# Tariff Update: More Durable Tariff Regime, Not a Bigger One

## Headlines

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- **The U.S. Trade Representative announced a new set of tariffs that replace the expiring Section 122 tariffs** the Trump Administration imposed in response to the Supreme Court striking down the IEEPA tariffs this past February. Unlike Section 122, the new Section 301 tariffs have no expiration date and rest on **firmer legal footing than prior authorities used**.

- **The tariffs effectively reinstate a near-universal 10% baseline tariff,** with a handful of trading partners facing rates closer to 12.5%. The largest increase falls on Brazil, whose statutory tariff rate was raised to 25%. Additional tariffs were also imposed on a limited subset of Canada-U.S. trade earlier this week, though the overall impact on most trading partners remains relatively modest.

- **The net effect will be small**. We estimate the actual tariff rate paid by U.S. importers rises from 6.9% currently to somewhere in the range of 7.7% - 8.2% by August when the separate 50% tariffs on select Canadian goods take effect. Brazil's tariff rate will roughly triple, but most other trading partners see very little change in their effective tariff rate.

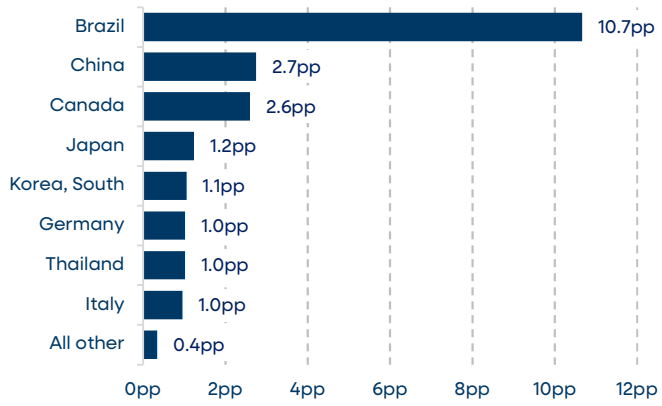
- I**mportantly, the new tariffs do not eliminate nearly any of the exemptions that have muted the impact of higher duties to date**. Nearly 60% of imports entered the United States duty-free in May, and most of those exemptions remain in place under the new regime. As a result, the effective tariff rate paid by importers is likely to remain about half of the statutory rate.

- At the same time, the Treasury is **roughly halfway through refunding the $166 billion in IEEPA tariffs** that the Supreme Court deemed unlawful. Refunds exceeded new tariff revenue in June and continued to do so through part of July. Several companies have noted on recent earnings calls that tariff refunds have either supported margins or been passed through to customers in the form of lower prices.

## New tariffs to replace the expiring Section 122 tariffs

The U.S. Trade Representative announced a new set of tariffs to replace the Section 122 tariffs that were imposed after the Supreme Court struck down the Trump Administration's International Emergency Economic Powers Act (IEEPA) tariffs earlier this year. The new tariff regime effectively reinstates a global 10% baseline tariff, with a handful of trading partners facing slightly higher rates of 12.5%. Brazil is the primary exception, facing a much higher statutory tariff rate, while additional tariffs on a narrow subset of Canadian imports are scheduled to take effect in August.

**Figure 1:** Estimated change in effective tariff rate after considering exemptions



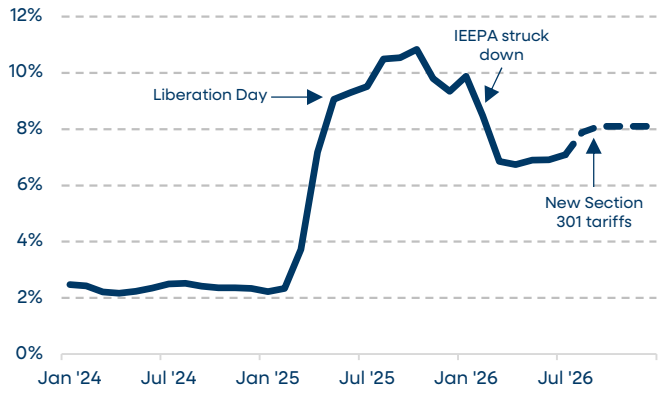

Sources: Census, PNC

Unlike Section 122, the new Section 301 tariffs have no expiration date and rest on firmer legal footing. While President Trump relied heavily on Section 301 tariffs during his first administration, his second administration initially turned to emergency authorities such as IEEPA to implement broad-based tariffs. Following the Supreme Court's decision invalidating those tariffs in February, the Administration imposed temporary Section 122 tariffs while building the legal case for the Section 301 actions announced this week. The stated rationale for the new tariffs is that trading partners have not done enough to prevent forced labor from entering global supply chains.

