

Trade Policy, Geopolitics and the US economy

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What have we learned so far about the effect of recent changes in tariff policy on inflation, employment and economic activity?

What is the Tariff Shock?

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3. **Tariff Uncertainty**
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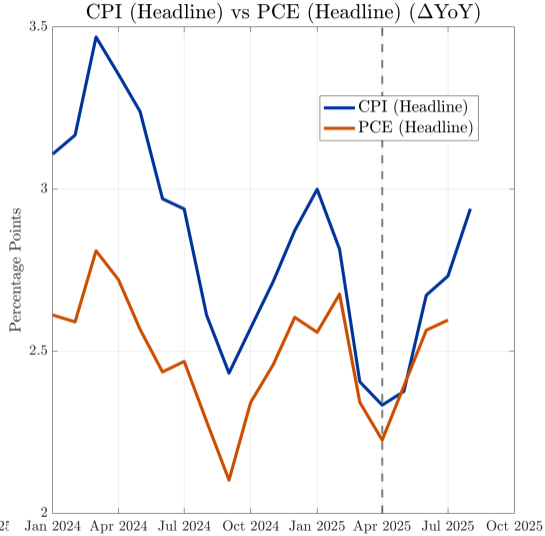
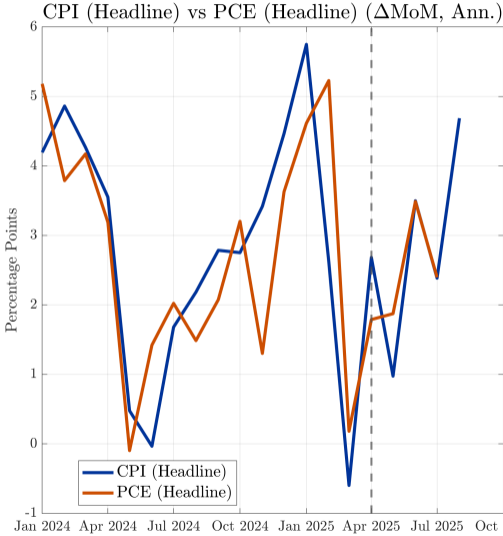
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Inflation-output trade-off worsens w/ stagflationary impulse, under D + S shock

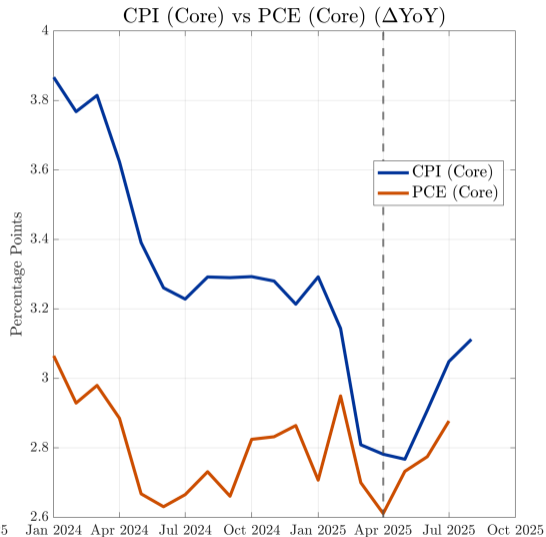
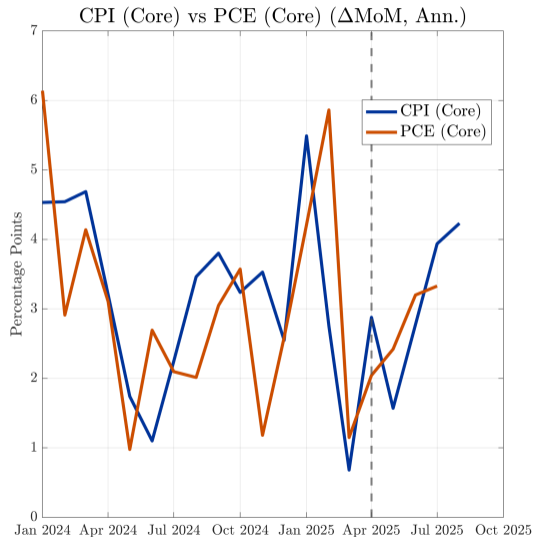
Central banks cannot fight both shocks; **final impact depends on monetary policy**

What does the data show?

