



Global Investment Research

# US Economic Outlook

Tariffs Take Their Toll

August 2025

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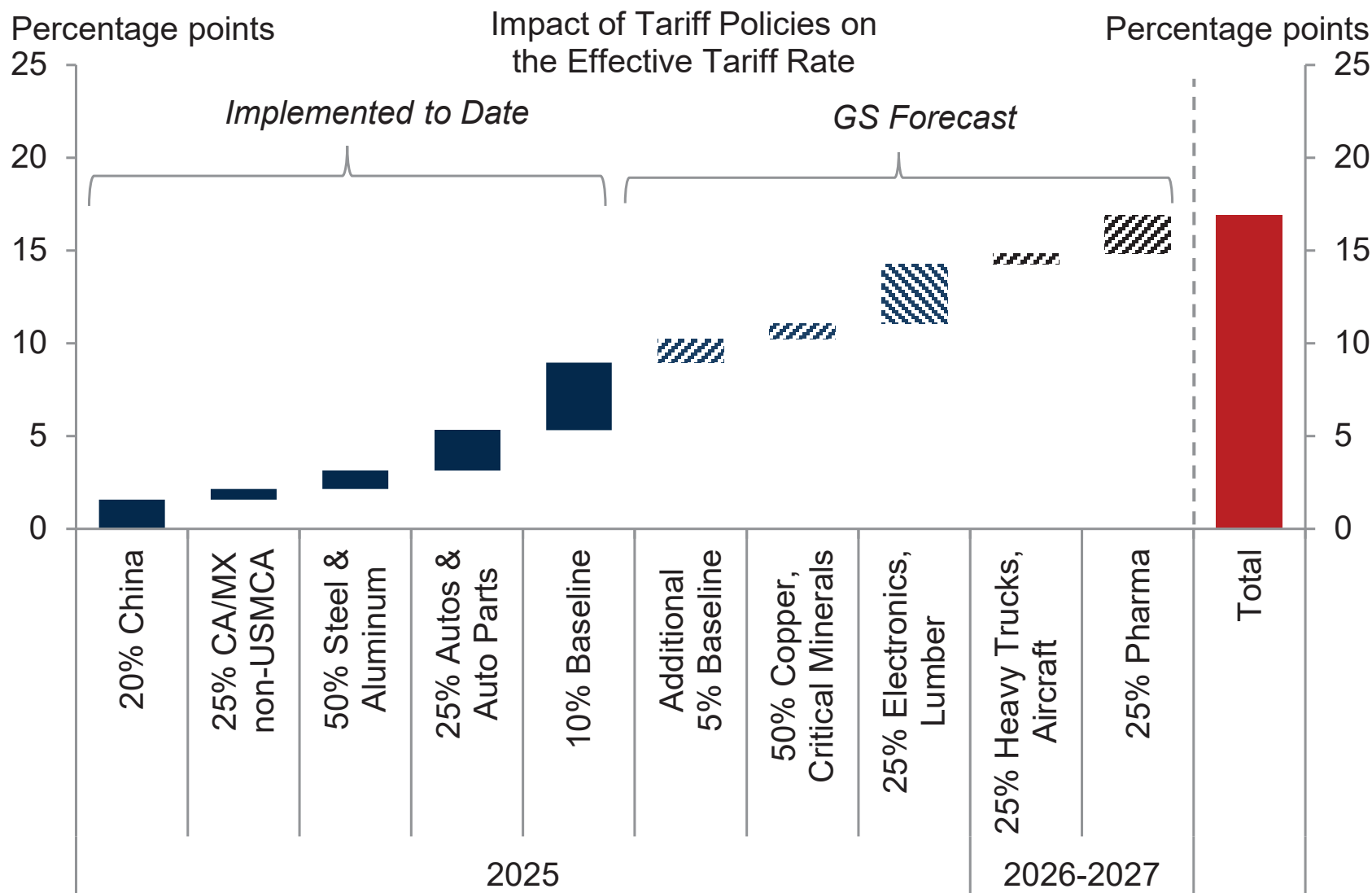
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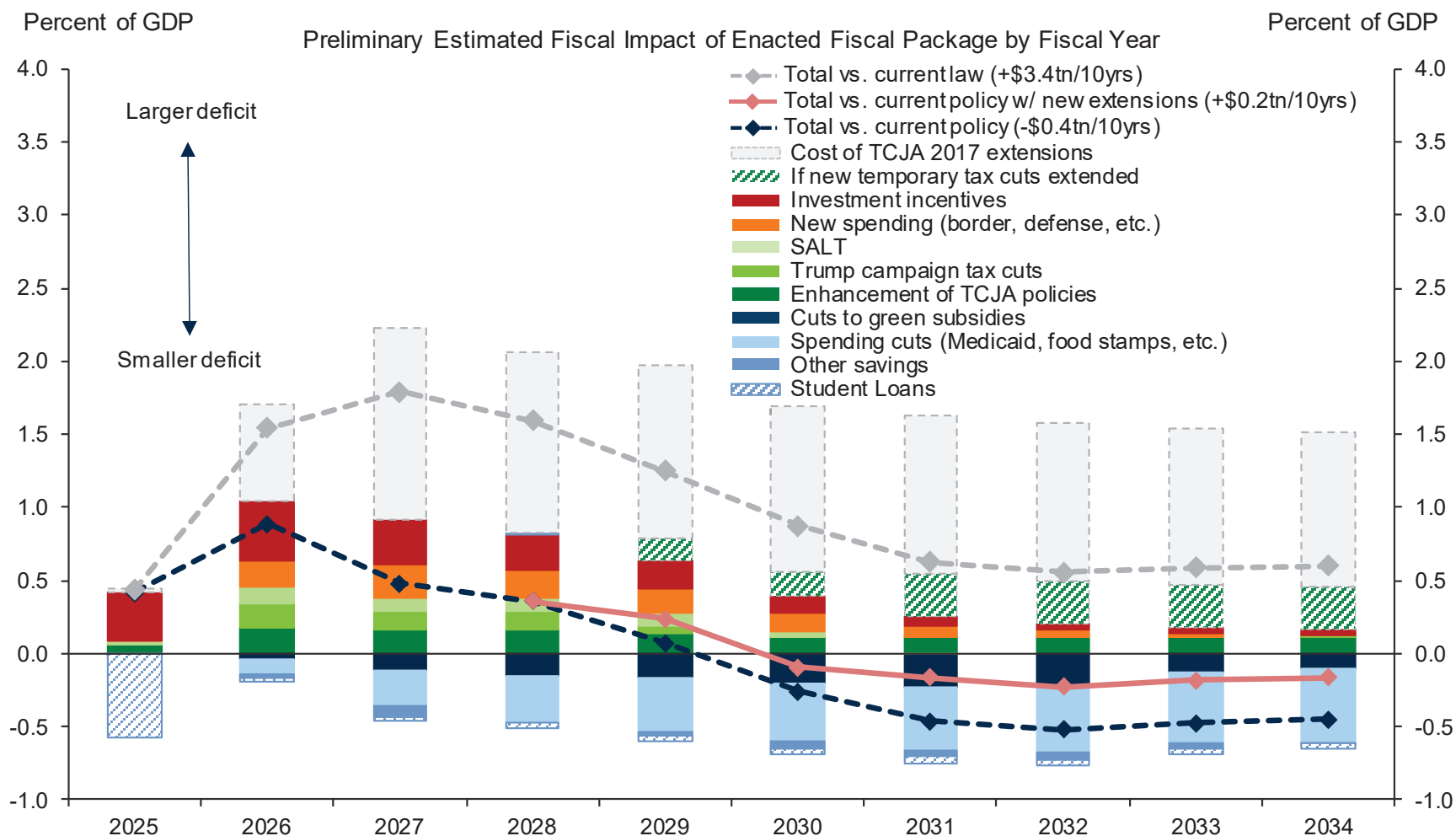
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# Tariffs: We Expect a 14pp Increase in the US Effective Tariff Rate in 2025 and Another 3pp in 2026-2027

