CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

June 4, 2025

Honorable Chuck Schumer
Democratic Leader
Unites States Senate
Washington, DC 20510

Honorable Jeff Merkley
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Re: Budgetary and Economic Effects of Increases in Tariffs Implemented Between January 6 and May 13, 2025

Dear Leader Schumer, Ranking Member Merkley, and Ranking Member Wyden:

This letter responds to your request for the Congressional Budget Office to estimate the budgetary and economic effects of increases in tariffs implemented through executive action between January 6 and May 13, 2025. The following estimates for the 2025–2035 period reflect the effects relative to the budget and economic projections that CBO published on January 17, 2025, which incorporated tariff rates in place on January 6, 2025.[1]

- Before accounting for how the changes in tariffs would affect the size of the economy, CBO estimates that the increase in collections of tariffs would reduce primary deficits by $2.5 trillion. That estimate accounts for how flows of U.S. imports and exports would adjust in response to the tariffs imposed as of May 13, 2025.

- By lowering federal borrowing, those tariff collections would reduce federal outlays for interest by $0.5 trillion. As a result, in the absence of any effects on the U.S. economy, the changes in tariffs would reduce total deficits by $3.0 trillion altogether.

- In CBO's assessment, the changes in tariffs will reduce the size of the U.S. economy—in part because of tariffs imposed by other countries in response to the increases in U.S. tariffs. After accounting for that change in the size of the economy, CBO estimates that the changes in tariffs will reduce total federal deficits by $2.8 trillion.

- Reductions in investment and productivity stemming from higher tariffs will be partially offset by increases in resources available for private investment resulting from the reduction in federal borrowing. CBO estimates that, on net, real (inflation-adjusted) economic output in the United States will fall as a result.

- Inflation will increase by an annual average of 0.4 percentage points in 2025 and 2026, in CBO's estimation, reducing the purchasing power of households and businesses.

Policies That CBO Analyzed

CBO completed this analysis before courts issued decisions on May 28 and 29 related to certain tariffs in place as of May 13.[2] As of June 4, the executive orders imposing the tariffs described in this letter remain in place pending consideration by the Federal Circuit Court of Appeals.

CBO updates its baseline projections to account for enacted legislation, administrative actions, and judicial decisions.[3] The updated budget baseline reflects the effects of changes in tariffs implemented by executive action once those changes have taken effect, and it incorporates the assumption that such tariffs would remain in place permanently. The following increases in tariffs have been implemented since CBO last published its budget baseline in January and were in effect as of May 13:

- Tariffs on imports from China and Hong Kong increased by 30 percent of the value of the goods.[4]

- Tariffs on imports of most automobile parts increased by 25 percent of the value of the parts, beginning on May 3.[5]

- Tariffs on imports from most countries increased by 10 percent of the value of the goods, beginning on April 5.[6]

- Tariffs on imports of most automobiles increased by 25 percent of the value of the automobiles, beginning on April 3.[7]

- Tariffs on imports of steel and aluminum increased by 25 percent of the value of the goods, beginning on March 12.[8]

- Tariffs on imports of certain goods from Canada and Mexico increased by 25 percent of the value of the goods, beginning on March 7.[9]

In addition, on May 2, imports from China and Hong Kong lost de minimis eligibility (that is, certain goods worth less than $800 from those locations are no longer exempt from customs duties).[10] CBO's updated projections reflect that change. They also reflect adjustments that have reduced or eliminated the increases in tariffs for certain products, including some consumer electronics and semiconductors, and account for interactions between the executive actions.[11]

Not reflected in CBO's updated budget projections are the negotiations on trade policies between the United States and the United Kingdom announced on May 8.[12] Those negotiations represent an agreement in principle and did not yet represent legally binding changes in tariff rates as of May 13. As a result, CBO's analysis does not reflect any associated budgetary or economic effects.

This letter describes CBO's preliminary assessment of the effects of recently implemented increases in tariffs, based on information available to the agency as of 1:00 p.m. on May 13, 2025. Developments after that date are not reflected in the following analysis.