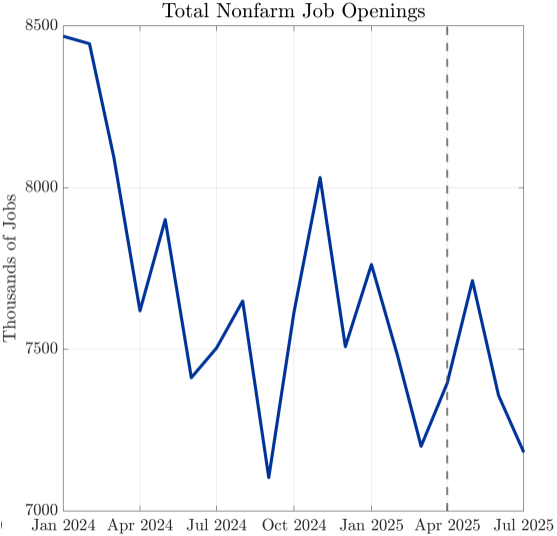
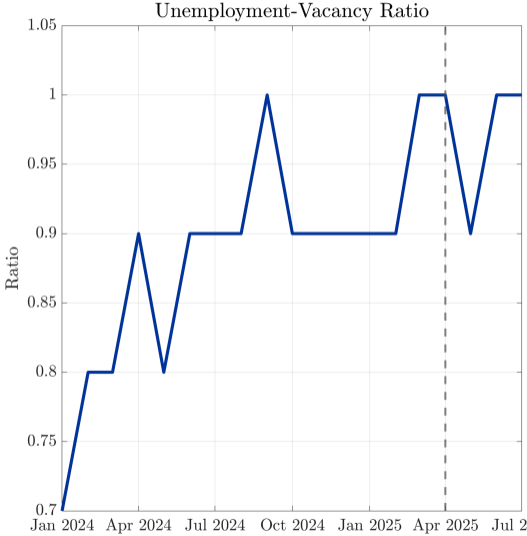
Headline Inflation: $\uparrow 2.7\%$



