

Vital Briefing—Tariff Insights

Doubts cloud forecasts about tariff fall-out

By Thomas Thompson

With one tariff deal done (UK) and another one postponed until August 10 (China), the path forward for the world economy remains clouded even as Trump's self-imposed tariff July 9 deadline looms closer.

Uncertainty about the effects of tariffs, let alone uncertainty about their possible trajectories and their final form, is causing officials to become increasingly cautious. Very little has been disclosed about the status of trade discussions between the United States and the rest of the world beyond the single agreement, with the U.K., that has been forged.

The Fed's Jerome Powell is not the only one who is unclear about the likely economic effects of the tariffs.

Inflationary pressures. In prepared remarks to the U.S. House of Representatives' Committee on Financial Services earlier this week, Federal Reserve Chairman Jerome Powell [said](#) that the central bank is "well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance." The statement followed the previous Wednesday's Fed decision not to lower its interest rate targets from current levels.

The chairman also noted that current U.S. data indicate that growth and employment remain solid. While price inflation has receded from 2022 levels, near-term measures of inflation *expectations* are rising. Surveys, he said, indicate that

consumers and businesses are concerned about tariffs' upcoming effect on prices.

In his testimony before the Committee on Tuesday Powell [said](#) the tariffs put the economy on a "highly uncertain" course.

"We do expect to show up — tariff inflation to show up more," he said. "But I want to be honest, we really don't know how much of that's going to be passed through to the consumers," the chairman continued.

According to Reuters, the Japanese central bank also faces questions about how U.S. tariffs may affect its interest rate plans. Having recently reversed a ultra-low interest rate policy the Bank of Japan had thought it would continue raising rates to dampen inflation that was still a bit too high. Bank board member Naoki Tamura told a Tokyo news conference that inflation was already moving faster than he had projected at the beginning of May.

He also said that the U.S. tariffs could slow the manufacturing sector which accounts for about 20 percent of Japan's GDP.

The Reuters article noted that Tamura is likely the only hawkish member of the board on raising interest rates. Urging caution, another member, Kazuo Ueda, has pointed to "extremely high" uncertainty about U.S. trade policy.

Pointing to the effects of tariff pressures on consumer and business spending,

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Tamura told the news conference, "We need a bit more information to judge whether underlying inflation has reached 2 percent."

UK deal a guidepost? In the shadow of the G7 meeting in Canada last week, President Trump signed an executive order that implemented what the U.K. and U.S. had agreed the month before.

In 2024, the United States enjoyed a trade surplus of \$11.9 billion with the U.K. Trump's general trade concern has centered on countries with which the U.S. has a trade deficit. Trump is likely to look for significant concessions from countries that run surpluses against the United States.

The two countries nonetheless found areas where they can expand trade, or at least remove some friction. The "Economic Prosperity Deal" calls on the U.K. to raise quotas that it applies to some agricultural imports, exempts U.K. aerospace and aircraft exports from the generally prevailing ten percent tariffs and eases tariffs on U.S. imports of up to 100,000 U.K. cars annually.

Previously promised additional relief for U.K. steel – zero tariff – was not included. U.K. steel imports into the U.S. are tariffed at the rate of 25 percent, seemingly a reward for being the first country to agree to a new trade deal in May. All other countries' steel and aluminum are currently taxed at the 50 percent level.

Mitigating the likely benefits to U.S. farmers of higher agricultural quotas, the U.K. is allowed to impose its food safety standards on, for example, beef imports, under the agreement. The United States has traditionally chafed at this kind of non-tariff trade barrier.

Chinese ag imports weaken. A decline of 43% in a basket of U.S. agricultural imports

was [reported](#) in the most recent Chinese customs data according to a recent article in the Hong Kong-based South China Morning Post (SCMP).

Shipments of some agricultural products were reduced even more, a few almost to zero. While imports of frozen beef from the United States fell by 50 percent, imports of fresh beef, corn and cotton yarn were each off by more than 90 percent.

Earlier this month China reported an almost 35 percent decline in exports to the United States for May from previous year levels. The decline was paired with growth of almost five percent in Chinese exports worldwide for the month.

China has imposed at least a 10 to 15 percent tariff since March on American agricultural imports in retaliation for Trump's fentanyl-related tariffs that began that month. In April dueling tariffs raised tariff levels in both countries to more than 100 percent. In mid-May, a truce was agreed, and tariffs on agricultural imports fell back to their March levels.

Although the sharp import fall-off in May might have been driven by the peak tariff levels first set in April and now reduced under the tariff truce, for U.S. farmers this might still foretell future trading levels. Yan Liang, professor of economics at Willamette University, told SCMP, "The anticipation of potential long-term trade tensions and the ease of switching suppliers could reduce

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China's imports from the US going forward – even with the truce."

During the first Trump term, its response to U.S. tariffs prompted China to pivot its agricultural imports to other suppliers, especially Brazil. Running at about 60 percent of U.S. soybean exports until 2016, soybean exports to China fell to 18 percent of total soybean exports in 2018 according to [farm doc daily](#) published by the University of Illinois.

Soybean exports to China recovered after that, although they never again accounted for 60 percent of U.S. soybean exports again. As Liang pointed out, "Once new suppliers are established, it is difficult to rewind."