth slows.

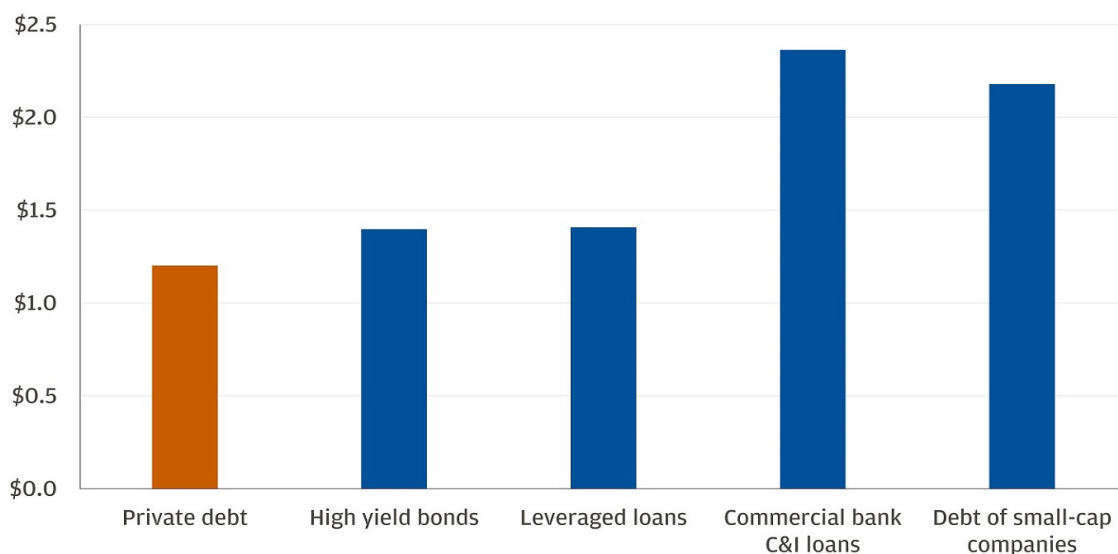
Indeed, the U.S. budget deficit [rose 20%](#) in July from a year earlier, even as tariff revenues hit record highs. Customs receipts jumped 273% (\$21bn) y-o-y, but rising spending, driven by higher interest payments, Social Security cost-of-living increases, and other outlays, pushed the federal debt toward \$37tn.

Tariffs are also discouraging investment as U.S. manufacturers face higher costs for imported components, while domestic alternatives are often more expensive. Even with price increases, profit margins are being squeezed, adding to growth pressures. [According to Yale's Budget Lab](#), if tariffs remain in place, they could reduce GDP growth by 0.5 percentage points through this year and next, making the economy in the long-run output 0.4% smaller, equivalent of \$125bn annually (2024\$). In this scenario, unemployment rises 0.3pp by end-2025 and 0.7pp by end-2026, with 505,000 fewer jobs by end-2025. This risks driving the economy into stagflation, with weak growth, rising unemployment, and persistent inflation.

### Private Credit's Rise Amid Tariff Volatility and the AI Boom

Tariff uncertainty and market volatility have also driven some firms toward private credit providers, bypassing traditional lenders. Since April, as tariff policy swings unsettled markets, more companies have opted for private credit, [an industry now worth \\$2 trillion, up from \\$500 million a decade ago](#), that has gained from the turbulence.

**Figure 5: Select Debt Classes Total Borrowing ( \$ Trillions)**



Source: [JP Morgan](#)



Private credit is often costlier than traditional loans but offers greater flexibility in structuring deals, including terms, repayment, covenants, and collateral, unlike banks' standardized models. Thus, unlike banks or bond markets, these credit vehicles are lightly regulated, meaning that if the AI boom falters, the fallout could trigger a rapid reaction in credit markets.

So far, while, the AI capacity boom is accelerating. [The "Magnificent Seven" tech giants are financing nearly \\$3 trillion in planned AI data center investment by 2028](#), drawing heavily on cash reserves and turning increasingly to private credit, now covering almost a third of spending.

## Conclusion

While consumer spending, representing, two-thirds of GDP, has slowed as Americans grow cautious amid Trump's trade war, the U.S. enters the second half of 2025 with record-high equity markets and an AI investment boom fueled by borrowing. Yet consumer sentiment deteriorated further in August under sweeping new tariffs. The broader economy now faces slower growth, a widening trade deficit, and rising inflation and unemployment—signs that stagflation risks are deepening.