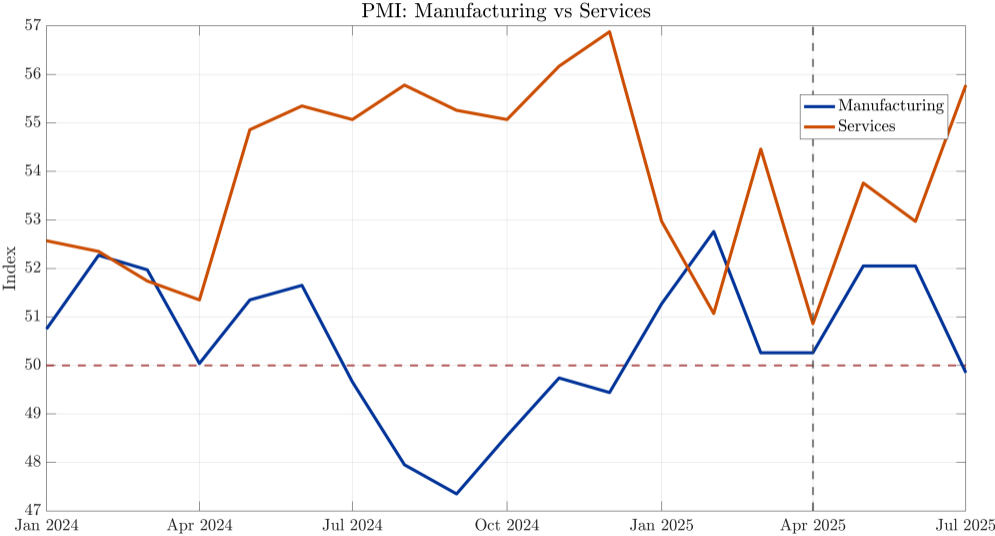
Core Inflation: ↑ 2.9 %



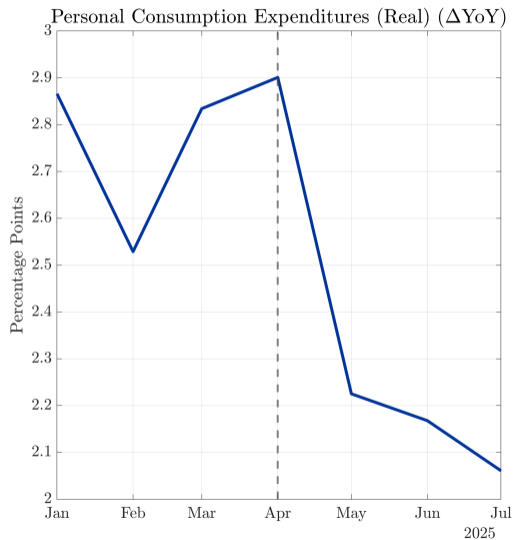
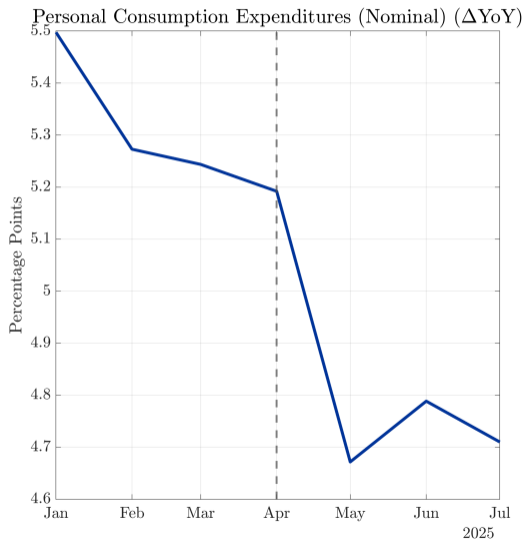
Labor Market Weakening



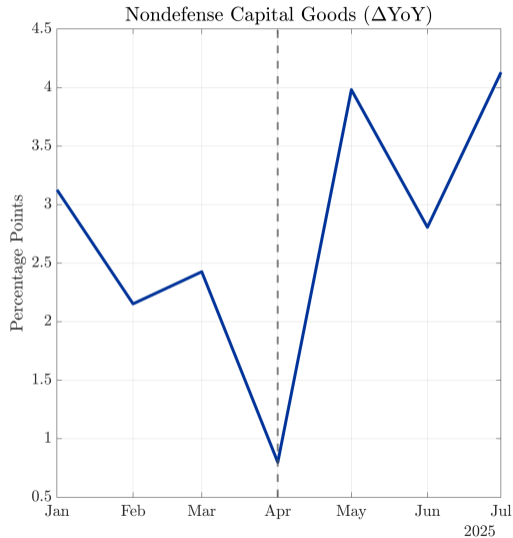
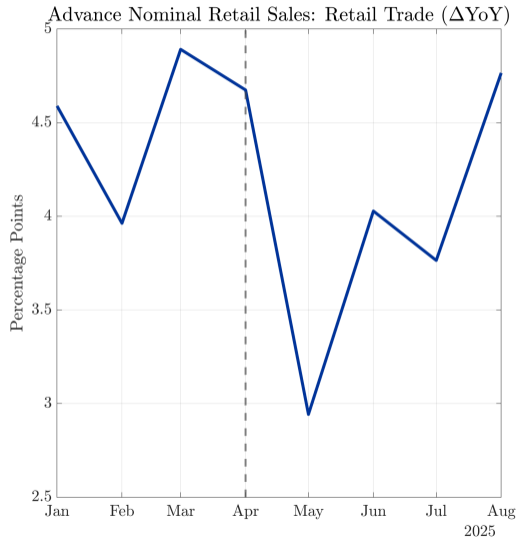
Economic Activity: Mixed