## Net effect of the new tariffs will be modest

The new Section 301 tariffs appear designed largely to preserve the tariff structure that has been in place since the IEEPA tariffs were overturned. We estimate the effective tariff rate paid by U.S. importers will rise from roughly 6.9% today to between 7.0% and 8.0% by August. Most of the increase reflects higher tariff rates on imports from Brazil.

**Figure 2:** Effective tariff rate




Sources: Census, PNC

Additional tariffs on a limited set of Canadian imports will also put some upward pressure on the effective tariff rate. That said, it remains unclear whether those tariffs will ultimately take effect as scheduled or serve primarily as leverage in ongoing trade negotiations.

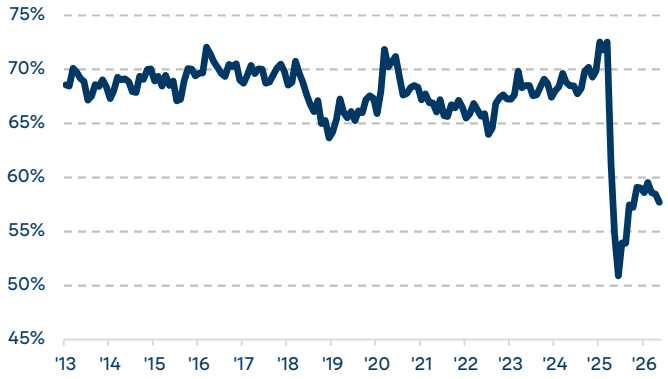
## Nearly 60% of all imports will still enter the country duty-free

Importantly, the new tariffs leave in place most of the exemptions that have limited the impact of higher duties to date. Nearly 60% of imports entered the United States duty-free in May, and the vast majority of those exemptions remain under the new regime. As a result, the effective tariff rate paid by importers is likely to remain roughly half the statutory rate.

This helps explain why tariffs have had a more limited impact on inflation and economic growth than many initially expected. Large carve-outs remain for products such as semiconductors, prescription drugs,

and computer parts and accessories. In addition, a substantial share of trade continues to enter under existing free trade agreements, including USMCA, which the Administration has largely preserved.

**Figure 3:** Percentage of imports entering the country "duty free"

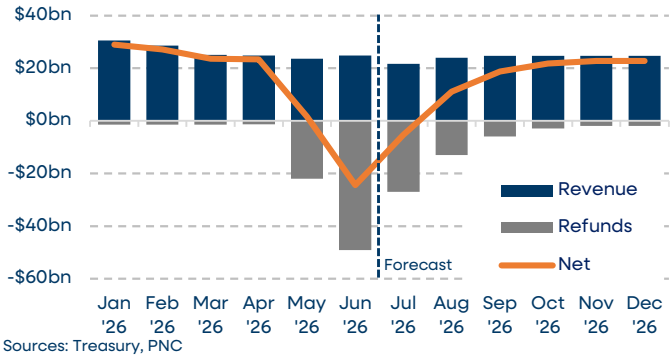



Sources: Census, PNC

## IEEPA tariff refunds providing importers some relief in mid-2026

At the same time, the Treasury is roughly halfway through refunding the $166 billion in IEEPA tariffs that the Supreme Court deemed unlawful. Refunds exceeded new tariff revenue in June and continued to do so through at least part of July. Several companies have noted on recent earnings calls that these refunds have either supported profit margins or been passed through to customers in the form of lower prices.

