

Trade fragmentation and macroeconomic spillovers: Early evidence from the 2025 US policy shift

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Abstract

This paper analyses the early effects of the 2025 US tariff hikes and associated policy uncertainty on global trade flows and macroeconomic performance. Using monthly trade data through July, August, or September 2025, we document pronounced trade diversion away from the United States toward the European Union, Asia, and other partners, while the US trade deficit remains broadly unchanged. Model-based projections and forecast revisions indicate that the US has incurred the largest short-term losses, whereas Europe and parts of Asia have partially benefited through trade reallocation. The results suggest that global supply chains are adapting rather than collapsing, underscoring the structural resilience of international trade.

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1. Introduction

The economic policies of the new United States administration have shocked global markets and introduced significant uncertainty. Several new tariff measures have been implemented, while others, such as the reciprocal tariffs on all countries and the retaliatory tariffs between the United States and China, have been suspended. Even excluding the suspended measures, the United States' effective tariff rate on goods rose from 2.5 percent in 2024 to over 17 percent by 30 October 2025, reaching its highest level since 1934¹. While the United States has concluded several bilateral agreements with major trading partners, including the European Union, China, the United Kingdom, and Japan, the implementation of these agreements remains uncertain, and the tariff conflict could easily resurface.

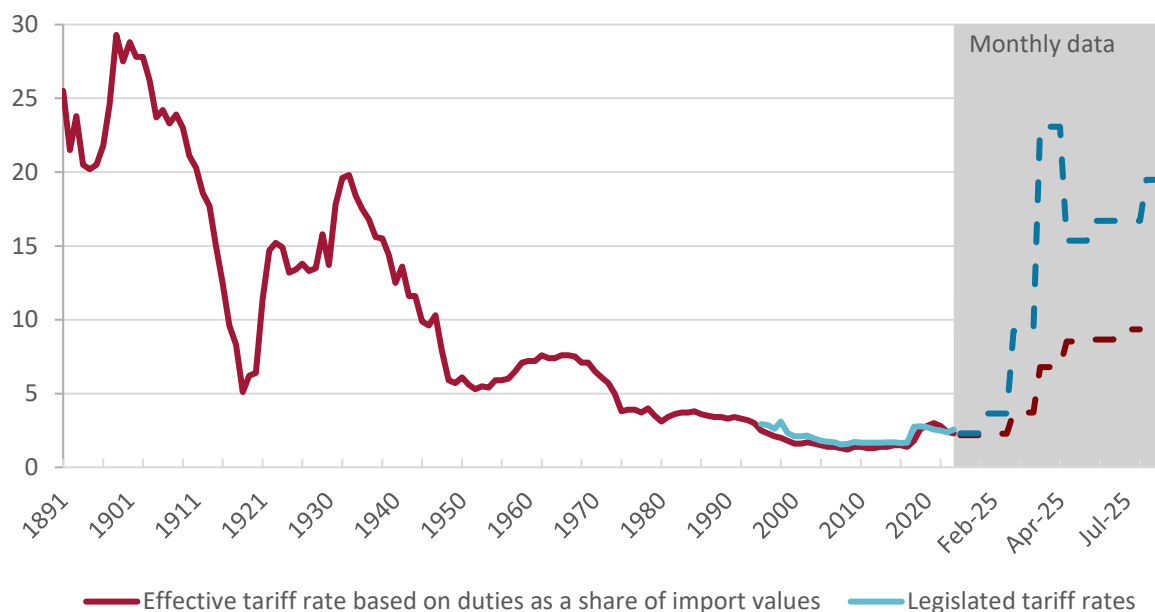
Nevertheless, the actual tariff rate, as measured by US customs duty revenue divided by total US imports, remains well below the legislated tariff rates (Figure 1). The OECD (2025) offers several explanations for this discrepancy. First, many goods were “front-loaded” prior to tariff enforcement, meaning that importers accelerated purchases ahead of higher rates, and those goods remain in inventory and thus avoid being subjected to the new tariffs. Second, some tariff increases are being phased in gradually or applied only to goods arriving after a certain date, giving exporters and importers a grace period during which higher rates do not yet apply. Third, some goods in transit or already *en route* at the time of tariff adoption are exempted from the new duty rates and still counted as part of import value. Finally, the report emphasizes that tariff evasion, reclassification, and changes in trade routes may also play a role in reducing the effective duty collected relative to the statutory schedule. These mechanisms imply that the full economic impact of the tariff hikes has yet to materialise, as some of the effects have been delayed or buffered by these transitional factors. Furthermore, the fact that the effective tariff rate lags the statutory rate also complicates empirical measurement: regression studies that rely on tariff schedules alone may overestimate the short-run trade distortions, because they fail to capture the lagged absorption and transitional adjustments.

Effective US tariffs rates² vary significantly across countries (Figure 2). China is by far the most impacted with effective tariff rates exceeding 40 percent. Japan and several other countries are also disproportionately affected, facing rates above the global average of around 10 percent. Compared with the first Trump administration, which mostly affected China with increased rates of around 10 percent, the 2025 measures represent a global escalation impacting virtually all US trading partners.

¹ <https://budgetlab.yale.edu/research/state-us-tariffs-october-30-2025>

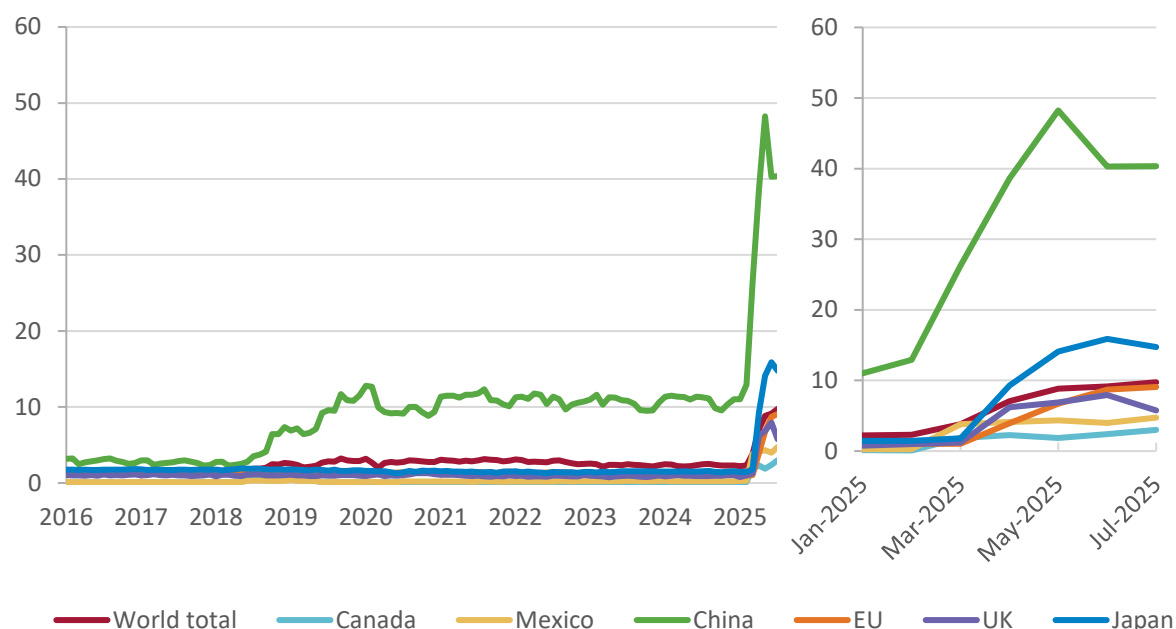
² Effective tariff rates defined as revenue raised by duties relative to import value.

Figure 1: US legislated tariff rate and “effective” tariff rates estimated as duty revenue as a share of imports (percent)



Source: Bruegel based on OECD (2025), https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-september-2025_67b10c01-en.html

Figure 2: Effective tariff rates by country (percent)



Source: Graph by Martin Stabe, [Financial Times Trump Tracker](#) based on US Census Bureau.

At the same time, the US federal debt continues to rise rapidly due to persistent fiscal deficits, which reached 7.5 percent of GDP in 2024. The administration’s fiscal agenda includes a combination of tax cuts, additional spending, reductions in public administration

and foreign aid, and higher tariff revenues. Taken together, these measures are expected to leave the overall budget deficit roughly unchanged in 2025 relative to the previous year, while projections by the Congressional Budget Office (2025) indicate that the US primary budget deficit will remain broadly stable over the coming decade, implying the continued increase of the public debt to GDP ratio. This uncertain fiscal outlook has already contributed to sovereign credit rating downgrades and a widening of risk premia on US Treasury securities, raising concerns about long-term public debt sustainability (Darvas et al., 2025).

Beyond trade and fiscal measures, the new administration's domestic and foreign policies have introduced further sources of uncertainty. As summarised by Gensler et al. (2025a), domestic actions—such as challenges to the rule of law, threats to the independence of the Federal Reserve, restrictions on immigration and birthright citizenship, cuts in science and education funding, and widespread deregulation—have raised concerns about the stability of the US economy and institutions. Foreign policy measures, including the withdrawal from international organisations, cuts to development assistance, the escalation of tariff wars, and the undermining of traditional alliances, risk eroding global trust in the United States as a reliable partner. Together, these developments have heightened global policy uncertainty and could undermine confidence in the dollar-based international financial system.

While these overlapping policy interventions affect both the US and the global macroeconomic outlook, isolating the direct impact of tariff measures alone is nearly impossible. Nevertheless, a growing body of empirical research has assessed the effects of US tariff hikes and the broader rise in policy uncertainty. A recent set of contributions published in June 2025 (Genser et al. 2025b) concluded that the administration's policies are likely to weigh negatively on both the US and the global economy, in both the short and medium term.

Rotunno and Ruta (2025) present quantitative scenarios exploring the global repercussions of the 2025 US tariff hikes, showing that outcomes depend critically on how partner countries respond, whether by retaliating with counter-tariffs, deploying industrial policies to support domestic producers, or seeking new trade agreements to expand market access. Their analysis finds that the third strategy, namely, deepening trade integration with alternative partners, can mitigate welfare losses and, in some cases, increase real income despite US protectionist measures. Kohlscheen et al. (2025) complement this view by analysing the macro-financial transmission channels of tariffs and trade policy uncertainty. Their study highlights that higher tariffs reduce trade volumes, raise import prices, and disrupt global supply chains, triggering exchange rate adjustments and inflationary pressures. Using scenario analysis, they estimate that sustained tariff uncertainty could reduce global output by up to one percentage point over two years, with the uncertainty channel itself amplifying much of the damage as firms and investors delay decisions in anticipation of further shocks.

Evidence from the measures of the first Trump administration showed that global value chains have begun to reconfigure in response to US tariffs and geopolitical tensions (Freund et al. 2023). The study documented both trade diversion, away from the US toward Europe, Asia, and Latin America, and the resilience of diversified economies that rely on multiple export markets.

Together, this emerging literature paints a picture of an increasingly fragmented global trade environment, yet countries could adjust by diversification strategies to contain growth and inflationary risks.

Against this background, this paper contributes to the literature in two ways.