Consumption: Nominal and Real (YoY): ↓



Retail Sales and Investment (YoY): ↑



What do models predict?

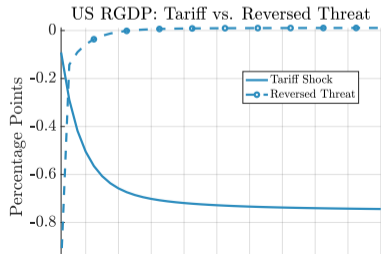
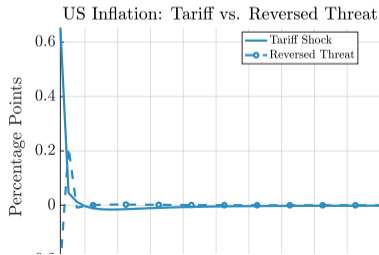
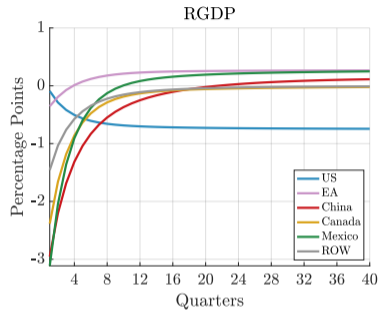
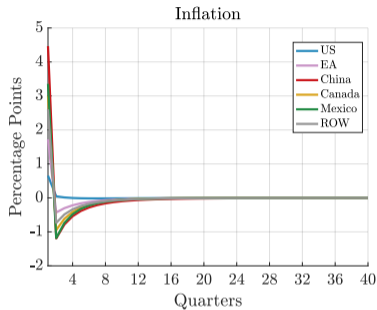
Global Network Model, Global Linkages Lab



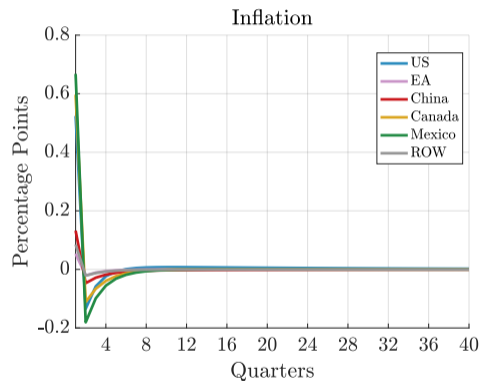
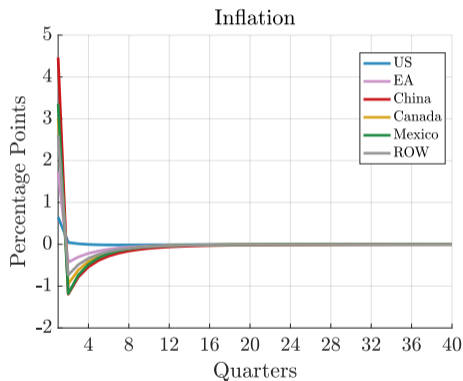
<https://www.globallinkages.org/>

W/O networks inflation is over-, unemployment is under-estimated

Inflation-Output Tradeoff (near-permanent tariff, tariff threat, no MP)



