Impact of the Trump Tariffs on the Automobile Industry.

Abstract

This paper examines the economic effects of the tariffs put forward by President Donald Trump's administration at the beginning of April 2025. It synthesizes findings from global financial research intuitions, policy firms and economic impact models to examine how these tariffs have affected the global economy with focus on distributional consequences, fiscal implication and sectoral outcomes.

Introduction

In 2018, President Trump imposed a series of tariffs as a part of a broader plan to address trade imbalances and promote manufacturing in the United States. In 2025, the tariff regime was dramatically escalated, raising the average U.S. tariff from less than 2.5% to over 18% . The new measures included a minimum 10% tariff on all U.S. imports, with additional levies as high as 50%, targeted at specific countries. The scope and economic impact of these policy actions have generated substantial debate among economists, policy makers and business leaders.

Distributional Consequences

Trump's tariffs have acted as a regressive tax, meaning poorer households carry a larger burden relative to their income. As a matter of fact, the tariff burden on the lowest decile of income is more than three times greater than the highest decile. In simple terms, higher-income households pay more, but the shock to disposable income is sharper for those at the bottom. For example, the average annual cost to households in the first (lowest), median, and top deciles are roughly

$1,350, $2,000, and $5,350, respectively. Even though these tariffs are aimed towards the consumers, a third of businesses are also beginning to absorb them. Over the long term, the incidence of the tariffs is expected to become slightly less regressive but still substantial for lower and middle income Americans

Fiscal Implications

Trump tariffs have generated an enormous increase in federal revenues: in fiscal year 2025, tariff revenues soared to more than $202 billion, a 142% increase from previous years, contributing directly to a decrease in the federal budget deficit by $41 billion compared to fiscal 2024. Estimates are that, if maintained, the tariffs would raise $2.5 trillion over the coming decade on a traditional score, with total dynamic revenue (after adjusting for reduced economic activity) closer to $2 trillion. But these budgetary gains are partly negated by negative "dynamic" effects, i.e., reduced output and wages, which reduce revenue from other taxes. In spite of this, in the short run, tariffs have been a clear contributor to deficit reduction and are a prominent tool in the administration's fiscal armor.

Sectoral Outcomes

The tariffs effects vary significantly by sector:

Sector	Cost Increases	Change in Import Volume	Change in Export Volume	Other Effects / Notes
Manufacturing	10–15% (due to tariffs on raw materials and components)	↓ 12%	↓ 8%	Moderate output contraction in some categories; 5–10% market share loss for

				automotive parts and electronics.
Agriculture	8–12% (especially for soybeans, pork, and dairy)	↓ 10% (due to reduced trade flows and higher prices)	↓ 12% (exports to Mexico)	Severely affected by retaliatory tariffs, with declining farm incomes and stockpiles rising.
Technology	7–10% (on imported components)	↓ 9%	↓ 7%	Impacted semiconductors and consumer electronics; delayed product launches and increased retail prices.
Other Sectors	5–8% (rising input and material costs)	↓ 6% (especially construction materials and consumer goods)	↓ 5%	Initial benefits for steel producers, but overall negative effects on construction, services, and consumer goods due to disrupted global supply chains.

In sum, while some industries received short-term protection for select industries, most major U.S. economic sectors faced widespread volatility, reduced efficiency, and diminished global competitiveness.

Works Cited

CNBC. “Tariff Costs to Companies This Year to Hit $1.2 Trillion, With Consumers Taking Most of the Hit, S&P Says.” October 16, 2025. https://www.cnbc.com/2025/10/16/tariff-costs-to-companies-this-year-to-hit-1point2-trillion-with-consumers-taking-most-of-the-hit-sp-says.html.

Budget Lab Yale. “State of U.S. Tariffs: September 26, 2025.” September 25, 2025. https://budgetlab.yale.edu/research/state-us-tariffs-september-26-2025.

Budget Lab Yale. “The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted 2025 Through April.” September 30, 2024. https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april.

Budget Model Wharton. “The Economic Effects of President Trump’s Tariffs.” April 9, 2025. https://budgetmodel.wharton.upenn.edu/issues/2025/4/10/economic-effects-of-president-trumps-tariffs.

Reuters. “US Budget Deficit Dips in Fiscal 2025 on Boost from Tariffs, Education Spending Cuts.” October 16, 2025. https://www.reuters.com/world/us/us-budget-deficit-falls-41-billion-1775-trillion-fiscal-2025-2025-10-16/.

CNBC. “U.S. Budget Deficit Edged Lower in 2025 as Tariffs, Debt Payments Both Saw New Records.” October 16, 2025. https://www.cnbc.com/2025/10/16/us-budget-deficit-lower-in-2025-tariffs-debt-payments-both-at-records.html.

Farmonaut. “Sector-Specific Impact: Trump Tariffs On US Industries 2025.” June 29, 2025. https://farmonaut.com/usa/sector-specific-impact-trump-tariffs-on-us-industries-2025.

Budget Lab Yale. “Short-Run Effects of 2025 Tariffs So Far.” June 30, 2025. https://budgetlab.yale.edu/research/short-run-effects-2025-tariffs-so-far.

Atlantic Council. “Trump Tariff Tracker.” September 30, 2025. https://www.atlanticcouncil.org/programs/geoeconomics-center/trump-tariff-tracker/.

Bipartisan Policy Center. “How Much Are U.S. Tariffs Raising in Revenue?” April 27, 2025. https://bipartisanpolicy.org/explainer/tariff-tracker/.