First, we use up-to-date data (through July, August or September 2025, whichever is available³) to analyse goods trade diversion effects among the United States, the European Union, China, Japan, Canada, Mexico, and the rest of the world. We find that while the recent US measures have significantly affected trade flows, leading to marked trade diversion, the US trade deficit has not yet narrowed substantially, whereas other major economies have so far succeeded in diversifying their export markets. European Union exports reached a record high level in July 2025 despite a notable reduction in exports to the US, though overall exports were somewhat lower in August. The rise in EU imports from the US and China concentrated in pharmaceuticals and machinery, respectively, yet the EU's overall trade surplus remained largely unchanged.

Beyond aggregate goods trade flows, we also examine product categories subject to the largest tariff increases, such as steel and aluminium—where US tariffs were raised to 50 percent—potentially producing more pronounced trade diversion effects. Similarly, the sharp rise in tariffs on automobiles has reshaped US car import patterns.

Second, we assess the macroeconomic implications of the 2025 trade and policy shocks for the United States, the European Union, China, Japan, the United Kingdom, and the global economy, using forecasts from major international institutions and documenting their recent revisions. We find that so far, the US has experienced the largest downward forecast adjustments, while the impacts on other countries remain modest or even slightly positive, as some economies benefit from trade diversion and capital inflows.

The remainder of the paper is structured as follows. Section 2 presents an analysis of monthly trade data up to July, August or September 2025, beginning with aggregate trade flows and subsequently examining selected product categories. Section 3 compares the IMF's October 2024 and October 2025 projections for savings, investment, and the current account balance to assess whether unchanged savings and investment patterns could explain relatively stable current account and trade balance positions. Section 4 investigates

³ Due to government shutdown in the United States, trade data has not been updated, and July 2025 is the most recent month for which US data is available at the time of writing. For the other countries we study, data for August or September is already available.

the macroeconomic implications of the 2025 policy shocks. Section 5 concludes by summarising the main findings and discussing their broader implications.

2. US foreign trade dynamics

US tariffs, trade policy uncertainty, and, more broadly, uncertainty about the future of the global trading system have already affected global goods trade flows. Tariffs were not imposed on trade in services, which remained broadly unchanged in 2025 (appendix). We begin by examining aggregate goods trade patterns and then turn to specific product categories that were subject to special tariffs: aluminium, steel, and passenger cars.

2.1 Total trade in goods

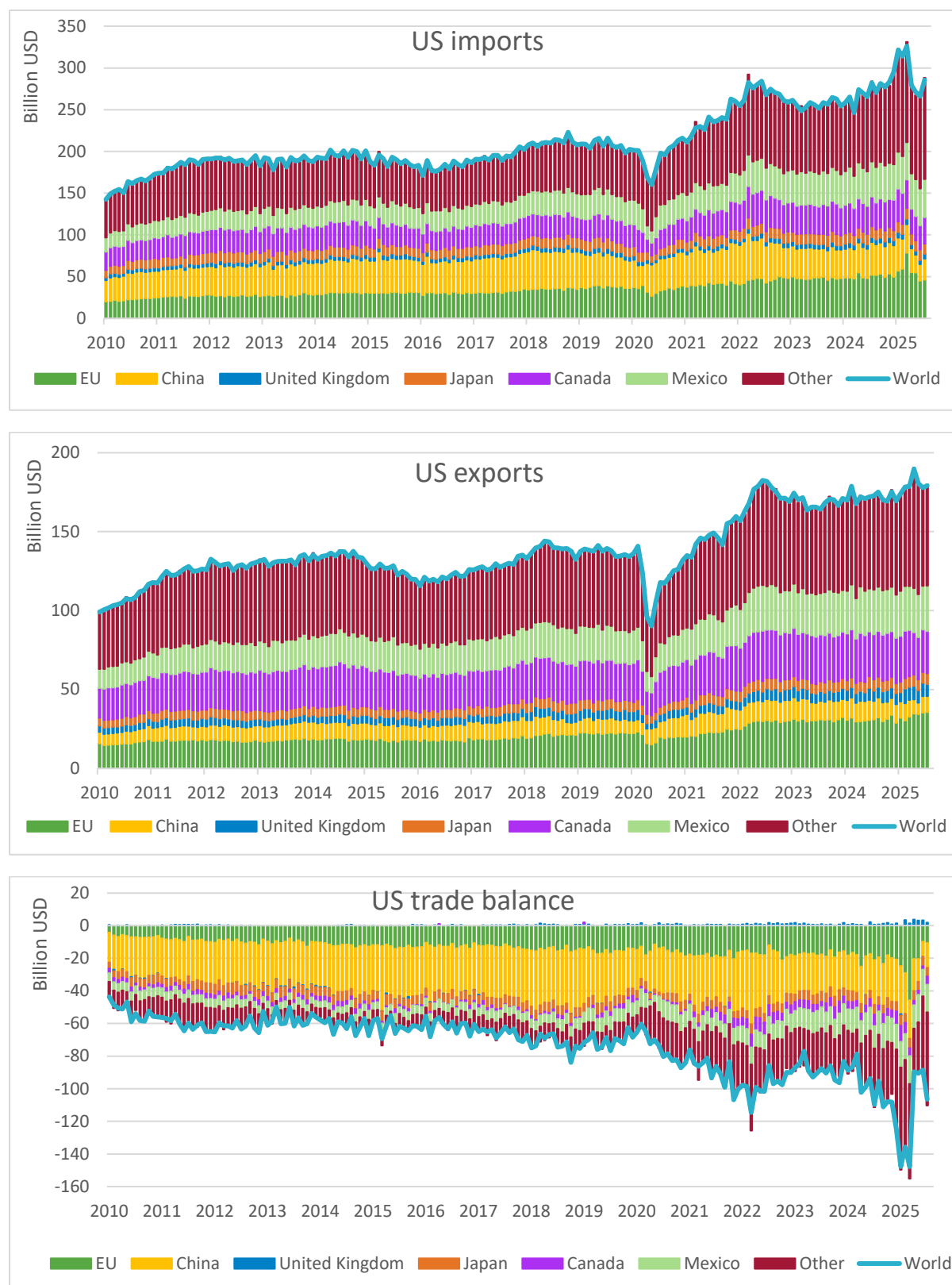
2.1.1 United States

US imports have consistently exceeded exports in recent decades, resulting in a sustained trade deficit, though the magnitude of this gap has fluctuated with global economic conditions (Figure 3). Imports show a generally stronger upward trend, reflecting robust domestic demand for foreign goods and inputs, while exports have grown more moderately. Periods of global disruption, such as the pandemic, are visible in temporary declines in both imports and exports, followed by rebounds, suggesting the resilience of US trade activity over time.

When disaggregated by partner, China has been the largest single source of the US trade deficit before the recent US tariff hikes. The US trade deficit with the European Union and Mexico was also substantial, while the US deficit with Japan and Canada was modest, and trade was largely balanced with United Kingdom.

The impacts of the 2025 US tariff hikes are clearly visible in trade flows. While Figure 3 portrays longer-term trends, Figure 4 focuses on the 2024-2025 period to better identify recent changes. US imports surged in March 2025 as firms accumulated stocks ahead of the higher tariffs, causing the monthly trade deficit to widen to unprecedented levels of over \$150 billion. This surge was subsequently reversed once the tariffs were actually raised. The deficits with China and the European Union fell to around half their previous levels, although the deficit with Mexico and Canada remained broadly stable, likely reflecting the deep integration of North American production networks under the United States–Mexico–Canada Agreement (USMCA) framework. Meanwhile, the deficit with the rest of the world increased somewhat, and by July 2025 the overall trade deficit was broadly similar to values observed in 2024. This suggests that one of the main goals of the new US administration – the reduction of the US trade deficit – has not yet been achieved, reflecting the structural nature of the imbalance and the central role of global supply chains linked to the United States.

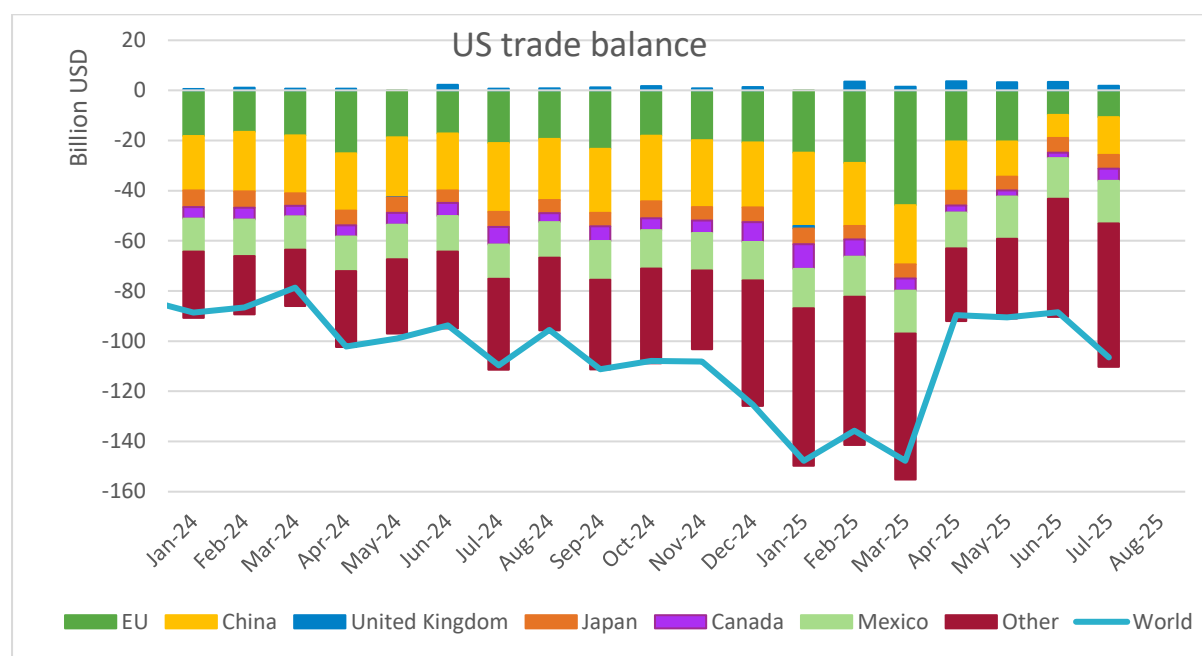
Figure 3: US goods imports, exports and trade balance by main trading partners (\$ billions, seasonally adjusted), January 2010 – July 2025



Source: Bruegel based on US Census Bureau.

Note: We used X12 to seasonally adjust export and import data and calculated the seasonally adjusted trade balance as the difference between seasonally adjusted imports minus seasonally adjusted exports.