Budgetary Effects

Before accounting for effects on the size of the economy, CBO projects that the increases in tariffs implemented between January 6 and May 13, 2025, would decrease primary deficits over the 2025–2035 period by $2.5 trillion relative to the agency's baseline projections from January 2025.[13] (Unless otherwise indicated, all years referred to in this letter are fiscal years.) Roughly half of that decrease stems from the increases in tariff rates on imports from countries other than China, Canada, or Mexico.[14] Lower net outlays for interest resulting from the decrease in primary deficits would reduce total deficits by an additional $500 billion. As a result, total deficits over the 2025–2035 period would be $3.0 trillion lower than projected in CBO's January 2025 baseline.

CBO's estimates are subject to significant uncertainty, in part because the Administration could change how the tariff policies are administered. The projections described here reflect the assumption that the tariffs will be collected on all affected imports, with no exemptions beyond those currently specified. Tariffs implemented by executive action in calendar years 2018 and 2019 involved mechanisms that allowed importers to apply for exemptions from the duties. If such mechanisms are implemented again, that could substantially reduce the tariff duties collected and thus the change in deficits associated with the policies assessed here.

Moreover, because the United States has implemented no increases in tariffs of this size in many decades, there is little relevant empirical evidence on their effects. On the one hand, tariff increases of this magnitude could induce consumers and businesses to change their behavior faster than anticipated, which would cause revenues to be lower than CBO projects. On the other hand, most historical increases in tariffs have targeted goods for which consumers and businesses are particularly responsive to changes in prices. Consumers and businesses may change their behavior less in response to less targeted tariffs. In that case, revenues would be higher than CBO projects. CBO will continue to assess how businesses and consumers respond to the tariff changes and will incorporate that information in future analyses.

Economic Effects

CBO's next economic forecast will reflect the effects of increases in tariffs implemented since the agency last published its budget baseline; the forecast will also reflect the effects of retaliatory tariffs imposed by trading partners on U.S. exports. In CBO's assessment, additional retaliatory tariffs are likely, and U.S. trading partners are probably waiting for negotiations to play out before retaliating fully. Even so, the value of U.S. exports targeted by those tariffs is expected to be lower than the value of imports targeted by U.S. tariffs.[15]

This letter describes CBO's preliminary analysis of the economic effects of increases in tariffs in place as of May 13, 2025, relative to the agency's January economic baseline, which reflected economic conditions and trade policy as of December 4, 2024. CBO's analysis accounts for the economic effects of retaliatory tariffs that the agency expects U.S. trading partners to implement; it also incorporates an assessment of the negative economic effects of uncertainty stemming from recent changes in tariffs. Those changes have resulted in heightened uncertainty about the future path of trade policy, which will delay investments and reduce the total amount of investment over the 2025–2035 period.

CBO's assessment is that the changes in tariffs will reduce the size of the U.S. economy. That effect would differ year by year; on average, from 2025 to 2035, the tariff changes would reduce the rate of real growth in gross domestic product (GDP) by 0.06 percentage points per year. By 2035, CBO estimates, the level of real GDP will be 0.6 percent lower than it was in CBO's economic forecast from January 2025. That reduction in output reflects both negative and positive effects: the negative effects of higher tariffs through channels such as reduced investment and productivity, and the positive effects of additional revenues from tariffs, which would reduce federal borrowing and increase the funds available for private investment.

The increases in tariffs will make consumer goods and capital goods (the physical assets that businesses use to produce goods and services) more expensive, which will reduce the purchasing power of U.S. consumers and businesses. Those increases in costs will put temporary upward pressure on inflation. In CBO's estimation, the policies analyzed here will increase the average annual rate of inflation, as measured by the price index for personal consumption expenditures, by roughly 0.4 percentage points over 2025 and 2026 relative to the agency's January 2025 economic forecast. As a result, by 2026, the level of that price index will be 0.9 percent higher. After 2026, the tariffs will not have additional significant effects on prices.