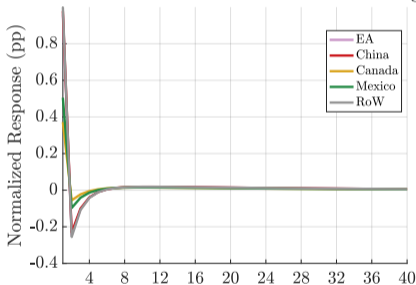
Importance of Monetary Policy in US and Globally



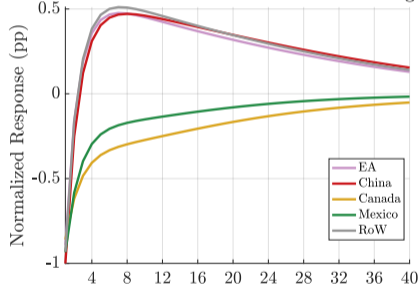
Why network matters? 1) Sectoral Tariffs

- Macro impact of US tariffs on Chinese vs. Mexican steel is different

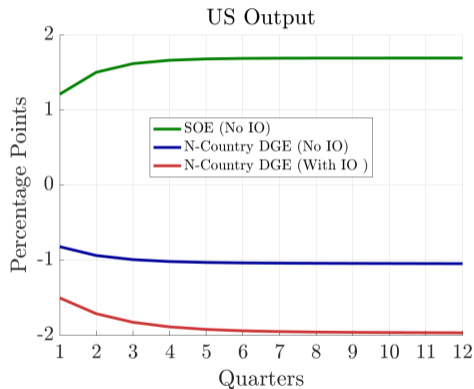
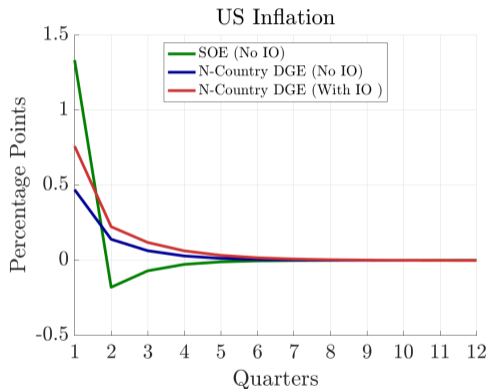
US Inflation: Tariffs on Metals & Basic Mfg



US RGDP: Tariffs on Metals & Basic Mfg



Why network matters? 2) larger output collapse with shock to all inputs



Why Small Effects So Far?

GLL-SR+LR: 0.2-0.5pp inflation; 0.5-1 percent output decline

1. U.S. imports less
2. Tariffs are smaller than expected
3. There are exemptions (1 trillion)
4. Use of inventories
5. There is deflationary shock: **uncertainty**

**What are the most important economic effects of uncertainty about tariff policy?
How this relates to geopolitics?**

Uncertainty and Geopolitics

- It is well known that geopolitics and uncertainty are linked via stability of international economic and financial system.