Figure 4: US goods trade balance by main trading partners (\$ billions, seasonally adjusted), January 2024 – July 2025



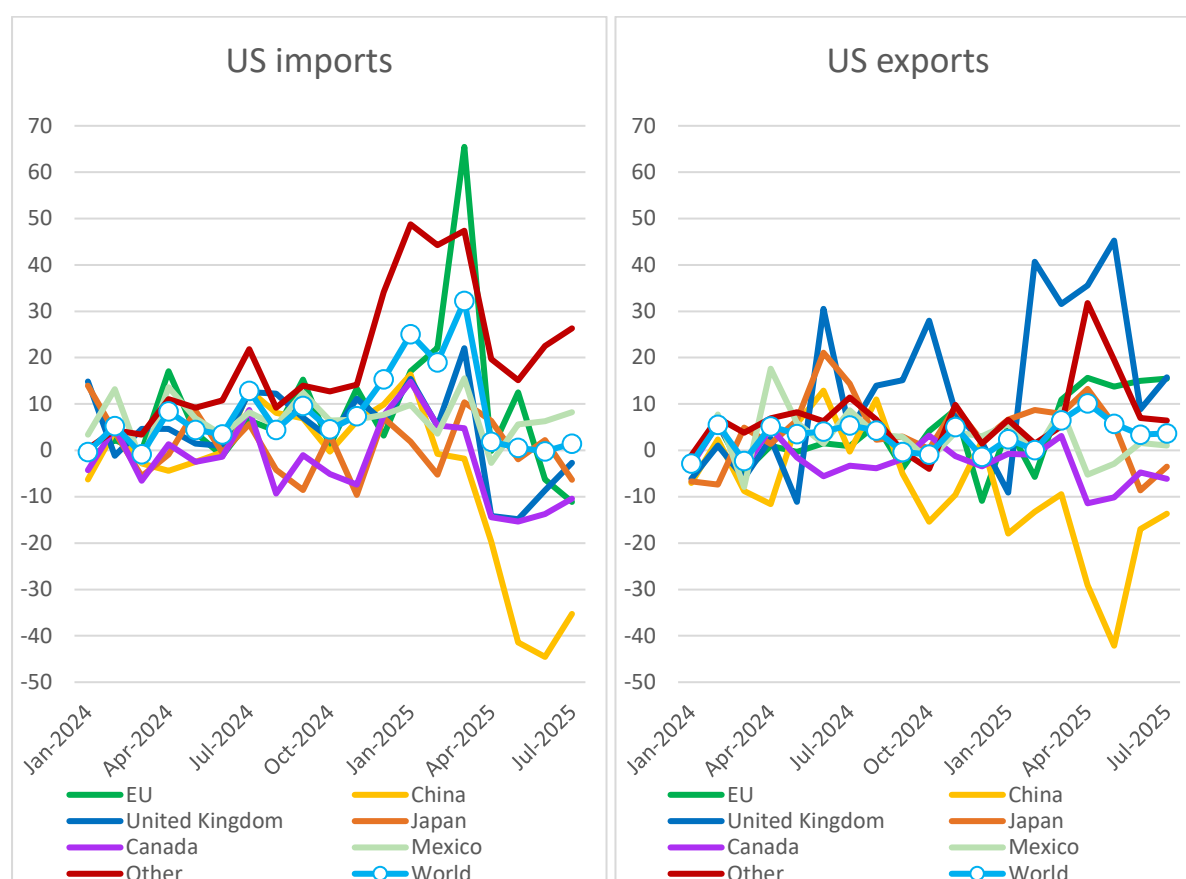
Source and note: see Figure 3.

The dynamics of twelve-month growth rates in US imports and exports indicate that the stockpiling surge ahead of the 2025 tariff hikes originated primarily from the European Union and from countries not individually identified in Figure 5. Much smaller stockpiling effects were observed for the United Kingdom, Mexico, and Japan, while imports from Canada and China showed no comparable increase—likely reflecting the earlier introduction of tariffs on key products from these countries. Between May and July 2025, US imports from China were roughly 40 percent lower than a year earlier, while exports to China also fell sharply, signalling an accelerated decoupling between the world’s two largest economies. This pattern aligns with recent analyses by the Rotunno and Ruta (2025) and Kohlscheen et al. (2025), which highlighted how cumulative tariff rounds and escalating policy uncertainty can reinforce supply-chain fragmentation and the reorientation of trade toward regional and politically aligned partners.

Similar, though less pronounced, decoupling dynamics are visible in US trade with Canada and Japan, where both imports and exports declined modestly during the same period. These trends suggest that uncertainty and higher trade costs dampened two-way trade even in long-standing economic partnerships. In contrast, trade flows with the European Union

display a more nuanced adjustment: US imports from the EU declined, while US exports to the EU increased, implying a partial reshuffling of trade patterns rather than a full decoupling. This may reflect the strength of cross-Atlantic trade integration.

Figure 5: US goods imports and export: percent change from the same month of the previous year (in \$ terms)



Source: Bruegel based on US Census Bureau.

2.1.2 China

Despite a sharp contraction in Chinese trade with the United States during 2025, China's overall export performance and trade balance have remained broadly stable compared with 2024 (Figure 6). In fact, measured in US dollar terms, Chinese exports rose by 8.3 percent in September 2025 relative to September 2024, while imports increased by 7.4 percent, implying a modest widening of the trade surplus. These aggregate figures conceal important shifts in geographical composition: exports to the United States fell dramatically – consistent with the 2025 US tariff hikes – while shipments to Mexico also declined, possibly reflecting parallel supply-chain linkages between exports to these two North American markets. Exports to Canada stagnated. In contrast, sales to the European Union and the United

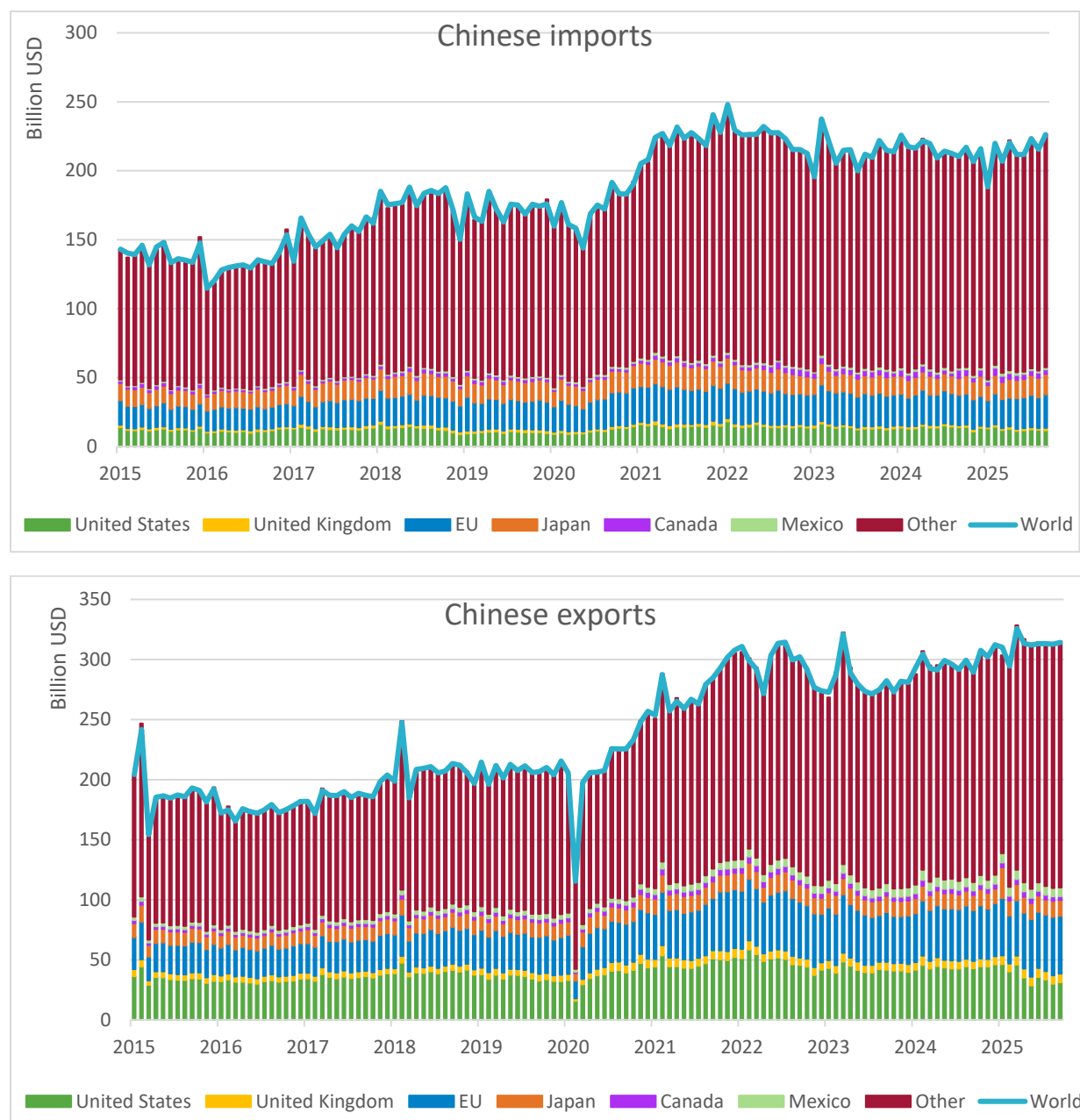
Kingdom grew by around 12-14 percent, and exports to the rest of the world expanded by roughly 17 percent, underscoring China's success in diversifying trade toward alternative partners.

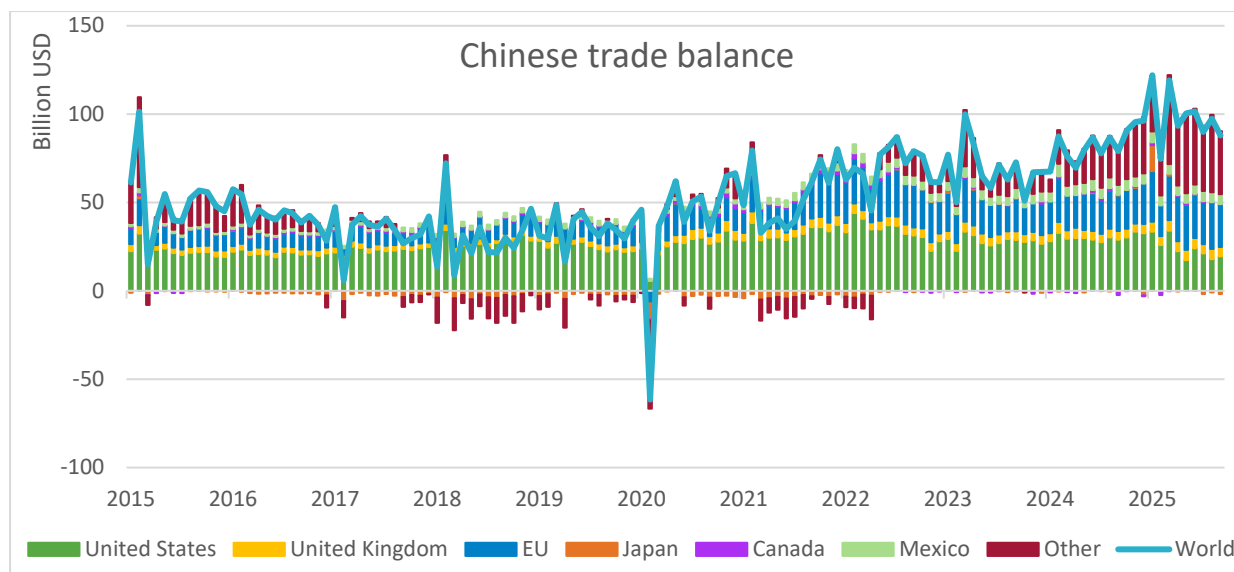
This reorientation of Chinese exports is consistent with the scenarios of Rotunno and Ruta (2025) and Kohlscheen et al. (2025), suggesting that when faced with persistent trade barriers, firms adjust production networks and logistics to minimize tariff exposure, often reallocating exports to non-tariffed markets. These adaptive responses could explain the resilience of Chinese exports and the stability of its trade balance in 2025. Comparable patterns were observed in earlier tariff episodes (notably 2018-2019), when China offset losses in the US market by expanding trade with Southeast Asia, Europe, and Africa (Freund et al., 2023).