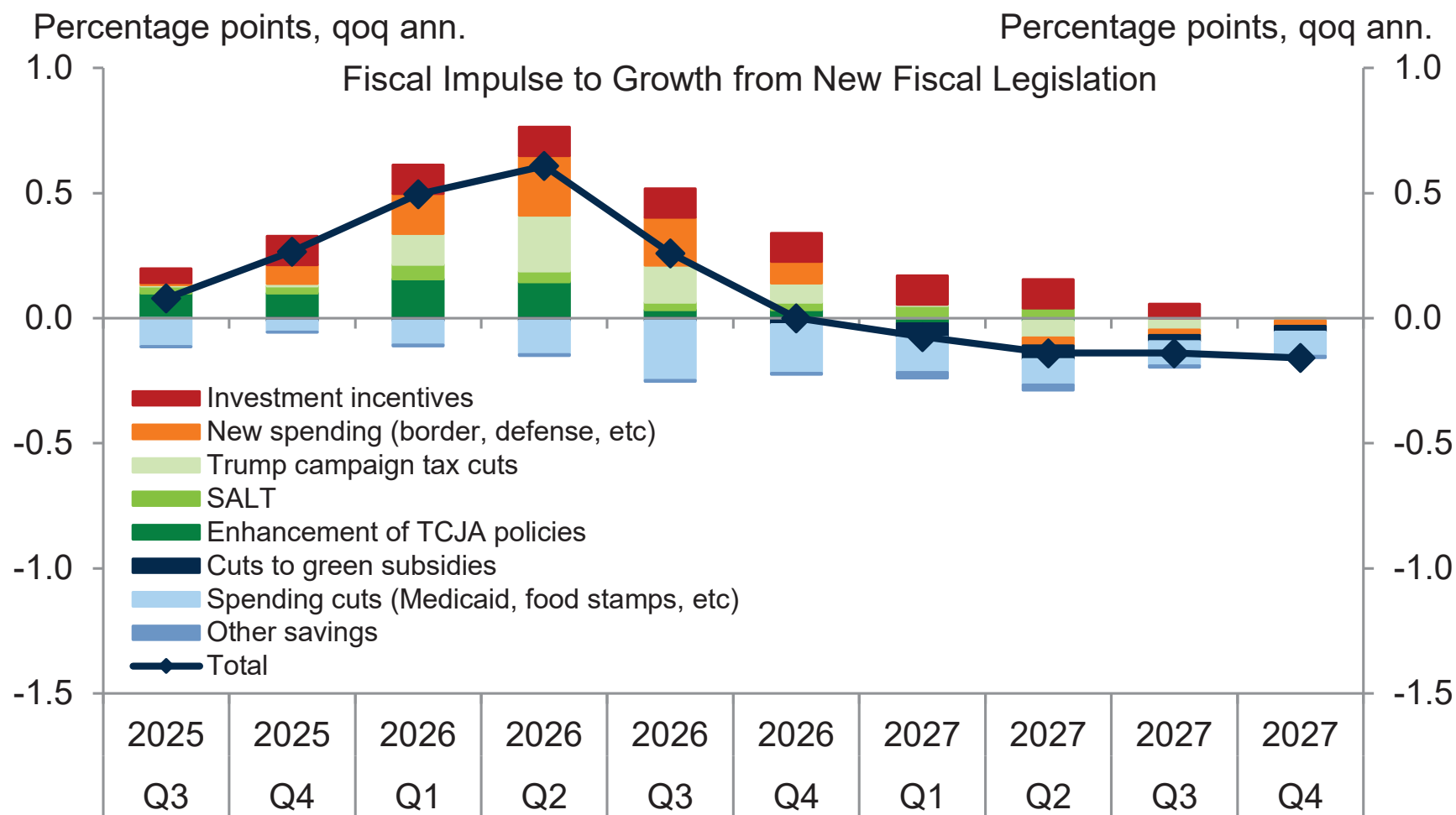


# Fiscal Policy: The New Fiscal Bill Includes Front-Loaded Tax Cuts and Back-Loaded Spending Cuts

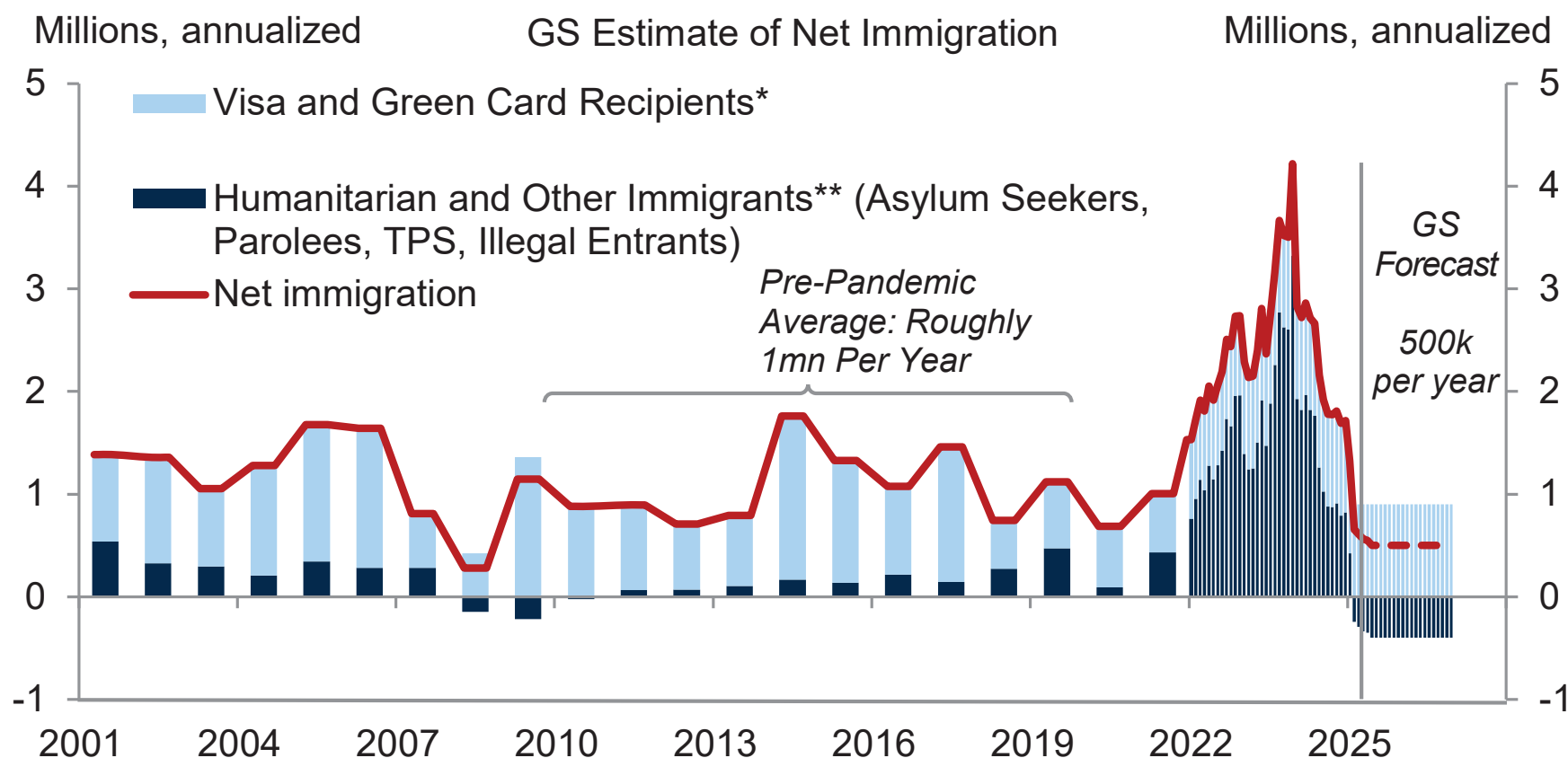


\* Totals exclude student-loan related savings, which reflect the present value of future policies