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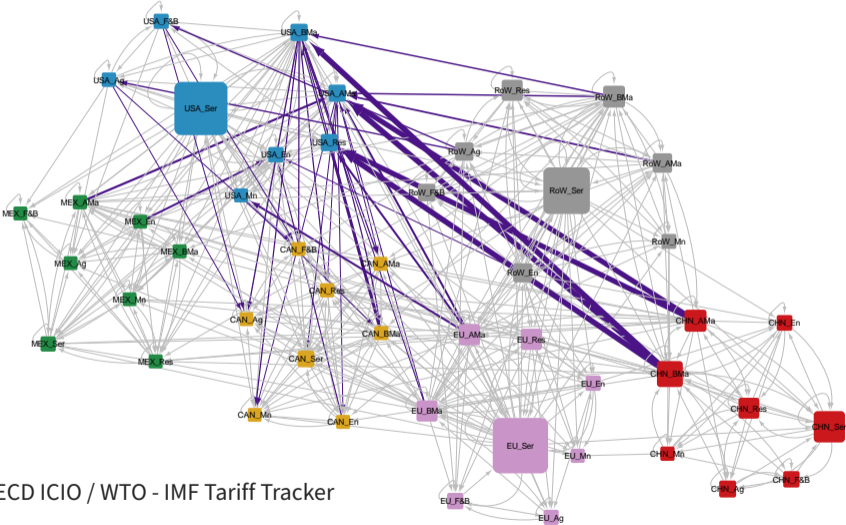
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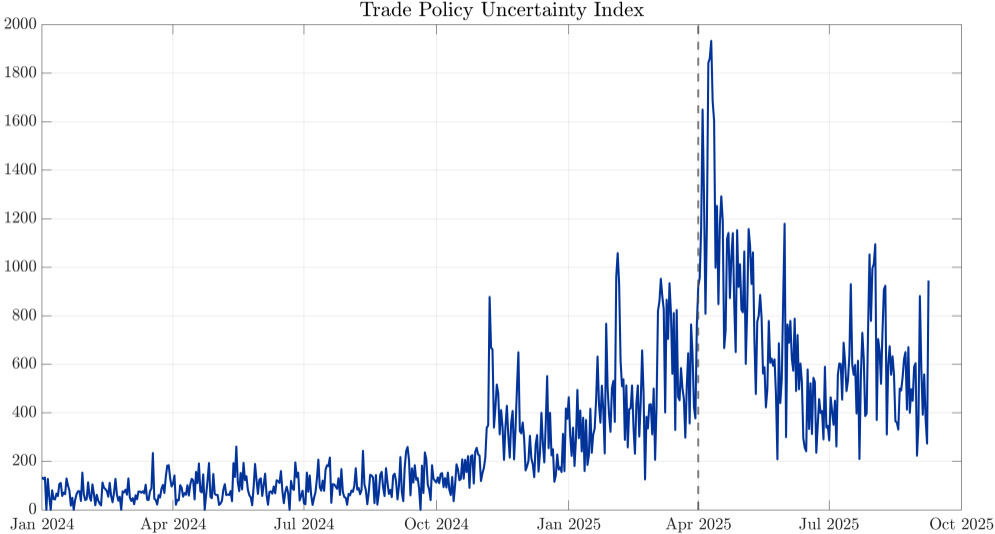
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- British did all until 1914, US after 1945.