It is also notable that between 2015 and 2021, the bulk of China's trade surplus was generated in its trade with the United States and the European Union, while trade with other countries remained broadly balanced. This pattern persisted even though a large share of China's overall trade was conducted with these other partners, reflecting the deep integration of global supply chains. Since 2024, however, China's trade surplus with other countries has expanded markedly, accounting for more than one-third of its total trade surplus by 2025.

Taken together, the evidence suggests that while US–China decoupling has deepened, it has not led to a collapse of Chinese trade. Instead, China has managed a strategic diversification of its export markets, strengthening ties with Europe and emerging economies, and shifted its trade surplus away from the US to other nations. These realignments highlight both the adaptability of Chinese supply chains and the limits of unilateral tariff measures in reducing trade of the earlier dominant supplier country.

Figure 6: Chinese goods imports, exports and trade balance by main trading partners
(\$ billions, seasonally adjusted), January 2015 – September 2025





Source: Bruegel based on China Customs.

Note: We used X12 to seasonally adjust export and import data and calculated the seasonally adjusted trade balance as the difference between seasonally adjusted imports minus seasonally adjusted exports.

2.1.3 European Union⁴

European Union countries have also demonstrated a strong capacity to diversify their export markets in response to the 2025 US tariff hikes and trade policy uncertainty (Figure 7). While exports to the United States declined during the first half of 2025, the overall level of EU exports reached a record high in July 2025, though fell back somewhat in August 2025. Exports to the United Kingdom, Canada, and the rest of the world increased between August 2024 and August 2025, reflecting a largely successful diversification strategy. Since the US dollar depreciated by about 8 percent against the euro between August 2024 and August 2025, growth rates expressed in euros are correspondingly lower. The currency denomination of trade transactions determines whether dollar- or euro-based values provide a more accurate picture of trade volumes: if most transatlantic trade is invoiced in dollars, then figures in US dollars better capture underlying trade dynamics; if invoicing is predominantly in euros, euro-denominated values are more informative. Ultimately, a detailed analysis of trade volumes, rather than nominal values, would provide a clearer assessment of trade diversion effects.

In contrast, EU exports to China declined by about 6 percent over the latest twelve months, whereas EU imports from China stagnated in August 2025, after double-digit increase during earlier months of 2025. There were increases in EU imports from Japan (8 percent), Canada (4 percent) and Mexico (11 percent). These patterns suggest that several major exporters,

⁴ Throughout this paper, we analyse trade relations of the European Union with other countries and disregard within-EU trade flows.

including China, Japan, and North American countries, redirected goods originally destined for the US market toward Europe, which became a key outlet in the post-tariff environment.

Nevertheless, despite increasing imports from the above-mentioned countries, the European Union's overall trade balance remained remarkably stable. In August 2025, the EU recorded a seasonally adjusted trade surplus of \$13.4 billion – only slightly below the 2024 monthly average of \$13.5 billion, while in August, it fell to \$6.2 billion – data from subsequent months will indicate whether this decline reflects a permanent reduction or just a temporary drop. There were important compositional changes in country-composition of trade surplus: the surplus with the United States fell significantly, from an average of \$17.9 billion per month in 2024 to \$9.7 billion in August 2025, while the deficit with China widened from \$27.5 billion to \$32.1 billion. At the same time, the EU's trade surplus with the rest of the world expanded sharply – from an average of \$2.8 billion per month in 2024 to \$9.4 billion in August 2025 – partially offsetting losses from transatlantic trade.

These developments are again consistent with the findings of Rotunno and Ruta (2025), Kohlscheen et al. (2025) and Freund et al. (2023), pointing toward reorientation of exports toward alternative destinations in response to US trade barriers.

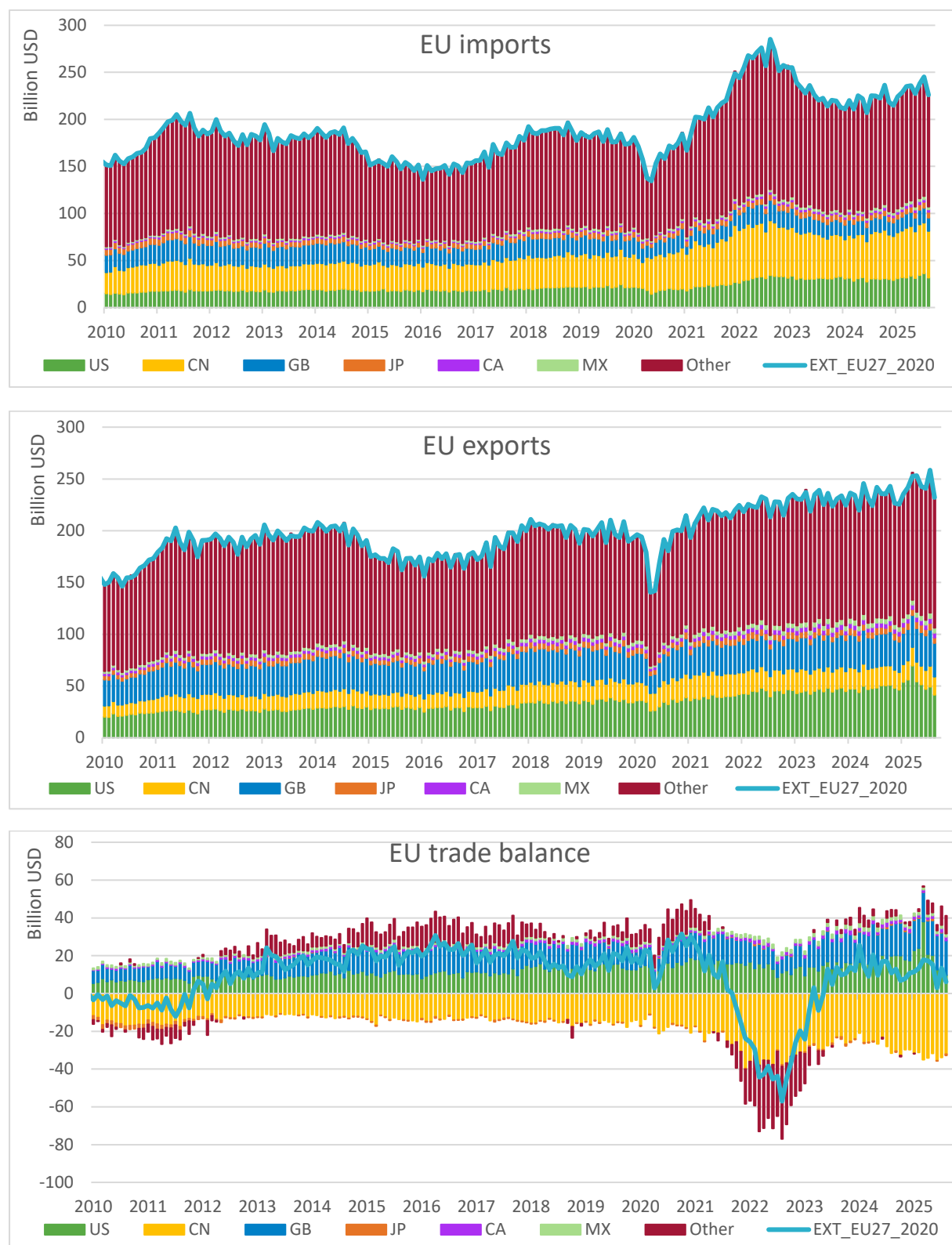
Taken together, the evidence indicates that, at the aggregate level, EU exporters have so far managed to adjust effectively to the US trade shock. They have maintained export growth and preserved a broadly stable external surplus through market diversification, even amid heightened global uncertainty and shifting trade patterns including increased imports from China⁵.

EU imports increased by 15 percent year-on-year in June 2025 and by 9 percent in July 2025, but was the same in August 2025 than in August 2024, when measured in US dollar terms. The June surge was largely driven by higher imports from the United States, China, Canada, and Mexico, while by August, the slight (4 percent) increase from the United States was compensated by a decline in imports from China (-2 percent) and the United Kingdom (-3 percent).

Imports from China, measured in US dollars, grew by 26 percent in June and by 12 percent in July. These increases were primarily concentrated in machinery and transport equipment, with subcategories such as electrical machinery, apparatus and appliances, and office and data-processing machines accounting for much of the growth. The rise in imports from the United States was mainly due to higher purchases of medicinal and pharmaceutical products.

⁵ The large temporary increase in EU imports in 2022 and the consequent deterioration of the EU's trade balance resulted from skyrocketing energy prices, because the EU is a large energy importer and the chart shows imports in current prices. As energy prices fell from 2023 and EU energy demand declined, imports fell, and the trade balance improved.

Figure 7: European Union goods imports, exports and trade balance by main trading partners (\$ billions, seasonally adjusted), January 2010 – August 2025



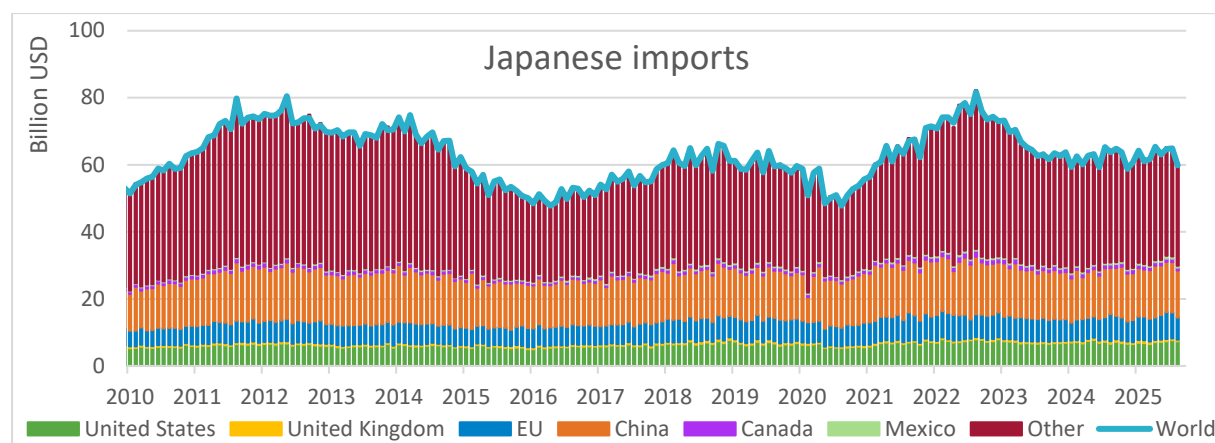
Source: Bruegel based on Eurostat.