After accounting for the effects of those economic changes, CBO's estimate is that the increases in tariffs implemented between January 6 and May 13, 2025, will decrease total deficits over the 2025–2035 period by $2.8 trillion relative to the agency's baseline projections from January 2025.[16] That estimate reflects CBO's assessment that economic changes stemming from the higher tariffs will increase federal budget deficits by about $300 billion over the 2025–2035 period, offsetting a portion of the $3.0 trillion reduction in total deficits described in the prior section. (Those two numbers do not sum to $2.8 trillion because of rounding.) Lower real output will reduce federal revenues, and higher nominal prices will increase federal revenues because taxes are levied on nominal income. The net result of those effects will be an increase in federal revenues. CBO estimates that the economic changes will also increase federal outlays, mostly because some entitlement programs are indexed to inflation or income growth and because the government would pay more for the goods and services it buys. That increase in federal outlays will more than offset the increase in federal revenues that results from the economic changes. The budgetary effects estimated here do not account for changes in the value of assets caused by changes in tariffs.

CBO's next economic forecast will reflect not only the specific changes to tariffs described in this letter but also other changes in fiscal policy and developments in the economy. Those changes and developments may interact with the effects of the increases in tariffs. CBO's forecast will incorporate those interactions, but the current estimates do not.

Distributional Effects

CBO estimates that the increases in tariffs will reduce average real income relative to its level in the agency's January 2025 baseline by decreasing aggregate output and raising prices for households in all income groups. The effects on real income will differ among households. CBO is still evaluating how lower aggregate output and higher prices resulting from tariffs will affect households across the income and wealth distributions.[17]

The effects on income from changes in output will depend in part on the industries in which workers in different households are employed. Industries that produce goods that compete with imports will probably expand, whereas industries that chiefly produce exports or source a large share of their production inputs from abroad will probably contract. The effects of higher tariffs on households' real income will also depend on where that income comes from. Households that receive a larger share of their income from government means-tested transfers will be more protected from changes in prices because such transfers are indexed to inflation.

The extent to which changes in prices affect households' purchasing power will vary depending on how households spend their income. The tariffs will increase the prices of goods more than the prices of services. Households at the lower end of the income distribution spend a greater share of their income on goods, on average. However, CBO estimates that the tariffs will produce the largest price increases for durable goods such as household appliances and motor vehicles, and durable goods account for a larger share of total consumption for households at the higher end of the income distribution.

Basis of the Estimates

To estimate the budgetary effects of changes in tariff rates, CBO projects how tariffs would alter flows of imports into the United States and calculates the changes in customs revenues resulting from the new tariffs.[18]

In a letter published in December 2024, CBO analyzed the effects of several illustrative trade policies; since then, the agency has made some updates to the method it uses to estimate how tariffs affect customs revenues.[19] Those updates include the following:

- CBO adapted its model of trade flows, using the model described by Fajgelbaum and others (2020) to estimate how tariffs affect trade flows across countries and sectors.[20]

- CBO adjusted its estimates of the sensitivity of trade flows to changes in tariffs to better align with estimates from the academic literature.[21]

To estimate the effects of higher tariffs on output, investment, and productivity over the next decade, CBO used the Global Trade Analysis Project (GTAP) model.[22] The agency separately accounted for how the tariffs, by reducing the federal deficit, would reduce federal borrowing and, as a result, would increase the resources available for private investment, thereby increasing output. In addition, the estimates reflect how the tariffs would alter the overall demand for goods and services in the short term.

CBO's estimates of the economic effects of tariffs also reflect how tariffs would affect the prices consumers and businesses pay for goods and services. To estimate price changes, the agency translates changes in production costs among industries into changes in the prices of goods and services, accounting for industries' dependence on one another.[23]

Finally, CBO used its budgetary feedback model to estimate how economic changes stemming from higher tariffs and associated reductions in federal borrowing would affect federal spending and revenues.[24] That model approximates the estimates of budgetary effects that CBO would produce with the wider suite of models that it uses to develop the budget baseline.

If the Administration makes additional changes to tariffs, the budget baseline will be adjusted to reflect the budgetary implications of those changes as they take effect. When CBO next updates its economic forecast, the effects of the changes in tariffs on the economy will be reflected, along with other developments.

Please contact me if you have additional questions or would like to discuss these topics further.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable John Thune
Majority Leader

Honorable Lindsey Graham
Chairman
Committee on the Budget

Honorable Mike Crapo
Chairman
Committee on Finance

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[1] Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870.