Geopolitical Risks from Country-Sector Tariffs

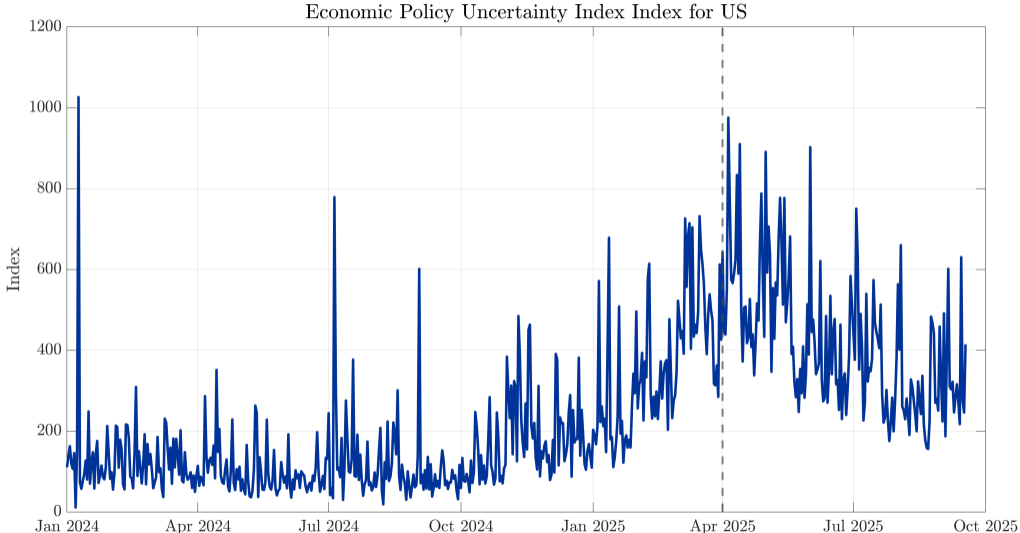


Source: OECD ICIO / WTO - IMF Tariff Tracker

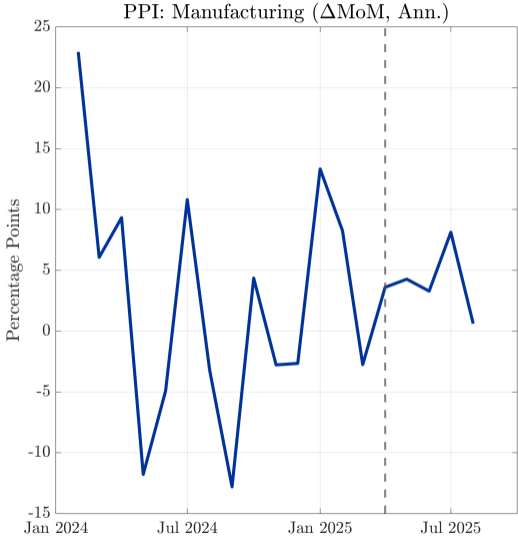
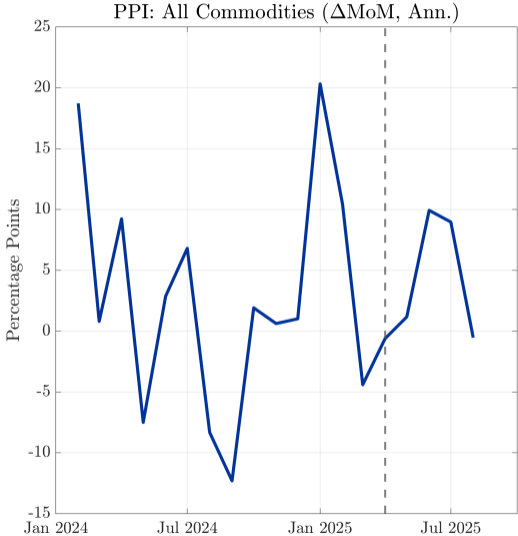
Trade Policy Uncertainty: Iacoviello (2023)



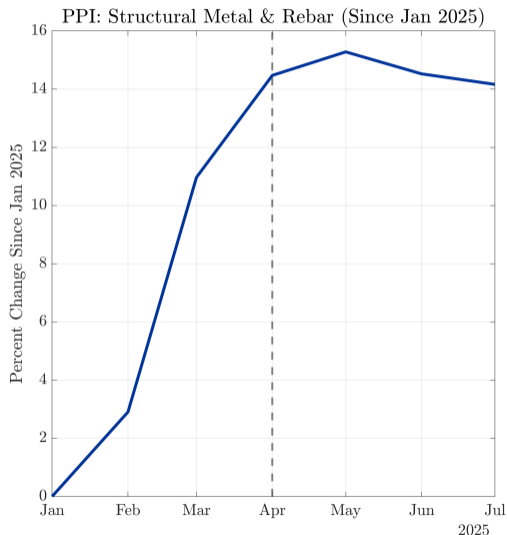
Economic Policy Uncertainty: Baker et. al. (2025)



Uncertainty leads slow pick up in PPI (MoM)

