

How American consumers will bear the burden of Trump's tariffs

Now that Donald Trump has won the US election, the focus is shifting to his fondness for tariffs. However, history suggests that American consumers may bear much of the cost again



Trump got into a heated exchange with Bloomberg's editor-in-chief John Micklethwait last month over the subject of tariffs

President-elect Donald Trump has promised to implement sweeping new tariffs aimed at protecting American industries, promoting domestic manufacturing, and reducing reliance on foreign imports. Trump has said he intends to implement 60% tariffs on Chinese imports and 10-20% tariffs on products from other countries, amongst others, arguing that the measures can create more factory jobs, shrink the federal deficit, and lower prices for American-made goods by making foreign goods more expensive.

However, tariffs imposed during the first Trump term – and continued and extended under Biden – did not achieve all of the promised outcomes. Furthermore, our research shows that if the new tariffs are fully passed on, they could increase inflation and cost American consumers up to \$2,400 per capita annually. This potential increase in consumer costs and inflation could have widespread economic implications, particularly in an economy where consumer spending accounts for 70% of all activity.

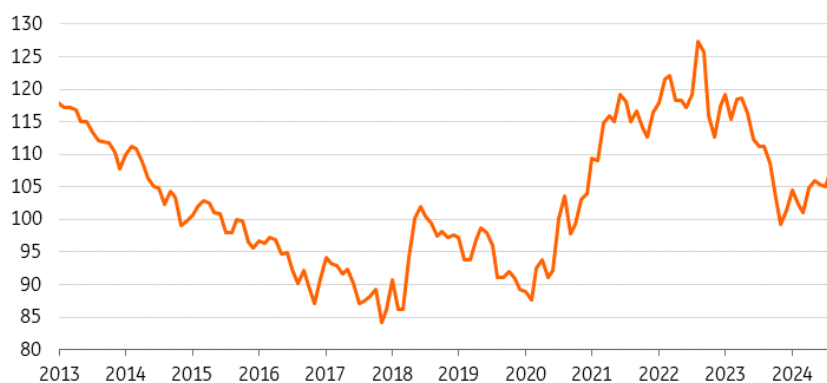
How washing machine prices soared under trade policies

Historically, tariffs have been used to protect domestic industries from foreign competition by making imported goods more expensive. However, this means that the increased costs are often passed down the supply chain, ultimately reaching the end consumer. This phenomenon was evident during the previous trade disputes between the US and China.

Take, for example, the Trump administration's tariffs on washing machines. In February 2018, a 20% tariff was implemented on all imported large residential washing machines. According to the Consumer Price Inflation report, there was no immediate impact for the first four months as retailers sold off their existing inventory that wasn't subject to the tariff. However, consumer prices increased by 12% in the following months. Since US manufacturers produce washing machines that are not subject to these tariffs, it appears that consumers bore more than 60% of the tariff cost on foreign-made appliances. The remaining costs were absorbed by retailers' profit margins or through price reductions by foreign producers. Over time, prices gradually decreased again as consumers began substituting domestically made washing machines and foreign manufacturers likely agreed to further price cuts.

CPI - laundry equipment

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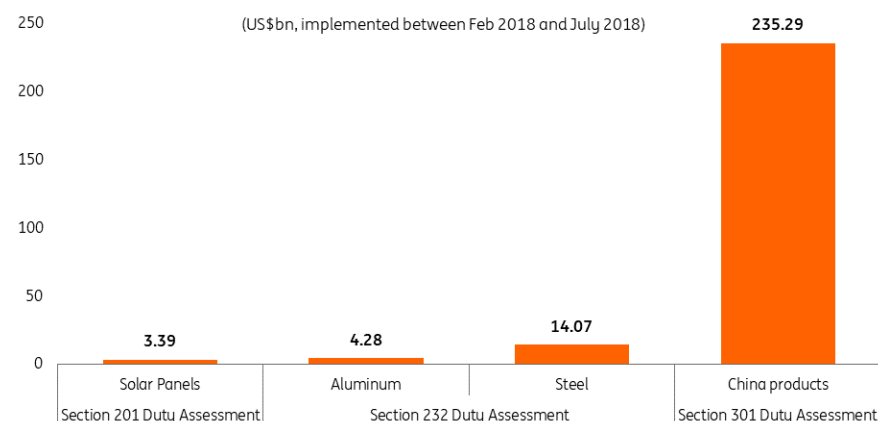
Source: Macrobond, ING

How tariffs on Chinese goods boosted US customs revenue...

But the trade dispute wasn't limited to washing machines. What started with a 25% tax on Chinese products worth \$34bn, quickly escalated into a full-blown trade dispute, with both the US and China imposing additional tariffs on hundreds of billions of dollars' worth of goods. Despite some concessions from both sides under the [Phase 1 deal](#) signed 15 January 2020 during President Trump's administration, some [\\$370bn worth of Chinese goods](#) are still subject to higher tariffs. The [Tax Foundation recently estimated](#) that the Trump-Biden tariffs that we have seen so far – as President Biden kept most of the Trump administration's tariffs in place – are equal to an average annual tax increase on US households of \$200 to \$300 per year based on actual revenue collections data.