# On Net, This Implies a Moderate Positive Fiscal Impulse to GDP Growth in 2025-2026 That Fades Later



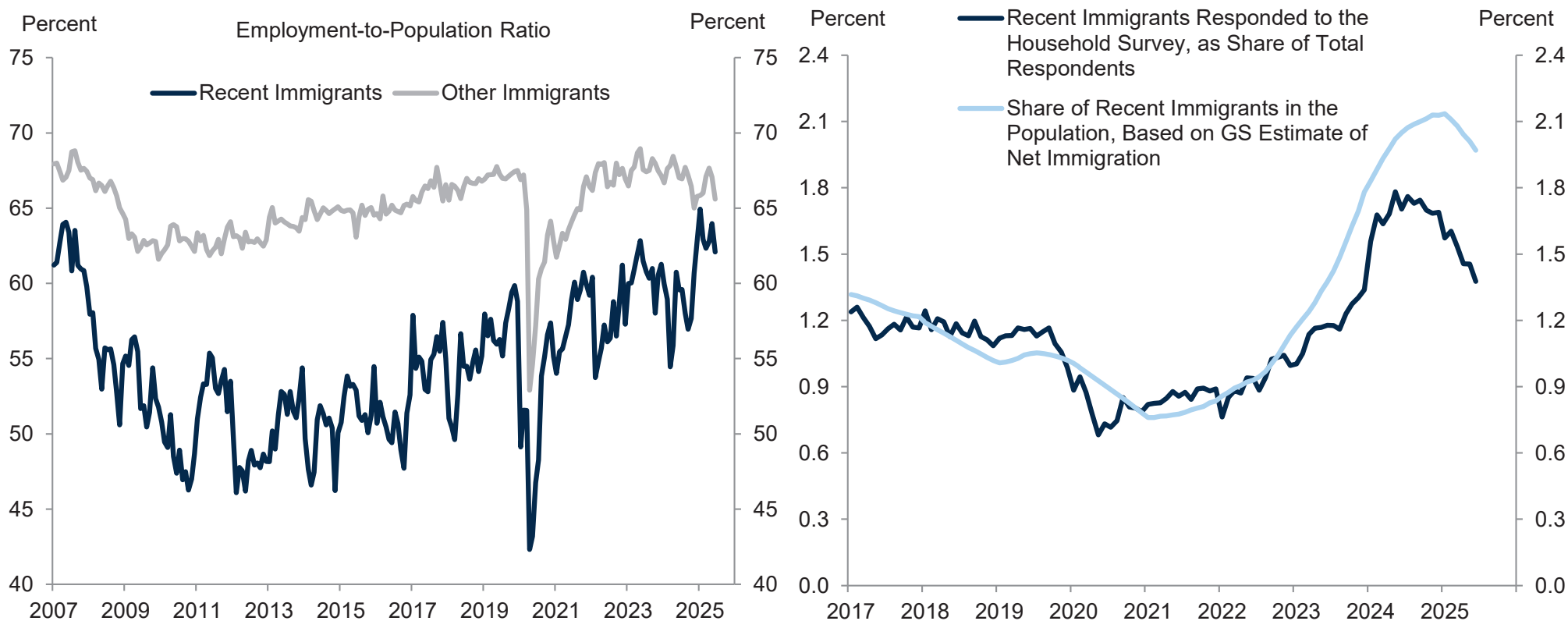
# Immigration: Net Immigration on Track to Stabilize at 500k / Year, Moderately Below the Pre-Pandemic Rate



\*Based on CBO estimates.

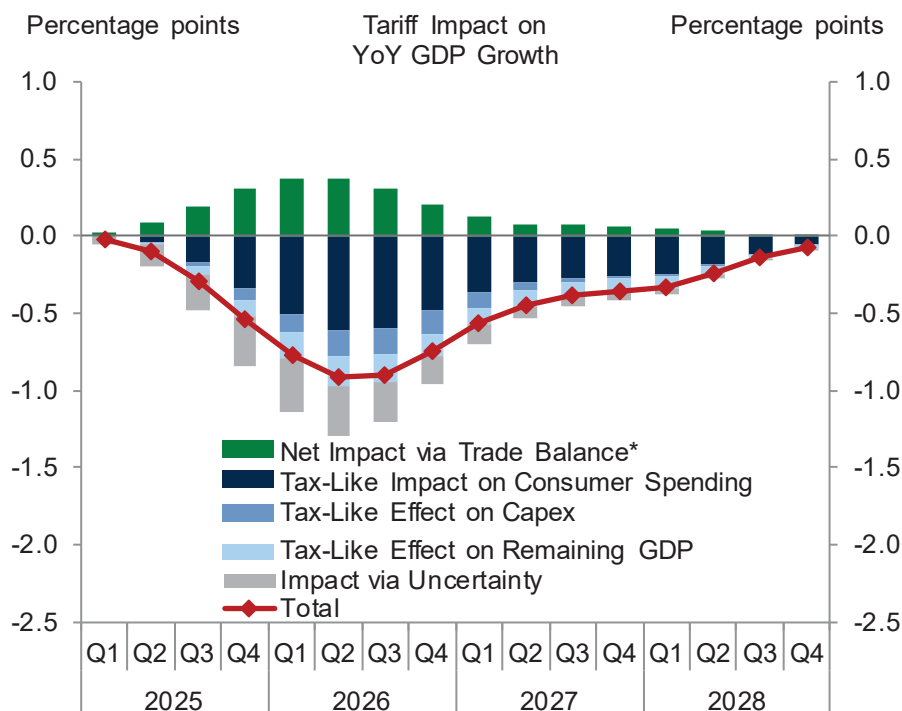
\*\*Based on immigration court cases and immigration enforcement data from the DHS, CBP, and ICE.

# The Crackdown Does Not Seem to Be Causing a Mass Loss of Unauthorized Immigrants from the Workforce

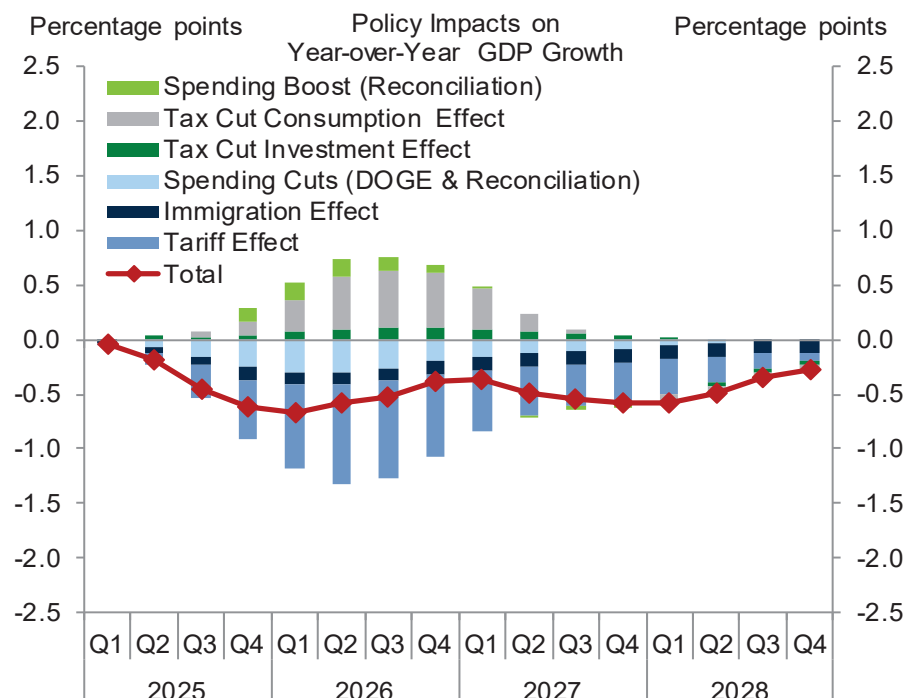


Note: Recent immigrants are defined as immigrants who arrived in the US in the prior 3 years.