**Figure 4:** Monthly tariff revenue to Treasury net of IEEPA refunds




Sources: Treasury, PNC

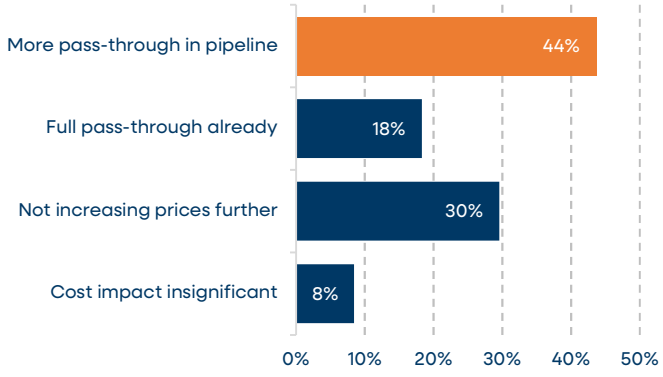
## Is tariff passthrough largely behind us?

Core goods inflation began to reaccelerate in early 2025 after Liberation Day pushed the effective tariff rate from roughly 2.5% to nearly 10%. While there remains considerable uncertainty around the size and timing of tariff passthrough, our modeling suggests that much of the inflationary impact is now behind us, a view echoed by several FOMC participants.

The latest CPI report provided some evidence in support of that thesis. Core goods prices showed a clear deceleration, declining at a 0.7% annualized rate over the past three months after increasing at a 0.8% annualized pace over the previous year. If sustained, that pattern would suggest that the direct effects of tariffs on goods inflation are beginning to fade.

A key risk to this assessment is that some tariff pass-through has been delayed. Anecdotal evidence from the latest Beige Book points to firms facing margin pressure but also limits to their pricing power. The New York Fed finds that nearly half of firms that directly paid tariffs expect additional price increases. Why the delay? Firms have fixed-price contracts that prevent immediate repricing and prefer gradual price increases to avoid alienating consumers. If labor-market conditions improve and wage growth accelerates, stronger household demand could give firms greater scope to pass previously absorbed tariff costs through to final prices.

**Figure 5:** Planned price increases from manufacturing firms that paid tariffs




Sources: New York Fed, PNC

**Table 1**: Estimated change in effective tariff rate by trading partner

| Trading Partner | Imports ($bn) | Import Share | Prior Tariff Rate | New Tariff Rate | Difference |
|---|---|---|---|---|---|
| Mexico | 53.7 | 17.6% | 3.7% | 3.7% | 0.0pp |
| Canada | 36.1 | 11.8% | 3.1% | 5.7% | 2.6pp |
| Taiwan | 23 | 7.5% | 2.3% | 2.5% | 0.2pp |
| Vietnam | 22.5 | 7.4% | 6.7% | 7.4% | 0.7pp |
| China | 22.4 | 7.3% | 21.9% | 24.7% | 2.7pp |
| Germany | 13 | 4.2% | 9.6% | 10.6% | 1.0pp |
| South Korea | 12.8 | 4.2% | 8.7% | 9.7% | 1.1pp |
| Japan | 11.7 | 3.8% | 11.5% | 12.7% | 1.2pp |
| Thailand | 11.4 | 3.7% | 5.7% | 6.8% | 1.0pp |
| India | 8.5 | 2.8% | 8.4% | 8.4% | 0.0pp |
| Malaysia | 7.4 | 2.4% | 3.5% | 3.5% | 0.0pp |
| Italy | 6.9 | 2.3% | 9.9% | 10.9% | 1.0pp |
| Ireland | 6.2 | 2.0% | 1.3% | 1.4% | 0.1pp |
| UK | 5.8 | 1.9% | 6.5% | 6.5% | 0.0pp |
| France | 5.1 | 1.7% | 6.3% | 6.9% | 0.6pp |
| Switzerland | 4.3 | 1.4% | 4.5% | 5.0% | 0.5pp |
| Brazil | 3.3 | 1.1% | 10.6% | 21.3% | 10.7pp |
| All Others | 51.3 | 16.8% | 7.2% | 7.9% | 0.7pp |
| **Total** | **305.2** | **100.0%** | **6.9%** | **7.9%** | **1.0pp** |

Sources: Census, PNC

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