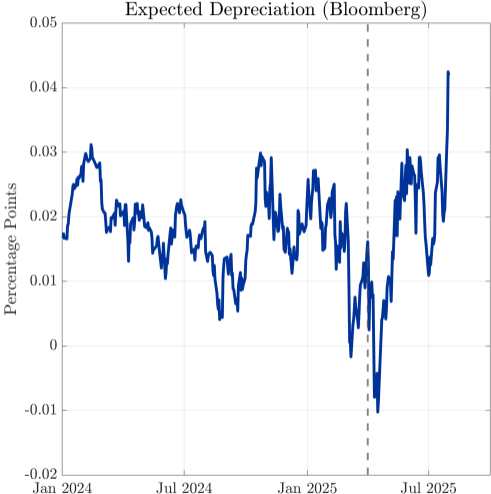
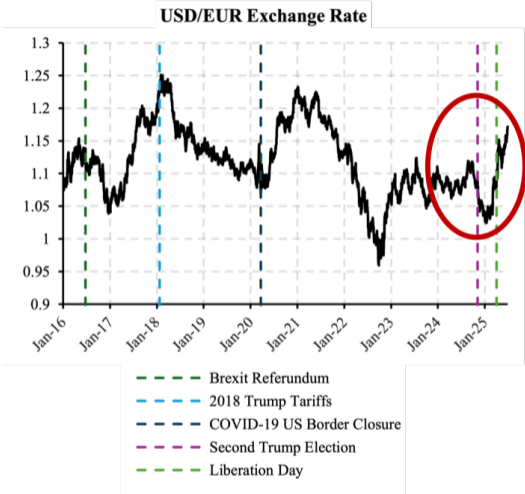


Importance of supply chains under no import substitution

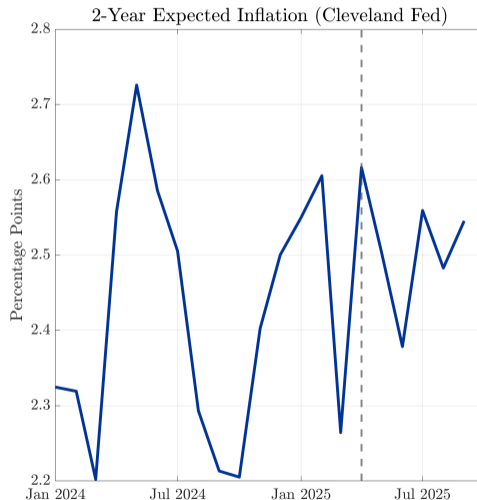
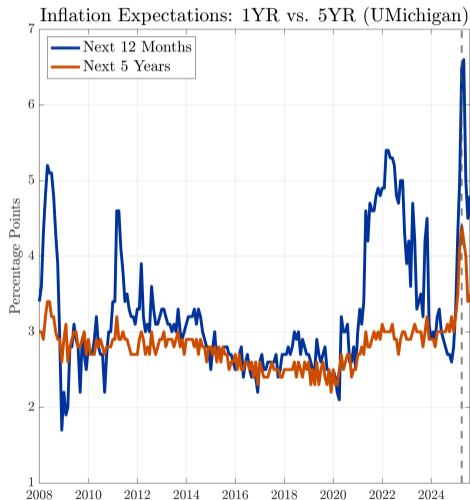


- If there is tariff revenue, then import substitution is less than full
- “Rebar” is hard to substitute input with also strong complementarity to other inputs
- The PPI on Rebar increased by **14%** from Jan 2025 to date.
- **Average Retail Price: 35% increase**
 - From \$1000 per ton to \$1350 per ton
 - Fall inventory will be replenished at post-tariff price, costs will increase more every week!

Uncertainty has a significant impact on the dollar...



..and on inflation expectations



Summary

1. Extensive country-sector tariffs should work as a stagflationary impulse
2. Data so far did pick up some of this, especially negative impact on labor markets
3. Implemented tariffs (if not reverted) will start showing up more in inflation numbers once firms start filling more orders at ta-riffed prices
4. Unless more uncertainty leads to a deflationary impulse and a recession.
5. Geopolitics is nothing new. What is new is the increased importance of supply chains in the international trade and finance, becoming a source for geopolitical risk, leading to more bad actors depending on your place in the global network.