# Growth: Trade/Fiscal/Immigration Policy Changes Deliver a Roughly 1pp Hit to GDP Growth in 2025

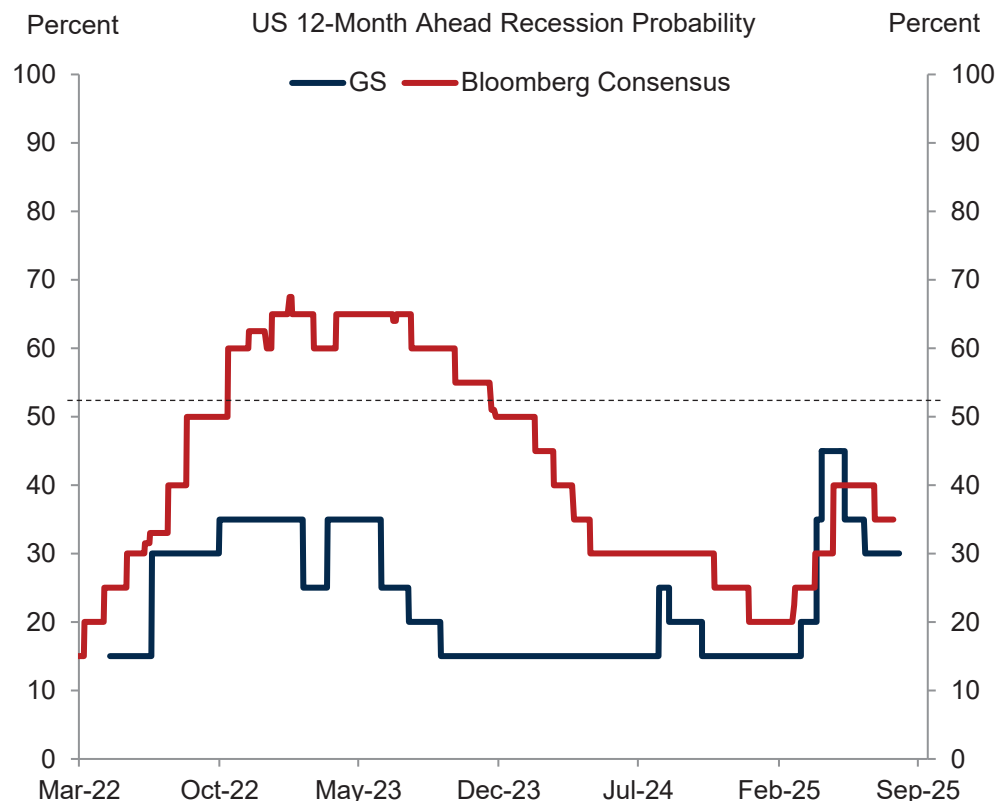
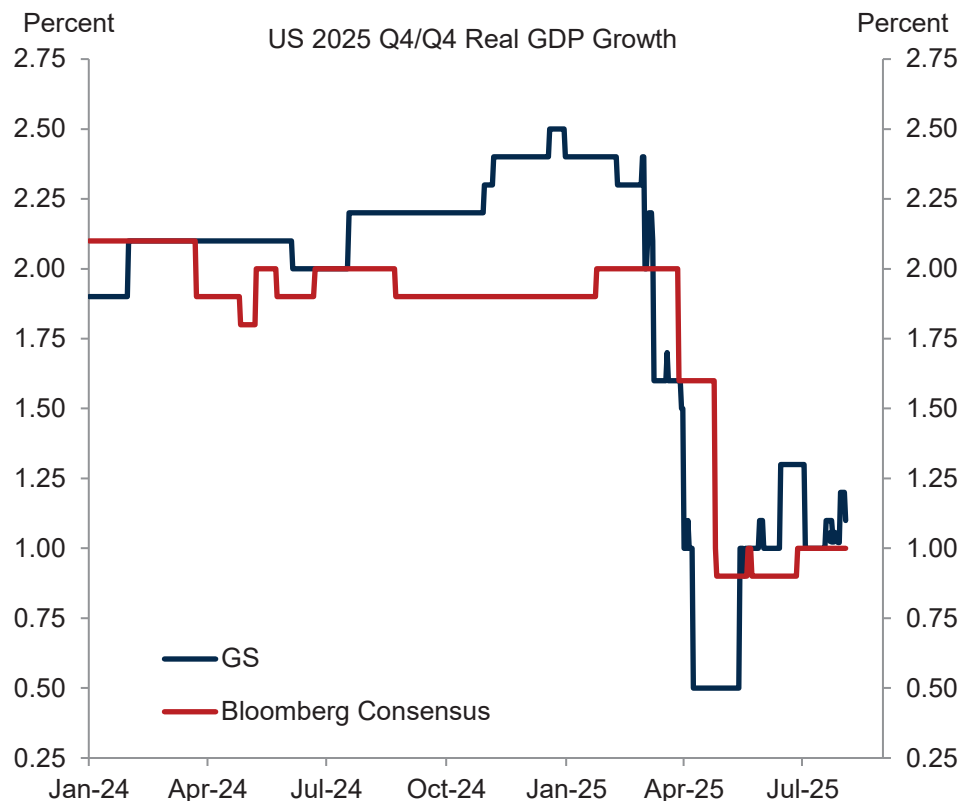


\*Positive impact of lower US demand and negative impact of retaliation.



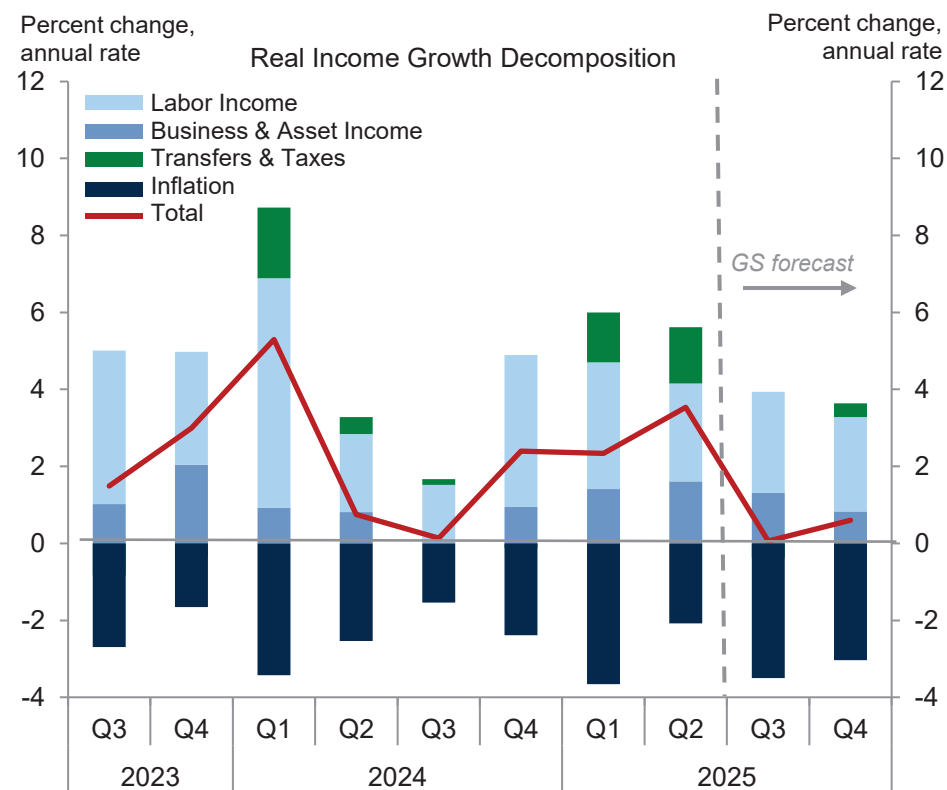
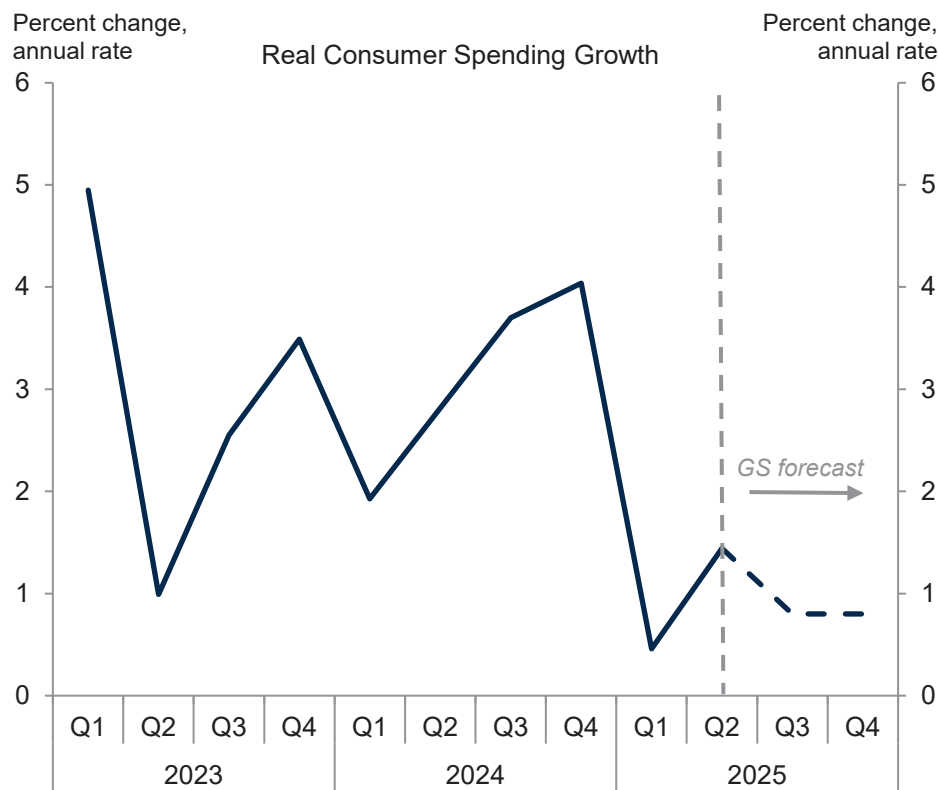