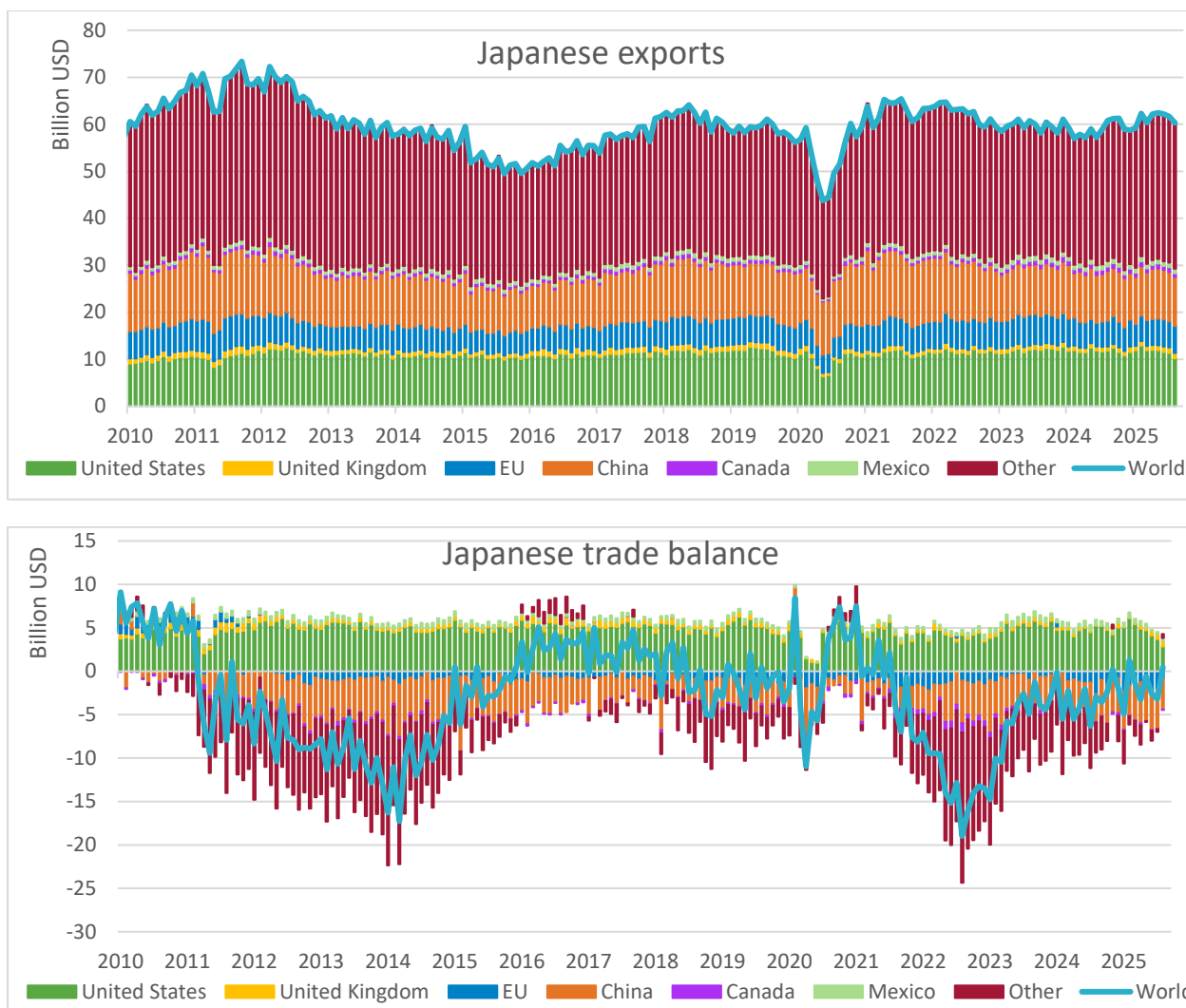
Note: We used X12 to seasonally adjust export and import data and calculated the seasonally adjusted trade balance as the difference between seasonally adjusted imports minus seasonally adjusted exports. Trade with non-EU countries is reported, disregarding intra-EU trade.

2.1.4 Japan

While Japan's exports to the United States declined and its imports from the United States increased, the Japanese trade surplus with the U.S. fell by almost half between the 2024 monthly average and August 2025. Nevertheless, the overall impact of the 2025 trade turmoil on Japan's total trade appears limited. In August 2025, Japan's total exports to all destinations were only 1 percent lower than a year earlier, while total imports declined by 6 percent. There were double-digit reductions in Japanese exports to the United States, Canada, and Mexico—likely reflecting the strong interdependence of these North American markets—whereas exports to China remained broadly unchanged, and exports to the European Union, the United Kingdom, and the rest of the world increased. This pattern again points to a geographical realignment of trade flows. Following a monthly average trade deficit of around \$3 billion in 2024, Japan recorded a seasonally adjusted deficit of \$3.2 billion in July 2025 and a surplus of \$0.5 billion in August 2025, indicating that U.S. tariffs did not push Japan into a higher overall trade deficit and that the country successfully diversified away from the U.S. market.

Figure 8: Japanese goods imports, exports and trade balance by main trading partners (\$ billions, seasonally adjusted), January 2010 – August 2025





Source: Bruegel based on Japan Customs.

Note: We used X12 to seasonally adjust export and import data and calculated the seasonally adjusted trade balance as the difference between seasonally adjusted imports minus seasonally adjusted exports.

2.2 A focus on specific products

A closer examination of product-level imports reveals similar high-level patterns of trade redirection and tariff-related adjustments. Across most product groups, US importers engaged in significant front-loading prior to April 2025, resulting in a marked deterioration of the trade balance across categories in March 2025 (Figure 9). This effect was less pronounced for automobiles, as exports in that sector also rose sharply during the same period, leading to a more muted overall impact on the trade balance.

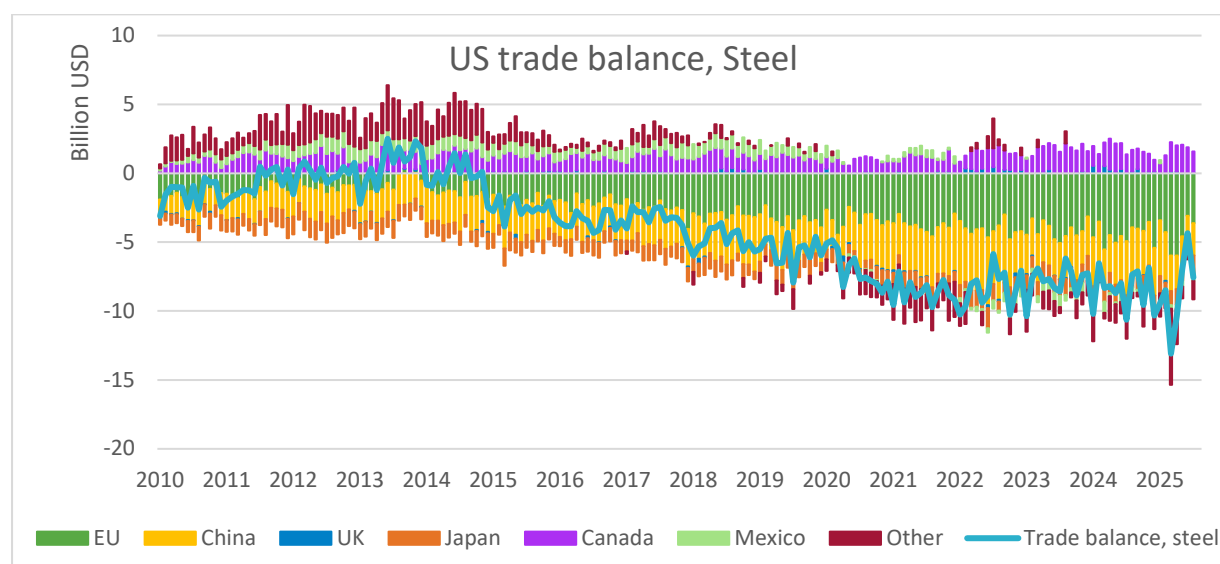
Both steel and aluminium imports show recent year-on-year declines (7.5 percent for aluminium and 10.8 percent for steel), while automobile imports have continued to grow, extending an upward trend observed since 2021. The rise in automobile imports reflects a rebalancing of trading partners, with stronger inflows from Mexico and other suppliers not

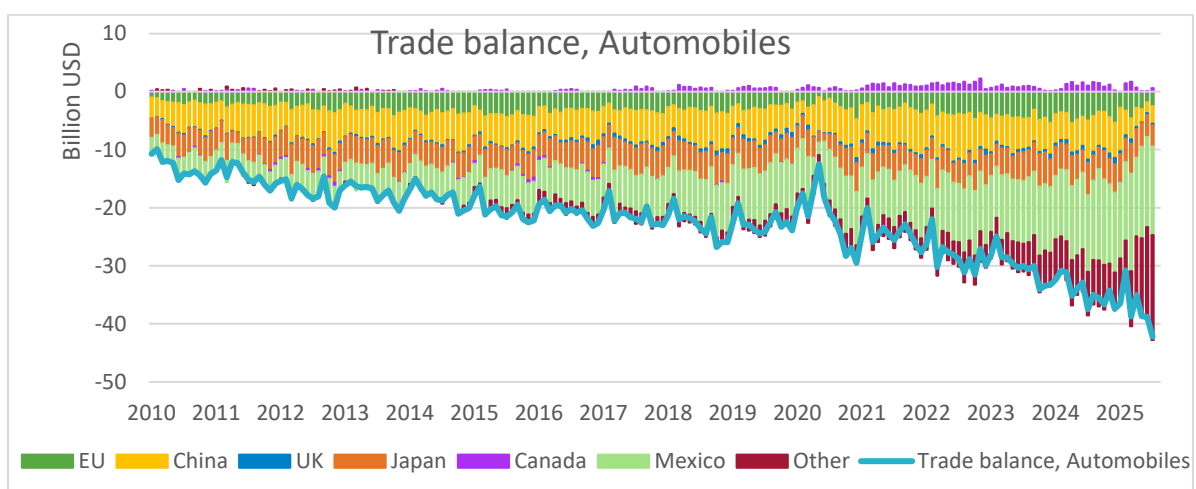
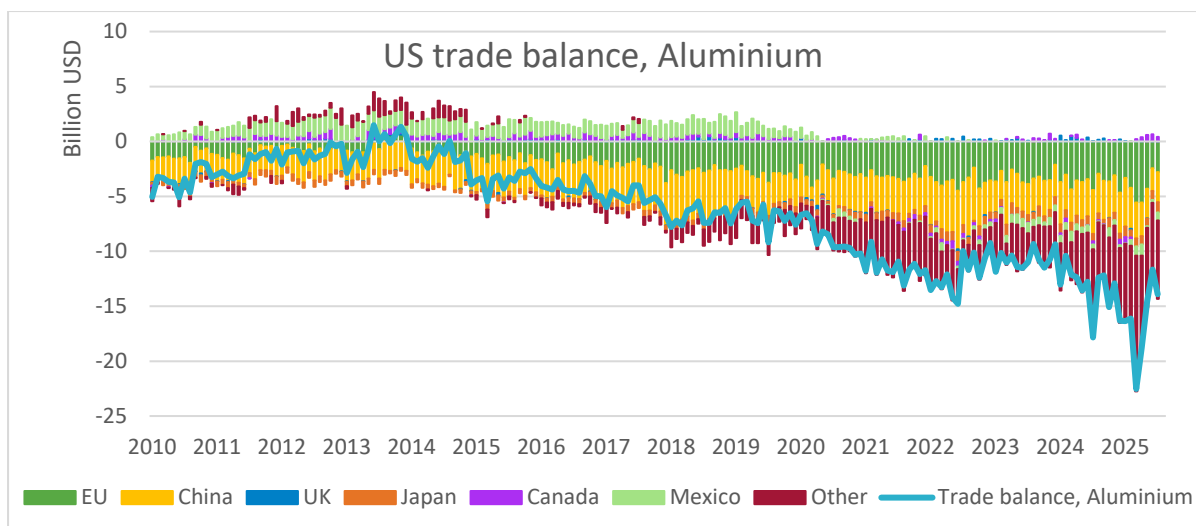
individually detailed here. Notably, automobile imports from the European Union, China, the United Kingdom, Japan, and Canada have declined in recent months compared with a year earlier, a pattern likely explained by earlier front-loading followed by a temporary drop in shipments. While Canada and Mexico under the United States-Mexico-Canada Agreement are partially exempt from some automobile parts tariffs (so far), this seems to only have positively affected Mexico.