[2] On May 28, 2025, the U.S. Court of International Trade enjoined executive orders imposing tariffs under the International Emergency Economic Powers Act (IEEPA), 50 U.S.C. §§ 1701–1710; however, on May 29, 2025, the U.S. Court of Appeals for the Federal Circuit issued an administrative stay on that decision. See *V.O.S. Selections, Inc. v. United States*, No. 25-00066, 25-00077, slip op. 25-66 (Ct. Int'l Trade May 28, 2025), https://tinyurl.com/4drah2vu; *appeal docketed*, No. 25-1812 (Fed. Cir. May 28, 2025), https://tinyurl.com/4zwzj3sa. The application of IEEPA tariffs has also been enjoined by the U.S. District Court for the District of Columbia, but

only with respect to the plaintiffs in the case (two toy companies). See *Learning Resources, Inc. v. Trump*, No. 25-1248 (D.D.C. May 29, 2025), https://tinyurl.com/3zuecsty; *appeal docketed*, No. 25-5202 (D.C. Cir. May 30, 2025).

[3] For more information about how CBO updates its baseline projections, see Congressional Budget Office, *CBO Explains How It Incorporates Administrative and Judicial Actions When Updating Its Baseline Projections and Preparing Cost Estimates* (December 2024), www.cbo.gov/publication/60846.

[4] That increase stems from multiple executive actions. On February 4, 2025, the Administration increased existing tariffs on goods from China and Hong Kong by 10 percent of the value of the goods. On March 3, the Administration increased those tariffs by an additional 10 percent. Imports from China and Hong Kong were also subject to the 10 percent increase for imports from most countries beginning April 5. Policies in place from April 9 to May 13 temporarily increased tariff rates on goods from China and Hong Kong by an additional 145 percent of the value of the goods. Most of that increase was paused on May 12. See White House, "Joint Statement on U.S.–China Economic and Trade Meeting in Geneva" (May 12, 2025), https://tinyurl.com/bd6mfadt.

[5] Proclamation 10908, "Adjusting Imports of Automobiles and Automobile Parts Into the United States," 90 Fed. Reg. 14705 (March 26, 2025), https://tinyurl.com/yfxk86kc.

[6] Executive Order 14257, "Regulating Imports With a Reciprocal Tariff to Rectify Trade Practices That Contribute to Large and Persistent Annual United States Goods Trade Deficits," 90 Fed. Reg. 15041 (April 2, 2025), https://tinyurl.com/3w7ddbjt.

[7] Proclamation 10908, "Adjusting Imports of Automobiles and Automobile Parts Into the United States," 90 Fed. Reg. 14705 (March 26, 2025), https://tinyurl.com/yfxk86kc.

[8] Proclamation 10896, "Adjusting Imports of Steel Into the United States," 90 Fed. Reg. 9817 (February 10, 2025), https://tinyurl.com/3nxu8jhx; and Proclamation 10895, "Adjusting Imports of Aluminum Into the United States," 90 Fed. Reg. 9807 (February 10, 2025), https://tinyurl.com/4n4r69tt.

[9] Executive Order 14232, "Amendment to Duties to Address the Flow of Illicit Drugs Across Our Southern Border," 90 Fed. Reg. 11787 (March 6, 2025), https://tinyurl.com/52sk9p5d; and Executive Order 14231, "Amendment to Duties to Address the Flow of Illicit Drugs Across Our Northern Border," 90 Fed. Reg. 11785 (March 6, 2025), https://tinyurl.com/ye22drza.

[10] Executive Order 14266, "Modifying Reciprocal Tariff Rates to Reflect Trading Partner Retaliation and Alignment," 90 Fed. Reg. 15625 (April 9, 2025), https://tinyurl.com/d4mtxf9d.

[11] CBO relied on Executive Orders 14257 and 14289 to determine whether interacting increases in tariff rates were cumulative.

[12] White House, "General Terms for the United States of America and the United Kingdom of Great Britain and Northern Ireland Economic Prosperity Deal" (May 8, 2025), https://tinyurl.com/2rycukn8.