# As a Result, We Expect Below-Potential 1.2% GDP Growth in 2025 Q4/Q4 and See Elevated Recession Risk

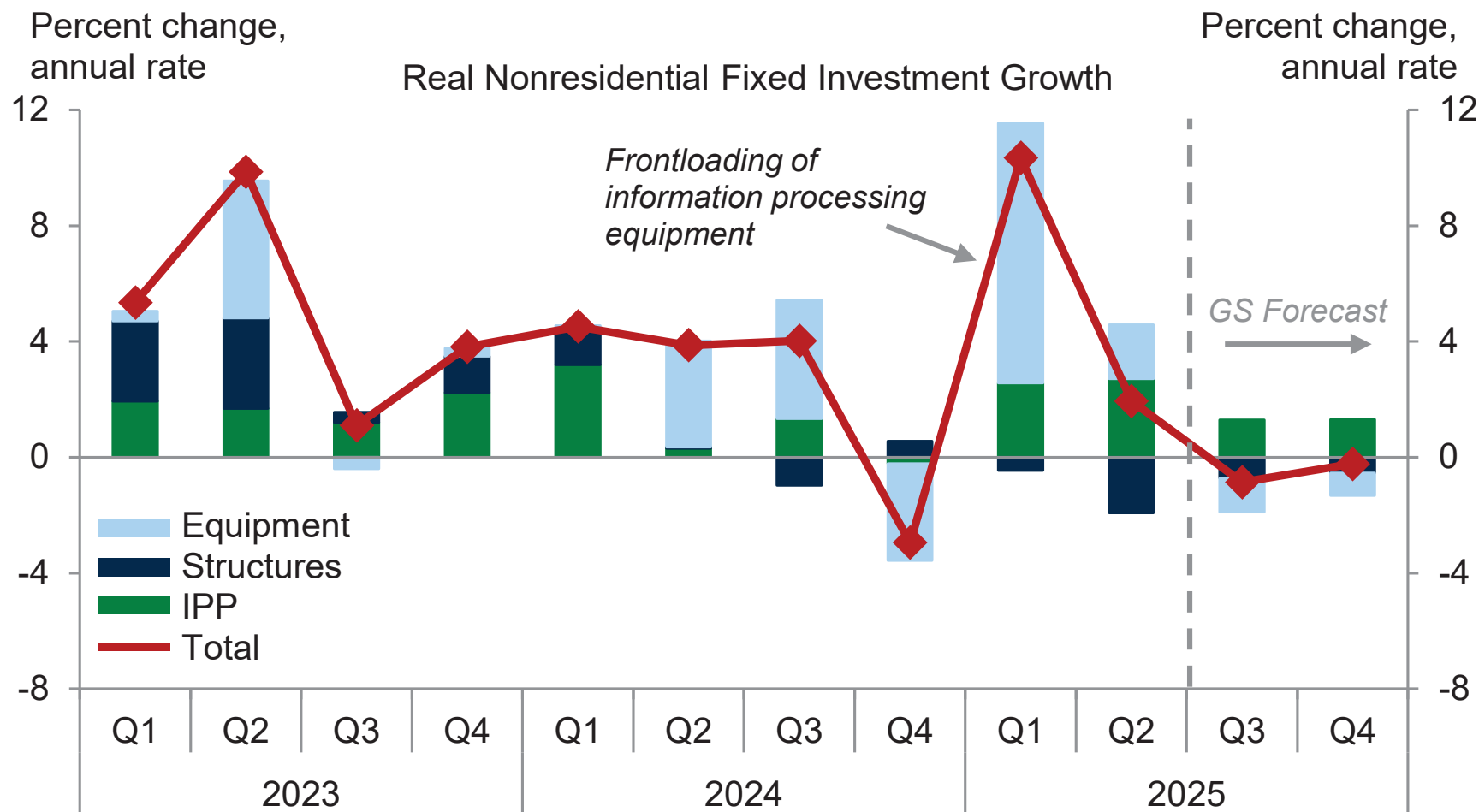




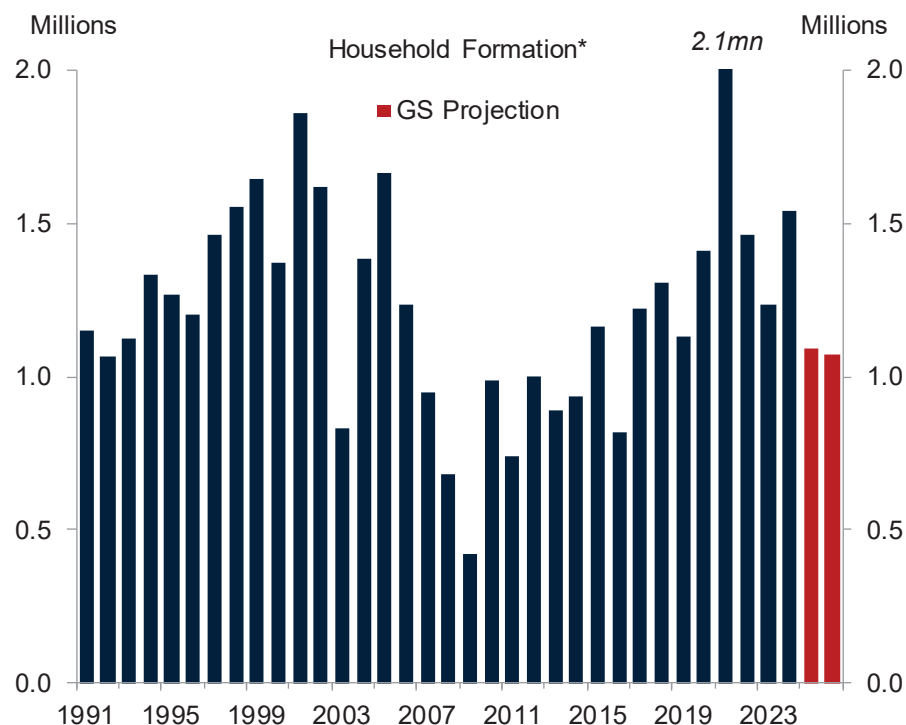
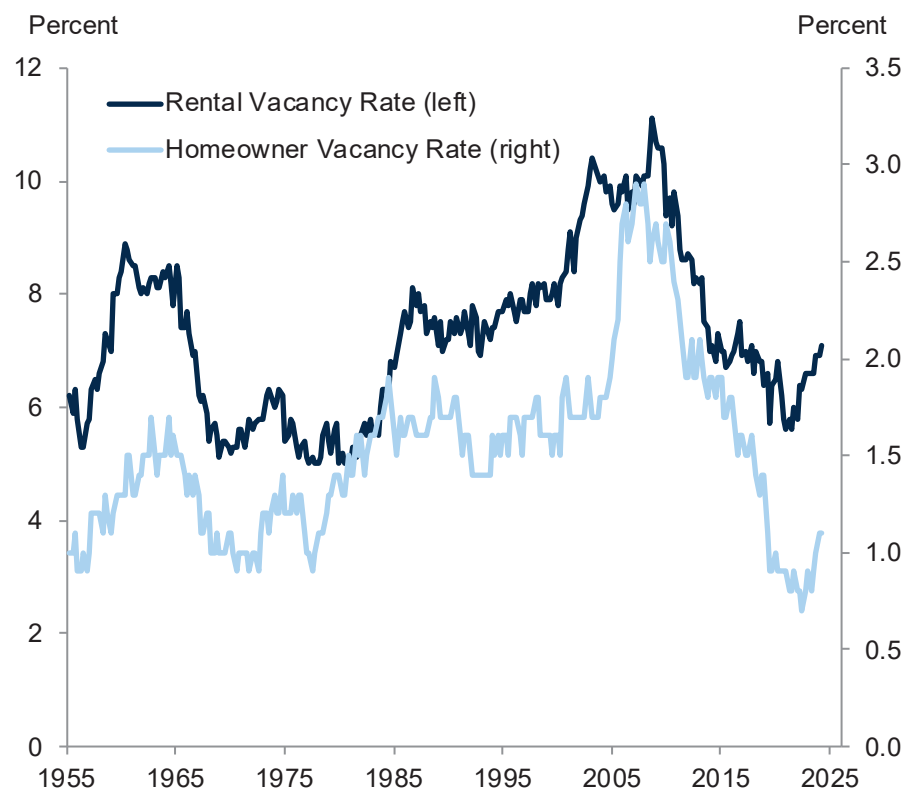
# Consumer Spending Slowed in H1 and Will Suffer in H2 from the Tax-Like Income Hit from Tariff-Driven Price Hikes