In fact, customs duties revenues have increased significantly since the implementation of additional tariffs. Up until October 2024, the US Customs and Border Protection's (CBP) [revenue collection](#) under the Section 201, 232 and 301 Duty Assessment amounted to \$257bn.

Total duties assessed



Source: CBP, ING

That is remarkable considering that total customs duties revenues between 2018 and 2024 (with an estimated \$73bn for 2024) amount to \$586.9bn. This means that additional tariffs account for almost 44% of total customs revenue. And indeed, revenues from customs duties increased from \$34.6bn in 2017 to \$41.3bn in 2018, peaking at \$99.9bn in 2022. This significant rise in revenue is largely due to the tariffs imposed on Chinese goods, which boosted customs duties by around 0.2% of GDP from 2020 through 2022, according to the Congressional Budget Office (CBO). However, this effect has been diminishing since 2023, as customs duties have sharply declined due to goods subject to additional tariffs being increasingly redirected to countries with lower tariffs.

...but resulted in higher prices and less consumer choice

Despite the substantial increase in US Customs duties revenue, this revenue is actually paid for by the importing company (lower profit margin) and/or the consumer (higher prices). Although customs duties contribute to the federal budget and are thus transferred back to households via public services or infrastructure developments, they do work as a tax, increase consumer prices overall and can lead to [higher inequality and less consumer choice](#). According to the [four-year review](#) of the executive office of the president, the 2018-2019 tariffs impacted US aggregate economic welfare and real incomes slightly negatively due to less trade with China. Manufacturing employment or wages did not increase, while investment growth was slightly subdued in the short run.

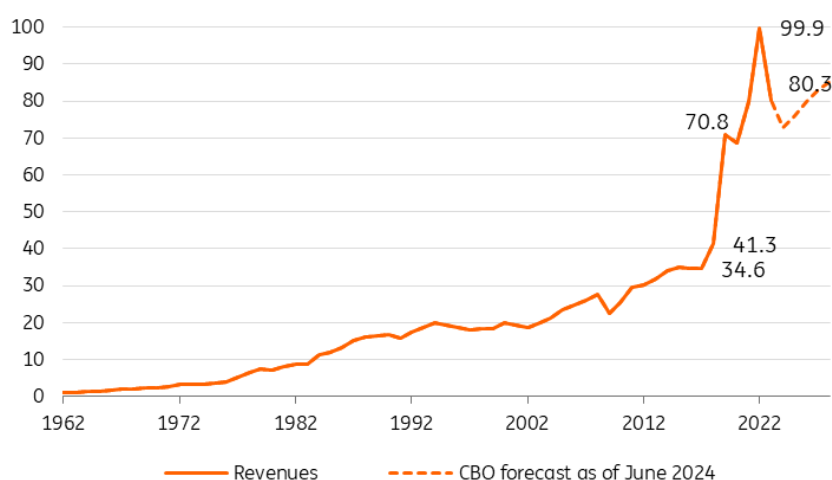
Shifts in consumer behaviour are indeed one of the reasons why increasing tariffs cannot become a primary source of government revenue.

This highlights a critical issue: while tariffs can generate significant revenue, their broader economic impacts and the resulting shifts in consumer behaviour limit their effectiveness as a long-term fiscal strategy. Shifts in consumer behaviour are indeed one of the reasons why

increasing tariffs cannot become a primary source of government revenue. Although Trump's primary objective in raising tariffs is to offset the revenue loss caused by planned tax cuts, the raised \$80.3bn in import duties on goods last year only made up 2% of the \$4.44 trillion in total federal tax revenue. Individual income taxes and social insurance taxes & contributions make up 85% of the net federal receipts. Even with Trump's new tariff proposals, [the White House](#) pointed out that it is mathematically unlikely that broad tariffs could replace revenue raised by other sources.

Revenues from US customs duties over the years

\$ billions



Source: U.S. Customs and Border Protection, CBO, ING

Tariffs act as a tax on consumers

Nevertheless, President-elect Trump is very likely to threaten and potentially apply new tariffs. What would his proposed tariffs mean for disposable income? Last year, the US imported goods worth approximately \$3.1 trillion, with \$427 billion coming from China. Applying a 60% tariff on these Chinese imports, and a 10-20% tariff rate on the rest of the world, would mean custom duty revenues in the range of \$523bn to \$790bn – assuming no change in consumer behaviour. Given that disposable personal income in the US last year was \$20.547 trillion, this tariff would represent 2.6% to 3.9% of disposable income, if fully passed on to consumers, i.e. \$1,500 to \$2,400 per capita. This is significant in an economy where consumer spending accounts for 70% of all activity. The increase in the cost of goods, coupled with potential supply-side constraints in the labour market as a result of Trump's proposed immigration policies, could also lead to a one percentage point increase in inflation, in our view.

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