For steel, evidence of trade reallocation among suppliers is weaker, and total imports fell by roughly 10 percent year-on-year in May, June, and July 2025. This contraction reflects lower imports from most major suppliers, particularly China, Canada and Mexico, and may indicate either ongoing market disruptions or delayed effects from prior stockpiling. Aluminium imports present a more mixed picture: they declined by 7.5 percent year-on-year in July, following modest twelve-month growth in preceding months. Imports from China, the United Kingdom, and Canada fell sharply, while those from other trading partners such as Japan rose, suggesting partial substitution effects.

The newly proposed EU tariffs on steel, together with the United States' recent expansion of its steel and aluminium tariff lists, point to the potential for renewed escalation of trade barriers in these sectors. Further tariff increases could deepen existing rebalancing dynamics and risk causing broader disruptions across global metals and automotive supply chains.

Figure 9: US trade balance of selected tariff-affected products, \$ billions, January 2010 – July 2025





Source: Bruegel based on US census data and Global Trade Alert.

3. Adjustments to the savings and investment balance

A basic macroeconomic identity states that the difference between domestic savings and investment equals the current account balance. In turn, a key component of the current account is the balance of goods and services. If savings and investment patterns do not change, then tariffs and other policy measures will not affect the current account balance, implying a broadly unchanged goods trade balance, as documented in the previous section for the United States, China, the European Union, and Japan.

To assess this hypothesis, we compare the October 2024 IMF projections (made before the U.S. presidential elections) with the October 2025 values (Figure 10)⁶. The latest projection actually shows a deterioration in the U.S. current account outlook compared to expectations

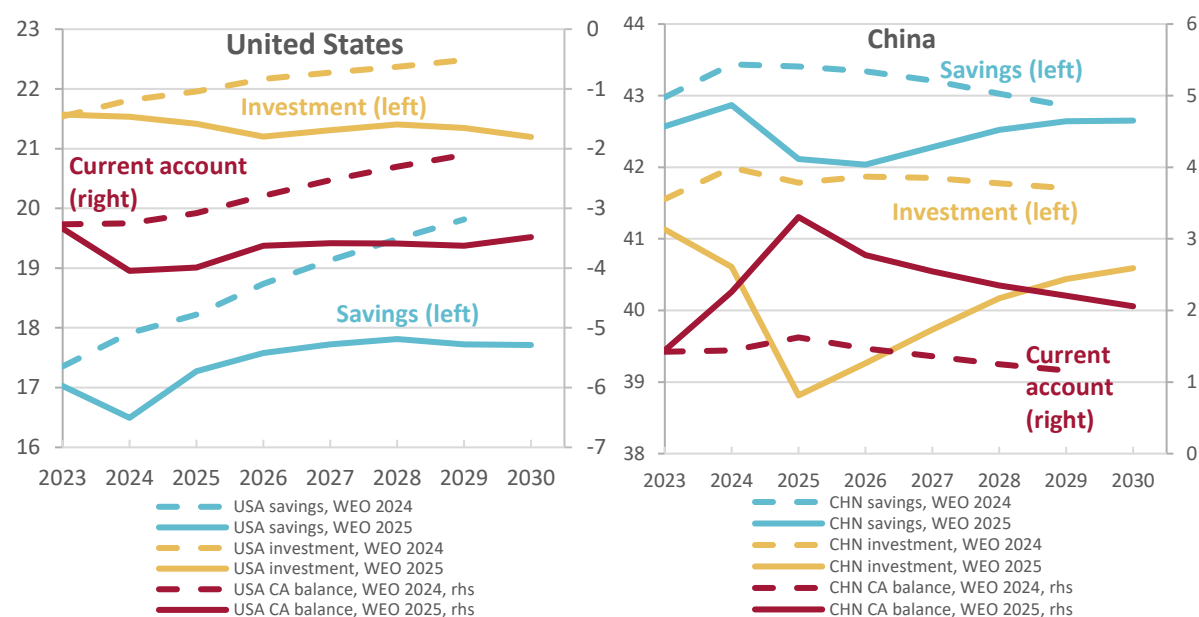
⁶ The identity $S - I = CA$ (savings minus investment equals the current account balance) holds for China, the European Union, and Japan in all years in both versions of the WEO, but only for 2026–2030 in the United States according to the October 2025 WEO. For years up to 2025 in the October 2025, and for all years in the October 2024 WEO, there is a gap of about 0.5 to 1 percent of GDP between $(S - I)$ and CA for the United States.

a year ago – rather than the improvement that might have been expected if U.S. tariffs had boosted the trade balance. This downward revision in the current account balance reflects lower projections for both U.S. savings and investment, with a larger decline in the former. Thus, the IMF does not anticipate success in two major economic objectives of the new US administration: raising the investment rate and reducing the trade deficit.

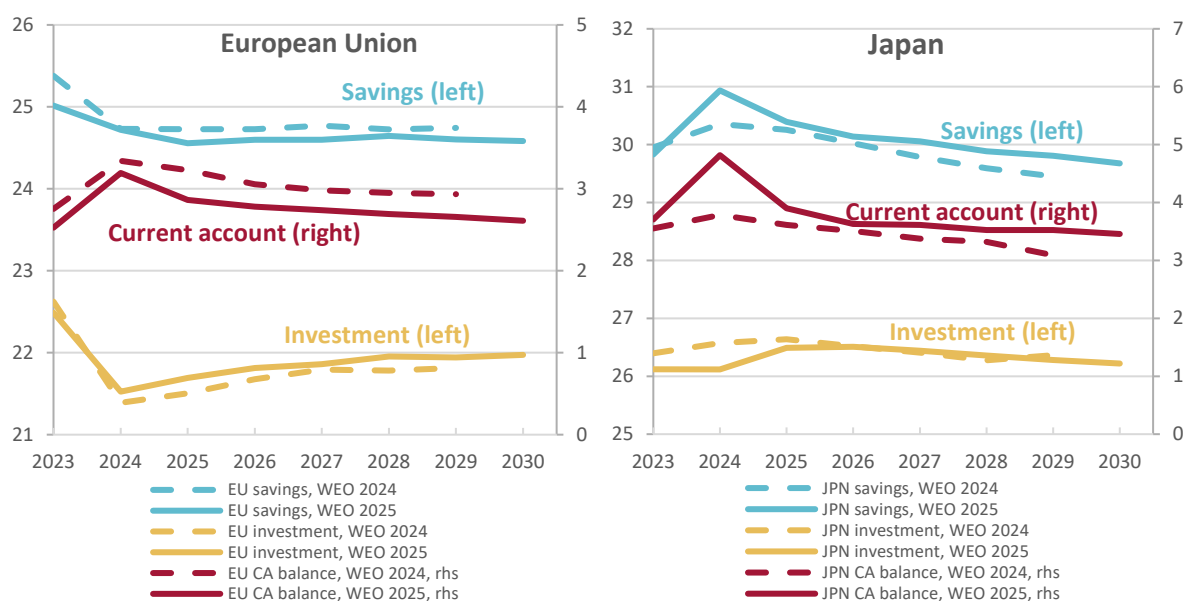
For China, the IMF expects a larger current account surplus in its October 2025 projection compared with a year earlier, driven by a sharper decline in investment than in savings. Forecast revisions for the European Union and Japan were minor, with little change in projected savings, investment, or current account balances from 2025 onward⁷.

Taken together, the largely unchanged savings and investment outlook may justify a broadly stable trade balance for the European Union and Japan. However, the sizeable shifts in U.S. and Chinese savings and investment suggest that other factors explain the relatively unchanged trade balances of these two countries.

Figure 10: Savings, investment and the current account balance: comparing the October 2024 and the October 2025 IMF projections



⁷ For Japan, there were more meaningful revisions in the projections for the year 2024.



Source: IMF World Economic Outlook databases, October 2024 and October 2025.

Note: dashed lines indicate the October 2024 projections, while solid lines indicate the October 2025 projections.

4. The macroeconomic impact of trade tensions and policy uncertainty

The effects of recent policy shocks and heightened uncertainty, including the trade diversion effects documented in the previous section, are clearly reflected in shifts in economic growth expectations for 2025–2026, as captured by the Bloomberg Economist Survey (Figure 11).

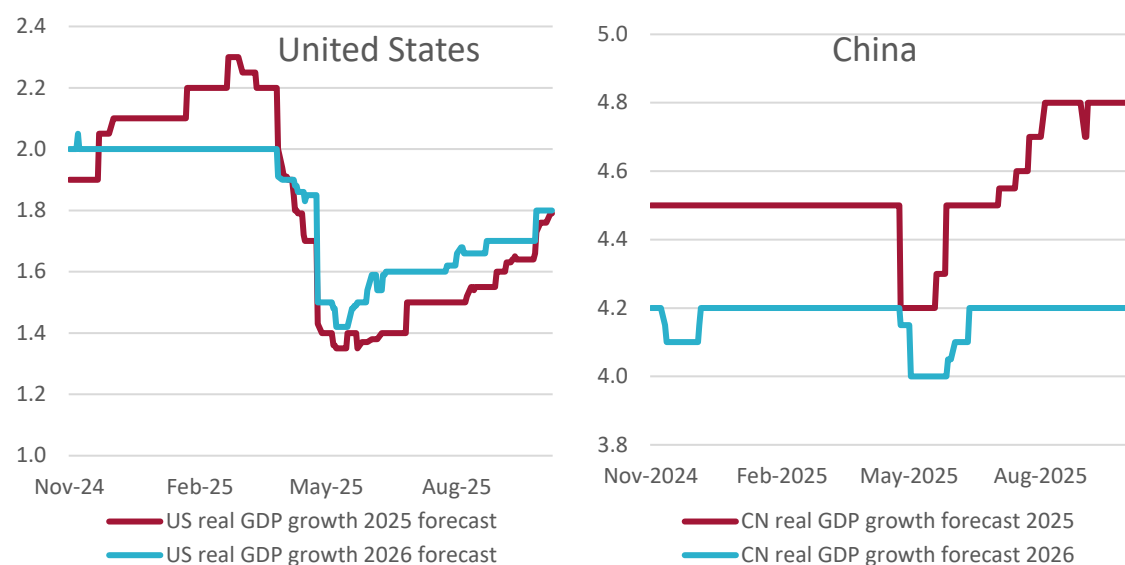
The election of Donald Trump and his first weeks in office initially generated optimism regarding US growth prospects. The consensus forecast for 2025 growth was revised upward from 1.9 percent in November 2024 to 2.25 percent by March 2025, while expectations for 2026 remained unchanged (Figure 11, Panel A). However, as the administration began announcing more controversial measures, notably the sweeping “reciprocal tariffs” of 2 April 2025, growth expectations deteriorated rapidly. By May 2025, the 2025 growth forecast had fallen by nearly one percentage point to 1.35 percent, and the 2026 projection by more than half a percentage point from 2.0 percent to 1.42 percent.