# Business Investment Should Slow Due to Payback for Frontloading, Policy Uncertainty, and a Weaker Outlook

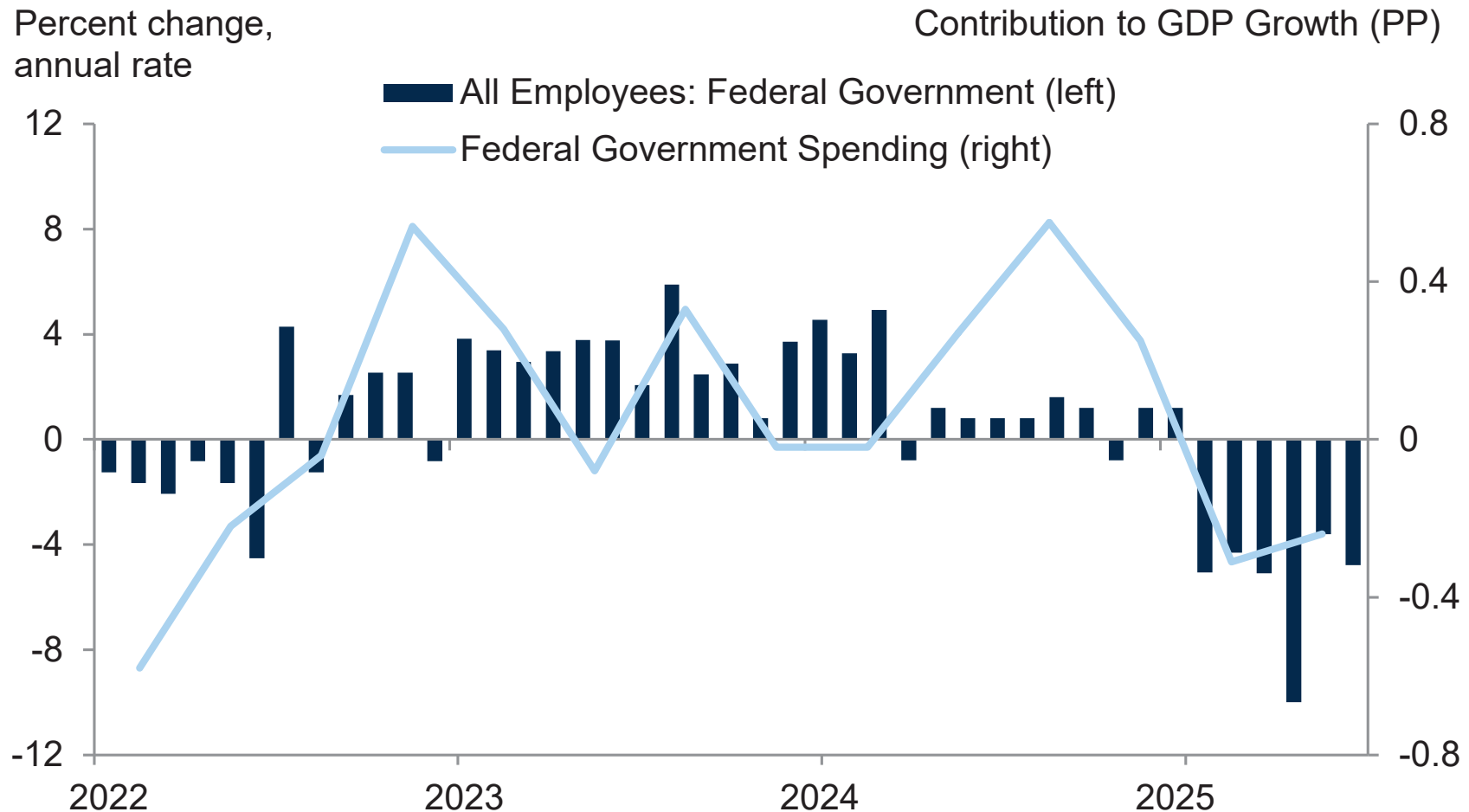


# Homebuilding Should Slow Further Due to a Rebounding Vacancy Rate, Lower Immigration, and Poor Affordability

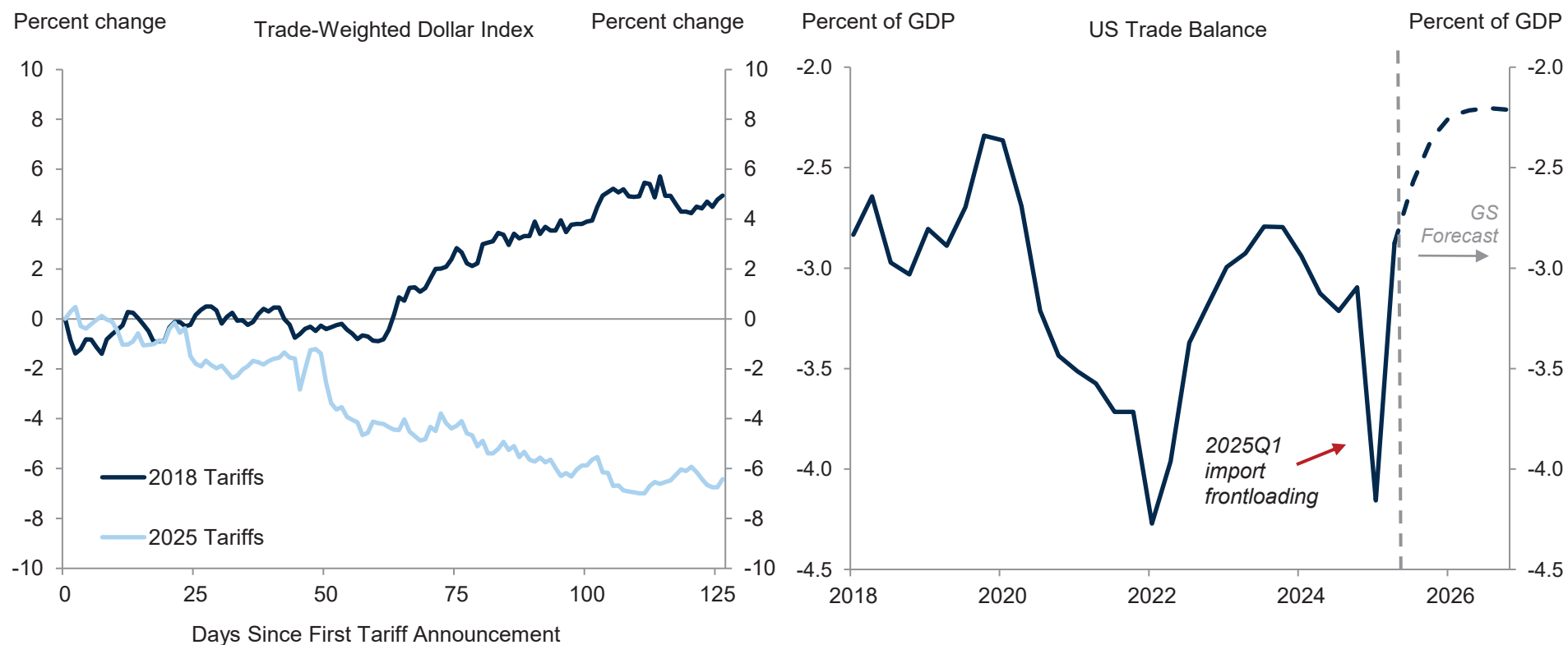


\* Household formation is an average of four series from the EIA, ACS, CPS, and HVS.