[13] Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870, and *Effects of Illustrative Policies That Would Increase Tariffs* (December 18, 2024), www.cbo.gov/publication/61112.

[14] In a letter published in December 2024, CBO provided estimates of the effects of several illustrative tariff policies, including a uniform increase in tariffs of 10 percent with an additional

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50 percent on goods imported from China. See *Effects of Illustrative Policies That Would Increase Tariffs* (December 18, 2024), www.cbo.gov/publication/61112.

[15] In CBO's assessment, over the next two years, retaliatory tariffs imposed by U.S. trading partners will increase to cover 50 percent of the value of U.S. imports from those trading partners that are targeted by U.S. tariffs and will be set at rates that match the U.S. tariff rates.

[16] For more information about how increases in tariffs affect the economy and prices, please refer to CBO's December 2024 letter on the effects of several illustrative tariff policies.

[17] For more information about potential channels for distributional effects, see CBO's December 2024 letter on the effects of several illustrative tariff policies.

[18] For more information about CBO's method for estimating the budgetary effects of tariffs, see Congressional Budget Office, *How CBO Projects Tariff Revenues* (October 2024), www.cbo.gov/publication/60692.

[19] Congressional Budget Office, *Effects of Illustrative Policies That Would Increase Tariffs* (December 18, 2024), www.cbo.gov/publication/61112.

[20] Pablo D. Fajgelbaum and others, "The Return to Protectionism," *Quarterly Journal of Economics*, vol. 135, no. 1 (February 2020), pp. 1–55, https://doi.org/10.1093/qje/qjz036.

[21] CBO estimates how U.S. trade flows would respond to changes in tariff rates by using elasticities drawn from empirical research that describe the sensitivity of import flows to changes in tariffs over time. CBO collected multiple industry-specific estimates and scaled them to match the economywide rate estimated in Keith Head and Thierry Mayer, "Gravity Equations: Workhorse, Toolkit, and Cookbook," in Gita Gopinath, Elhanan Helpman, and Kenneth Rogoff, eds., *Handbook of International Economics* (Elsevier, 2014), pp. 131–195, https://doi.org/10.1016/B978-0-444-54314-1.00003-3. For the industry-specific estimates, see Christoph E. Boehm, Andrei A. Levchenko, and Nitya Pandalai-Nayar, "The Long and Short (Run) of Trade Elasticities," *American Economic Review*, vol. 113, no. 4 (April 2023), pp. 861–905, https://doi.org/10.1257/aer.20210225; Saad Ahmad and David Riker, *Updated Estimates of the Trade Elasticity of Substitution*, Working Paper 2020–05-A (U.S. International Trade Commission, May 2020), https://tinyurl.com/yc65csnm; Lorenzo Caliendo and Fernando Parro, "Estimates of the Trade and Welfare Effects of NAFTA," *Review of Economic Studies*, vol. 82, no. 1 (January 2015), pp. 1–44, https://doi.org/10.1093/restud/rdu035; Thomas Hertel and others, "How Confident Can We Be of CGE-Based Assessments of Free Trade Agreements?" *Economic Modelling*, vol. 24, no. 4 (July 2007), pp. 611–635, https://doi.org/10.1016/j.econmod.2006.12.002; and Christian Broda and David E. Weinstein, "Globalization and the Gains From Variety," *Quarterly Journal of Economics*, vol. 121, no. 2 (May 2006), pp. 541–585, https://doi.org/10.1162/qjec.2006.121.2.541.

[22] For more information about the GTAP model, see Erwin L. Corong and others, "The Standard GTAP Model, Version 7," *Journal of Global Economic Analysis*, vol. 2, no. 1 (2017), pp. 1–119, https://doi.org/10.21642/JGEA.020101AF.

[23] To estimate those price effects, CBO used data for 2023 from Bureau of Economic Analysis, "Input-Output Accounts Data" (November 1, 2024), www.bea.gov/industry/input-output-accounts-data.

[24] For a detailed discussion, see Nathaniel Frentz and others, *A Simplified Model of How Macroeconomic Changes Affect the Federal Budget*, Working Paper 2020-01 (Congressional Budget Office, January 2020), www.cbo.gov/publication/55884.