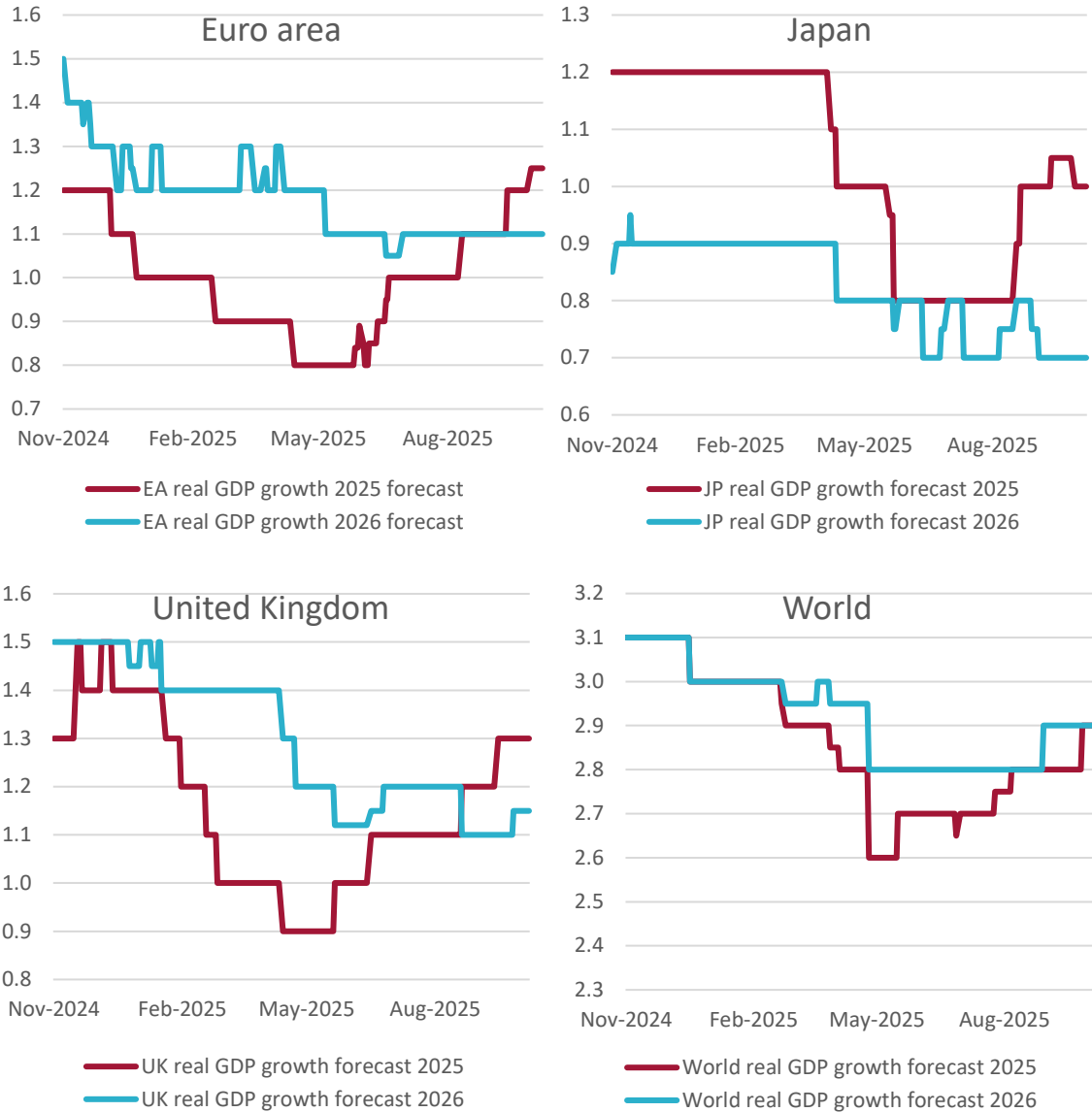
The immediate impact on other major economies was smaller but still noticeable. Between March and May 2025, the 2025 growth forecast declined by 0.3 percentage points for China (Figure 11, Panel B), by 0.2 percentage points for the euro area (Panel C), by 0.4 percentage points for Japan (Panel D), and by 0.5 percentage points for the United Kingdom (Panel E). For the global economy overall, the median forecast was revised downward by 0.4 percentage points during the same period.

Subsequently, as equity prices declined and US government bond yields rose, President Trump softened several of his earlier policy positions: suspending multiple tariffs and initiating negotiations for new trade agreements with key partners. This moderation led to a partial recovery in growth expectations. The rebound in the United States did not reach the values observed in pre-election period, while 2025 projections for China and the euro area surpassed their earlier values. By October 2025, the 2026 US growth forecast remained 0.2 percentage points below its February 2025 level, compared to a gap of 0.1 percentage points for the euro area and no gap for China. For the euro area, the upward revision likely reflects a combination of monetary and fiscal easing (particularly in Germany) and the US-EU trade agreement concluded at the end of July 2025. Forecasts for Japan and the United Kingdom also recovered moderately from their May lows.

Taken together, short-term growth forecast revisions from the Bloomberg Economist Survey indicate that the United States has been a greater victim of its own policy choices than its major trading partners. Even though the main stated aim of recent US trade measures was to narrow the trade deficit, this goal has not yet been reached, while the immediate macroeconomic fallout has been more pronounced domestically than abroad. Asymmetric effects are to be expected considering the US is causing potential trade disruptions with *all* its trading partners, while all other countries only face a bilateral disruption with the US.

Figure 11: Forecasts for 2025 and 2026 real GDP growth by the Bloomberg Economist Survey





Source: Bruegel calculations based on Bloomberg Economist Survey (median response), as of October 7. Note: Dates on the x-axes indicate the timing of the forecasts.

Model-based assessments lead to broadly similar conclusions as those derived from the survey data: the US economy is expected to suffer more from its own policy shocks than its trading partners, with some studies even suggesting mild gains for other regions. The estimates summarised in Table 1 confirm that the adverse effects on the US will exceed those on the EU or China.

For instance, McKibbin, Noland, and Shuetrim (2025) – using a hybrid framework combining dynamic stochastic general equilibrium (DSGE) and computable general equilibrium (CGE) models – found that the tariff measures depress US GDP by 0.23 percentage points in 2025 and by 0.62 points in 2026. In contrast, their model suggests a much smaller decline for China (-0.08 points in 2025 and -0.51 in 2026) and even a slight expansion in the euro area. Kawasaki (2025b) reaches similar conclusions: a large negative impact for the United States,

a minor negative effect for China, and modest positive effects for the EU and Japan. These gains partly reflect less adverse US market access through new trade agreements with the US, and partly substitution effects as third countries redirect trade flows away from the US market to other countries. The ECB and ‘The conversation’ similarly found smaller adverse impact in the euro area than in the US, though these sources expect a broadly similar adverse effect on China and the US.

Despite these aggregate results, McKibbin et al. (2025) note significant heterogeneity within the euro area: while Germany experiences a small negative effect, France and several other member states benefit from enhanced export opportunities, offsetting the German loss and yielding a small positive effect for the euro area overall (Table 2).

Table 1: GDP growth (or level) impacts of US trade policy measures

Source	US impact	EA/EU impact	China	Japan	As of/Assumptions
The Budget Lab (2025b)	-0.5 pp real GDP growth in 2025 and -0.4 pp in 2026 (per year)	-	-	-	Latest tariffs (as of 26 September), change in Q4-Q4 Real GDP Growth (p.p.)
McKibbin, Noland, Shuetrim (2025)	-0.23 pp real GDP in 2025, -0.62 pp in 2026	+0.08 pp real GDP in 2025, 0.02 pp in 2026	-0.08 pp real GDP in 2025, -0.51 pp in 2026	+0.01 pp real GDP in 2025, -0.24 pp in 2026	As of Sept 11 (for US); values refer to deviation from a no-tariff baseline
Kawasaki (2025b)	-4.0 percent (real GDP)	+0.7 percent (real GDP)	-0.4 percent (real GDP)	+0.9 percent (real GDP)	As of July 31
Kiel Trade and Tariffs Monitor	-	-0.1 pp (EU) and -0.11 pp (EA) of real production in ‘short term’	-	-	US-EU trade deal (as of 28 July)
ECB scenario analysis	-0.45 pp lower real GDP growth in 2025 (-0.7 in 2026 and neutral in 2027)	-0.3 to -0.45 pp lower real GDP growth in 2025 (-0.3 to -0.5 in 2026 and +0.01 and -0.25 in 2027)	-0.6 real GDP growth in 2025 (-0.3 pp in 2026)	-	Latest June projections (cut-off 14 May) Current tariffs lie between baseline and severe scenario (US and China numbers for severe scenario only)

'The conversation'	-0.36 pp GDP growth annually	-0.13 pp GDP growth annually	-0.34 pp GDP growth annually	-0.09 pp GDP growth annually	US-EU trade deal and revised reciprocal tariffs (incl. August 7 tariffs)
Bloomberg tariff tracker	-0.62 pp on GDP	-	-	-	Latest tariffs (as of October 7)
Kolev-Schaefer and Hütther (2025)	-	-0.36 percent of GDP in 2025	-	-	Latest US-EU trade deal

Source: Bruegel based on The Budget Lab (2025b); Kiel Trade and Tariffs Monitor, 'US-EU trade deal', 28 July 2025, <https://www.ifw-kiel.de/topics/kiel-trade-and-tariffs-monitor/#c91877>; ECB (2025); Bloomberg, 'Tracking Every Trump Tariff and Its Economic Effect', 6 October 2025, <https://www.bloomberg.com/graphics/trump-tariffs-tracker/>; ECB Eurosystem staff macroeconomic projections for the euro area, Box 2, https://www.ecb.europa.eu/press/projections/html/ecb.projections202506_eurosystemstaff~16a68fbaf4.en.html#toc4; Niven Winchester, 'Trump tariffs: early modelling shows most economies lose – the US more than many', The Conversation, 4 August 2025, <https://theconversation.com/new-trump-tariffs-earlymodelling-shows-most-economies-lose-the-us-more-than-many-262491>.