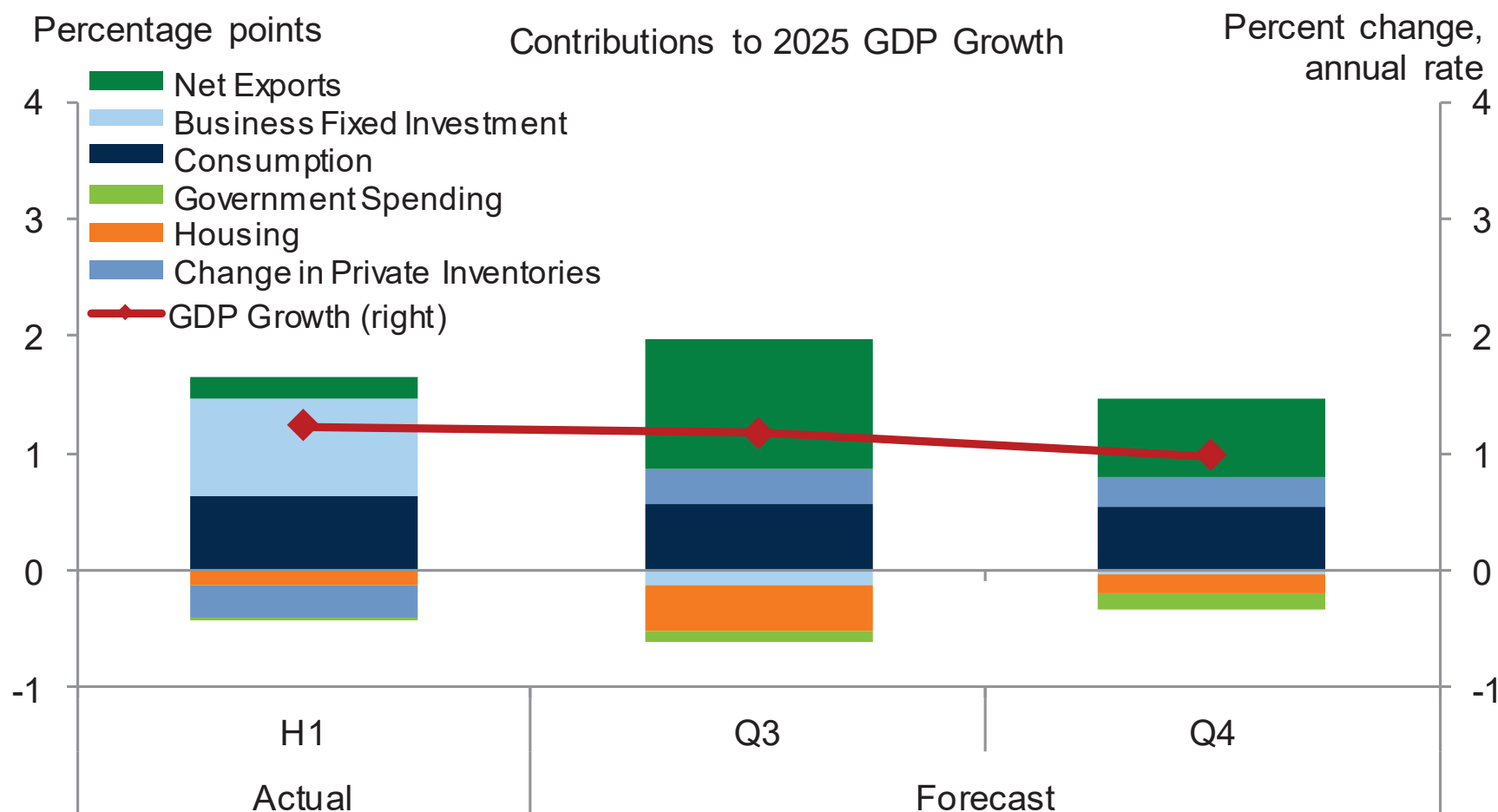
# Government Spending Is Also Likely to Keep Falling as the White House Shrinks the Federal Workforce



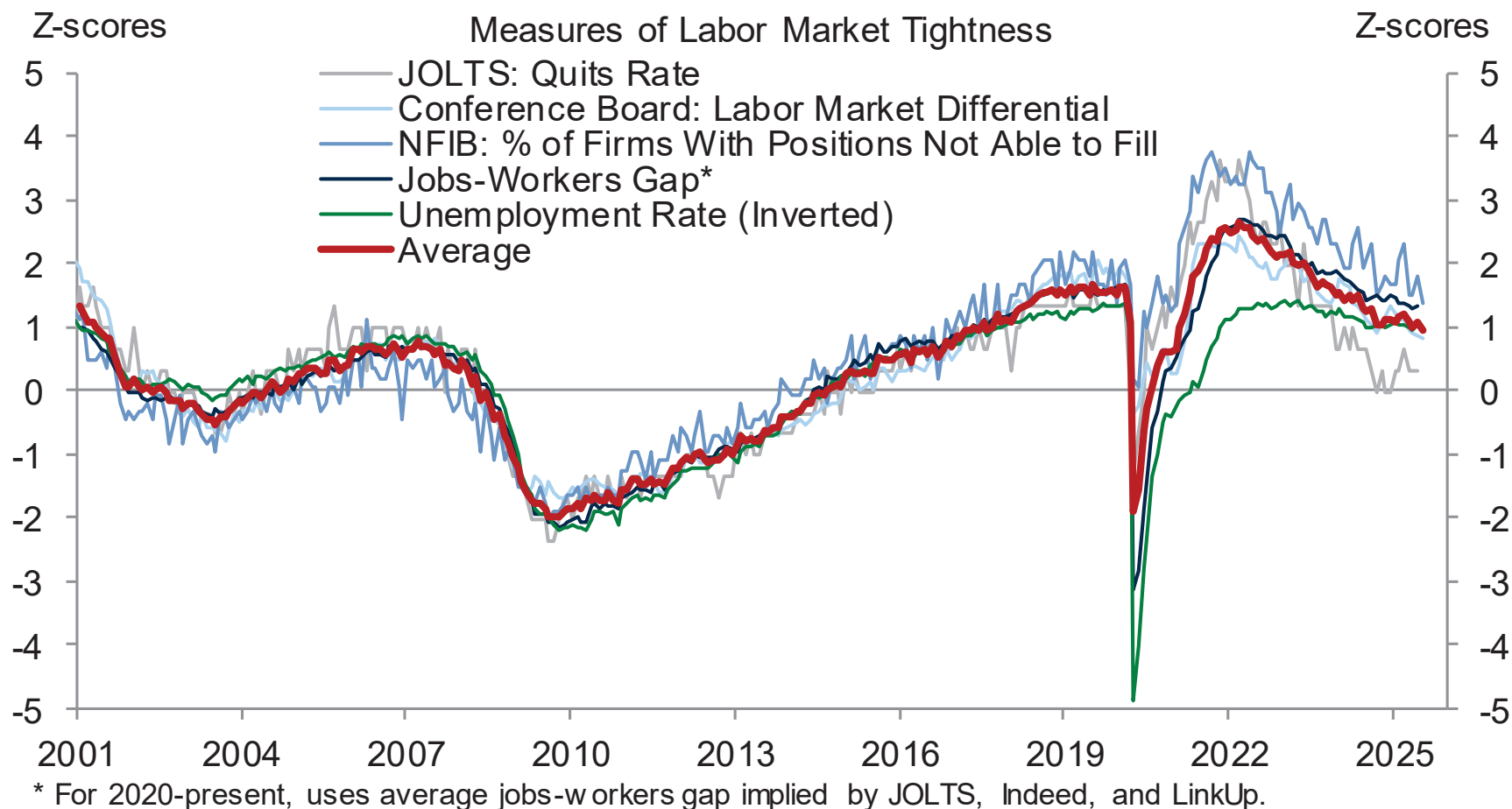
# The Trade Deficit Should Narrow as Tariffs Hit Imports While a Weak Dollar Keeps US Exports Sturdier



