Flash Economics

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Impossible for exporters to the United States to counterbalance higher tariffs with their margins

The Trump administration wants to impose high tariffs on all countries: 10% for the United Kingdom, 15% for the European Union, Japan and South Korea, 19% for Indonesia, 20% for Vietnam, 25% for Tunisia, 26% for India, 30% for Malaysia, South Africa, Mexico and China...

Some American economists and investors believe that exporters to the United States will draw on their profit margins, and that, as a result, there will be no inflationary effect in the United States from higher tariffs.

But:

- Research articles[1] show a pass-through of tariffs on US import prices of almost 1, and, even if distributors' margins shrink, there is still a significant effect of tariffs on US domestic prices;
- it is impossible for exporters to reduce their prices by 15 to 30%, and thus fully offset the increase in customs duties.

We can therefore expect a significant increase in inflation in the United States; of course, this will be transitory inflation, not permanent inflation.

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(1) Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2021). Tariff pass-through at the border and at the store: Evidence from us trade policy. *American Economic Review: Insights*, *3*(1), 19-34

Some believe that the tariffs introduced by the Trump administration will not be the cause of higher inflation in the United States

The Trump administration has decided to introduce **high tariffs** on imports into the United States from various countries: 10% for the United Kingdom, 15% for the European Union, Japan and South Korea, 19% for Indonesia, 20% for Vietnam, 25% for Tunisia, 26% for India, 30% for Malaysia, South Africa, Mexico and China.

The average **tariff** on all imported goods is **now 18.2%** (according to a calculation by Yale University), compared with 2.4% before Donald Trump took office.

Some economists and investors believe that **this very sharp rise in tariffs will not have an inflationary effect**, the argument being that **exporters to the United States will reduce their profit margins**.

We do not believe that the US could avoid significant additional inflation as a result of the tariff hike.

The pass-through of tariffs on import prices is almost 1

Recent research shows that **an increase in tariffs on US imports is passed on almost in full to US import prices.**

According to this study, the 15.8 point increase in tariffs since the start of 2025 will lead to a 14.9% rise in the price of imports and, given the weight of goods imports in GDP (**Chart 1**), will lead to an ex-ante rise of 1.9% in domestic prices.

Chart 1
United States: Imports of goods (as % of nominal GDP)

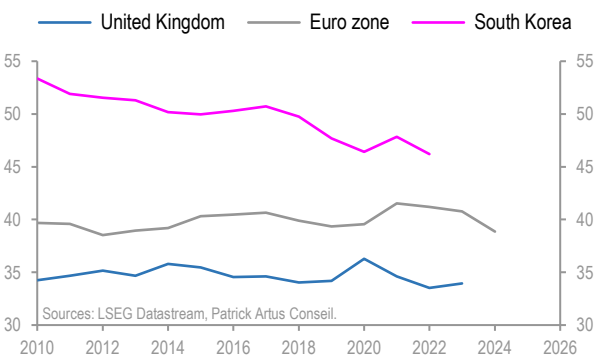


But the margin-related behaviour of distributors must also be considered. Faced with higher import prices, distributors reduce their profit margins, and **in the end, a 15.8 point increase in tariffs leads to a 0.6 point rise in household consumer prices**.

It is impossible for companies exporting to the United States to absorb the tariffs by reducing their profit margins

The margin rate is equal to **the ratio of gross operating surplus to added value. Chart 2 shows the margin rate observed in the euro zone, the UK and Korea**.

Chart 2
Margin rate of non-financial corporations (as %)



One can see that **it is impossible, for example, for European companies to reduce their margin rate by 15 percentage points** (the amount of tariffs on US imports from Europe), as this would mean agreeing to lose 40% of their profit margins.

Summary: the most likely scenario is that underlying inflation in the United States will be around 3.4% at the end of the year

Assuming that average tariffs in the United States stabilise at 18.2%, and that pass-through - i.e. the impact of tariffs on import prices - is close to 1, which reflects the fact that companies exporting to the United States are not in a position to absorb the tariff shock by reducing their margins; then, taking into account the fact that distributors manage to mitigate around 65% of the initial rise in domestic prices linked to the increase in import costs by squeezing their own margins, the impact of a 15.8 point rise in tariffs since the start of 2025 would translate into an additional 0.6 point of inflation for American consumers.

If we take May 2025 as the reference month, with core inflation being 2.8% in May (2.9% in June), **the level of inflation we should reach by the end of 2025 is 3.4%**.

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