Table 2: McKibbin, Noland, and Shuetrim (2025) - Estimated GDP level impact of US tariffs (percentage point deviation from baseline)

	2025	2026	2027	...2035
US	-0.23	-0.85	-0.68	-0.21
Germany	-0.39	-0.15	-0.01	-0.04
France	0.89	0.16	0.1	0.07
Italy	0.03	0.08	0.12	0.09
Rest of euro area	0.03	0.05	0.09	0.01
Euro area	0.08	0.02	0.07	0.02
UK	0.05	0.16	0.2	0.1
Japan	0.01	-0.24	-0.18	-0.36
Canada	-0.18	-0.79	-0.77	-0.52
Mexico	-0.06	-0.24	-0.38	-0.54
China	-0.08	-0.51	-0.48	-0.31

Source: McKibbin, Noland, Shuetrim (2025).

Note: the source does not provide an estimate for the overall euro area; the euro area line in the table is our calculations by weighting the results for Germany, France, Italy and the rest of the euro area.

These quantitative results reflect that trade fragmentation and tariff uncertainty weigh heavily on US investment and output through supply-chain disruptions and reduced policy credibility. OECD (2025) notes that US fiscal and trade policies have increased global uncertainty and led to tightening financial conditions, shaving around 0.4 percentage points from projected global GDP growth for 2025-26. The IMF's simulations reach a similar conclusion, finding that the US shock is transmitted globally through demand and confidence channels, but with smaller relative impacts on major trading partners that are able to redirect trade and production.

Overall, both market-based expectations and model-based projections suggest that the 2025 US tariff hikes and associated policy uncertainty have generated larger short-term costs for the United States than for its main trading partners.

5. Conclusions

The 2025 US policy shift marked one of the most disruptive trade interventions in recent decades. A rapid escalation in tariffs, combined with fiscal expansion, regulatory reversals, and foreign-policy uncertainty, triggered widespread adjustments across global supply chains. By September 2025, the US legislated tariff rate had risen to its highest level since the 1930s, even if the increase in the effective tariff rate falls short of the legislated rate, due to various transitional effects.

Our analysis of monthly trade data through July-September 2025, reveals three key findings. First, the short-term trade response was dominated by stockpiling and front-loading ahead of tariff implementation, creating temporary spikes in US imports and record monthly deficits in March 2025. Second, once the tariffs took effect, bilateral trade patterns adjusted sharply. US imports from China collapsed by around 40 percent year-on-year between by mid-2025, while US exports to China have also significantly declined, signalling an accelerated decoupling between the world's two largest economies. In contrast, US imports from the EU declined, while US exports to the EU increased, suggesting a reshuffling, but not decoupling, of cross-Atlantic trade relations. Third, despite substantial bilateral disruptions, the aggregate US trade deficit in mid-2025 was broadly unchanged from 2024, underscoring the structural nature of US external imbalances, while trade surpluses of the European Union and China also remained broadly unchanged, but with a sifted geopolitical composition.

The comparison of the IMF's October 2024 and October 2025 projections for savings, investment, and the current account balance suggests that relatively stable savings and investment patterns could account for the broadly unchanged current account and trade balance positions of the European Union and Japan. In contrast, there were major revisions in the expected savings and investment trajectories of the United States and China. The downward revisions in the IMF's projections for US investment and the current account balance indicate that the Fund does not expect the new US administration to succeed in two of its key economic objectives: raising the investment rate and reducing the trade deficit.

For major trading partners, particularly the European Union and China, the evidence points to a swift and effective reorientation of trade. EU exports to the United States fell, but overall EU exports performed well by mid-2025, driven by gains in markets such as the United Kingdom, Mexico, and emerging economies. Similarly, China's exports to the United States plummeted but its global exports grew over the past twelve months. These outcomes

suggest that both the EU and China have leveraged diversified export structures to mitigate the impact of US protectionism.

This pattern echoes earlier episodes of trade diversion during the 2018-2019 tariff conflicts (Freund et al., 2023; Rotunno and Ruta, 2025). Supply chains have not collapsed but instead reorganised geographically. In this sense, global trade is fragmenting, but not de-globalising.

At the sectoral level, metals and automobiles exhibit distinct adjustment patterns. US imports of steel and aluminium declined by 7-11 percent year-on-year, with little evidence of substitution across suppliers – suggesting genuine contraction rather than redirection. By contrast, US automobile imports continued to expand, supported by Mexican and other regional producers able to exploit preferential access under USMCA.

Isolating the direct impact of tariff measures alone on macroeconomic outcomes is nearly impossible, because beyond trade frictions, a multitude of US domestic and foreign policy measures influenced macroeconomic outcomes, as well as the policy responses and other initiatives of trading partners. Whatever the sources of recent turbulence, both survey-based and model-based evidence point to asymmetric macroeconomic implications. The Bloomberg Economist Survey shows that growth expectations for 2025 declined more sharply in the US from February to May 2025 (by nearly one percentage point) than in other major economies (0.2-0.5 percentage-point declines), while the subsequent recovery in growth expectations by October 2025 was weaker in the US than in its main trading partners. These forecast revisions mirror model results by McKibbin, Noland, and Shuetrim (2025) and Kawasaki (2025b), which find that US GDP will be more negatively impacted than China, while the euro area and Japan would even experience mild gains from trade diversion.

Possible reasons for the more negative US impact could be related to the adverse impact of tariffs: higher import prices of materials and intermediate products deteriorate the competitiveness of US firms, and evidence already indicates that US import prices rose and therefore at least partly, US companies and households pay the burden of increased tariffs (The Budget Lab, 2025)⁸. US manufacturing supply chains might depend on complex foreign inputs, making it difficult to replace them quickly without efficiency losses. In contrast, non-US companies might reallocate supply chains toward more stable jurisdictions, providing offsetting gains from replacing earlier trade relations with US firms. Higher US inflation (compared to a no-new-tariff baseline) and policy uncertainty dampen consumption and investment within the US more than elsewhere, while concerns about US public debt sustainability might tighten financial market conditions. China's expansion toward non-US markets, and Europe's simultaneous success in preserving its export growth, exemplify the resilience of their firms.

⁸ The Budget Lab (2025a) estimated that In June 2025 alone, 61-80 percent of the new 2025 tariffs were passed through to consumer core goods prices.

The 2025 episode has broader implications as well. It illustrates that tariff shocks in a highly integrated world economy no longer produce straightforward bilateral outcomes. Instead, they might trigger a complex web of second-round adjustments, such as supply-chain reallocation, financial flows, and currency movements, that redistribute, but do not eliminate, global interdependence.

From a policy perspective, this fragmentation poses both risks and opportunities. On the one hand, the new trade barriers and bilateral trade deals incompatible with World Trade Organisation rules can erode the multilateral trade system, which in turn could impact medium and long-term growth adversely. On the other hand, diversification and regional agreements can increase resilience by reducing excessive reliance on single markets.

In sum, the early evidence from 2025 indicates that US trade fragmentation policies have produced limited progress toward their stated objectives and substantial risks at home. Major trading partners have adjusted through diversification, cushioning the global impact. This experience underscores the adaptability of international trade networks.

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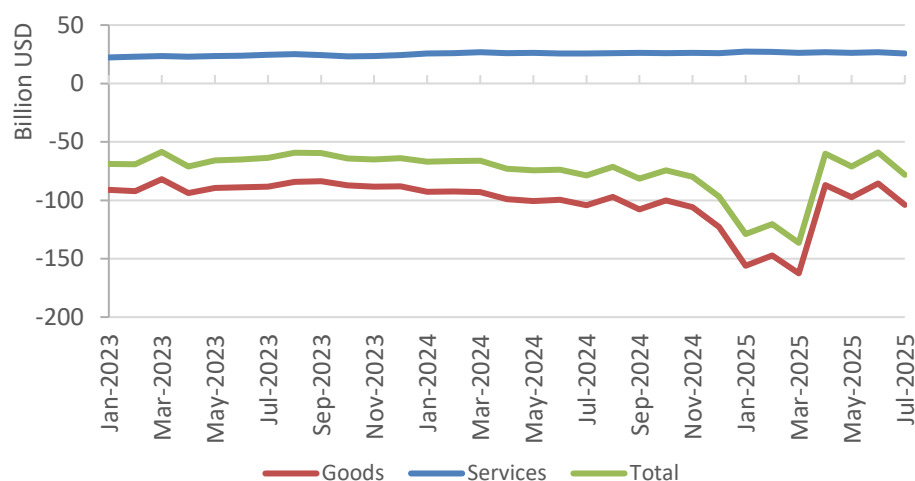
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Appendix: US services trade balance

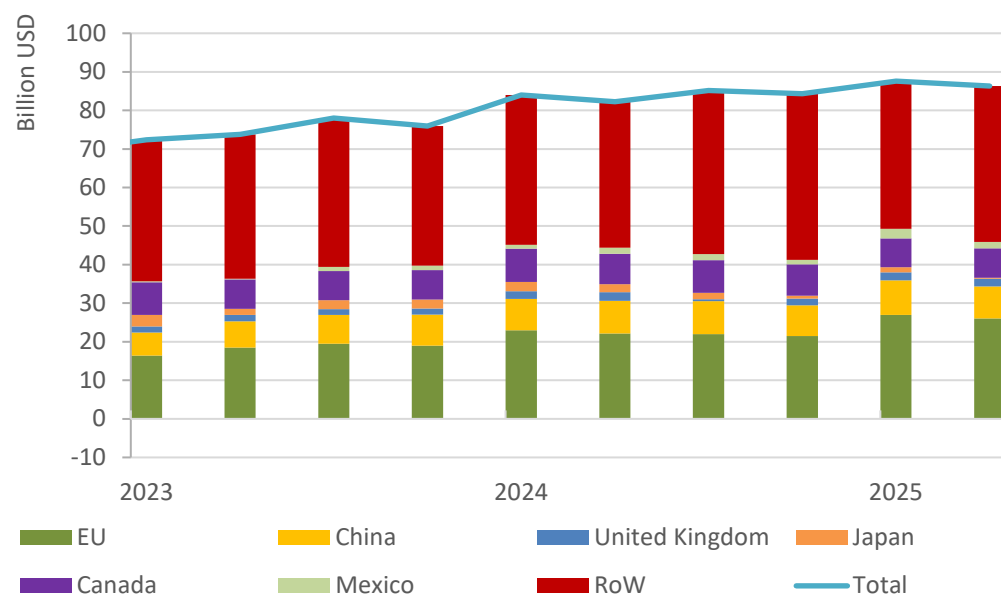
Figure A1: Monthly US trade balance of goods and services, January 2023 – July 2025



Source: United States Census Bureau, https://www.census.gov/foreign-trade/Press-Release/current_press_release/index.html

Note: data is seasonally adjusted.

Figure A2: Country-composition of quarterly US services trade balance, 2023Q1 – 2025Q2



Source: The United States Bureau of Economic Analysis, <https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services>

Note: data is seasonally adjusted. RoW = rest of the world.