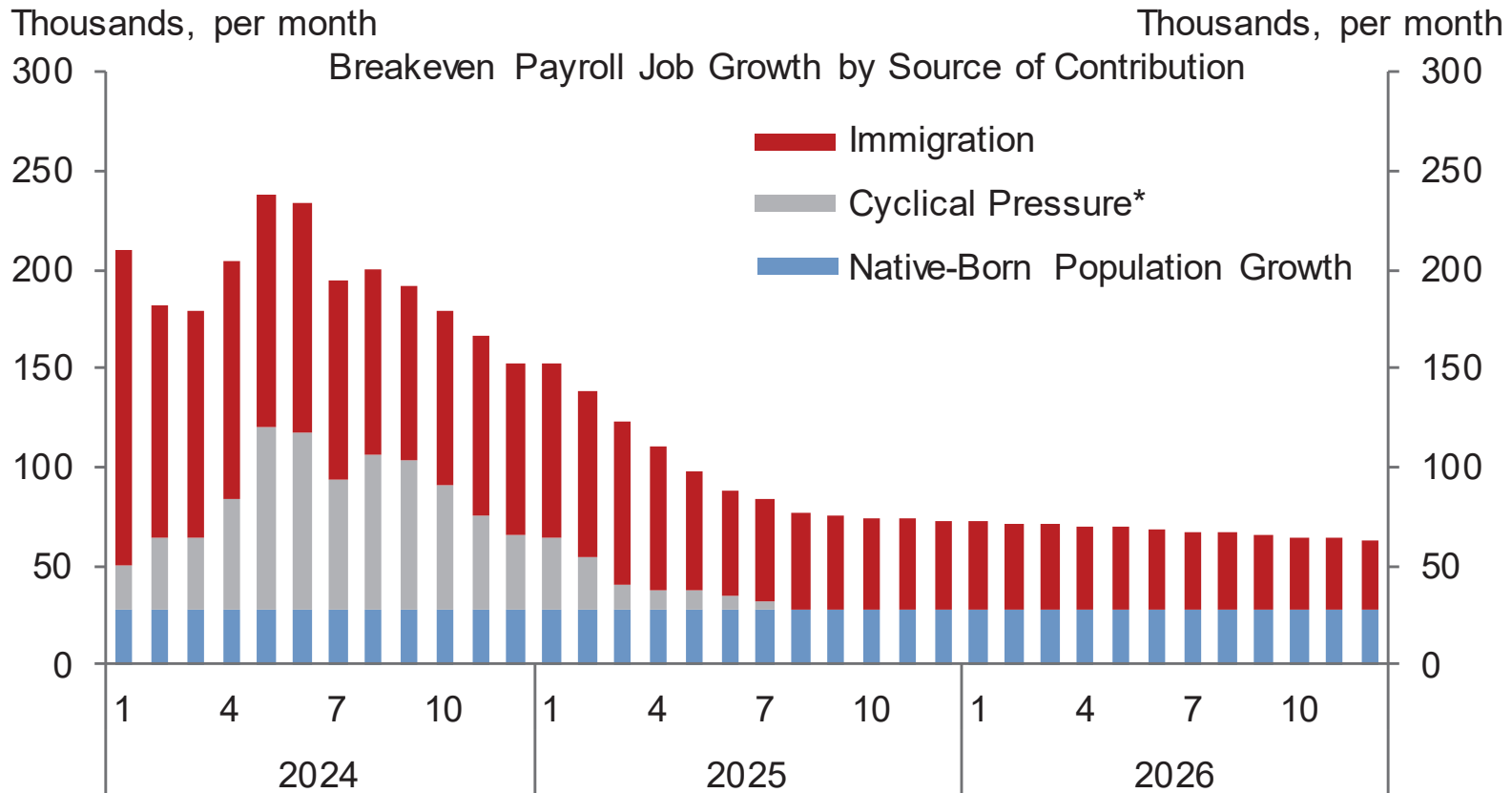
# We Expect ~1% GDP Growth in 2025H2 Despite Flat Final Domestic Sales Due to Boosts from Trade and Inventories



# Labor Market: The Labor Market Had Stabilized in a Good Place Over the Previous Year



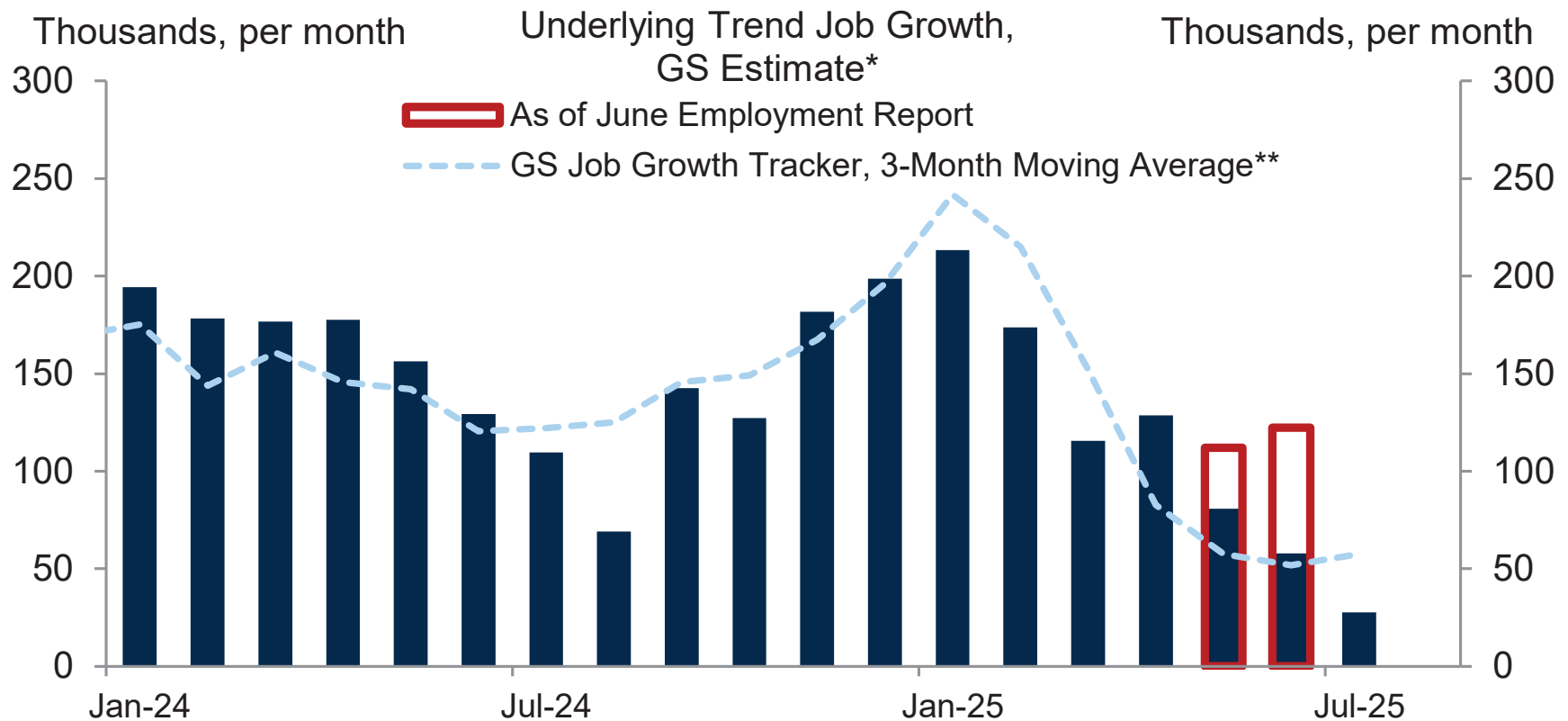
# We Shouldn't Need to Create as Many Jobs Because Lower Immigration Reduces the Breakeven Rate to ~80k



\*Cyclical labor force participation rate and multiple job holders.



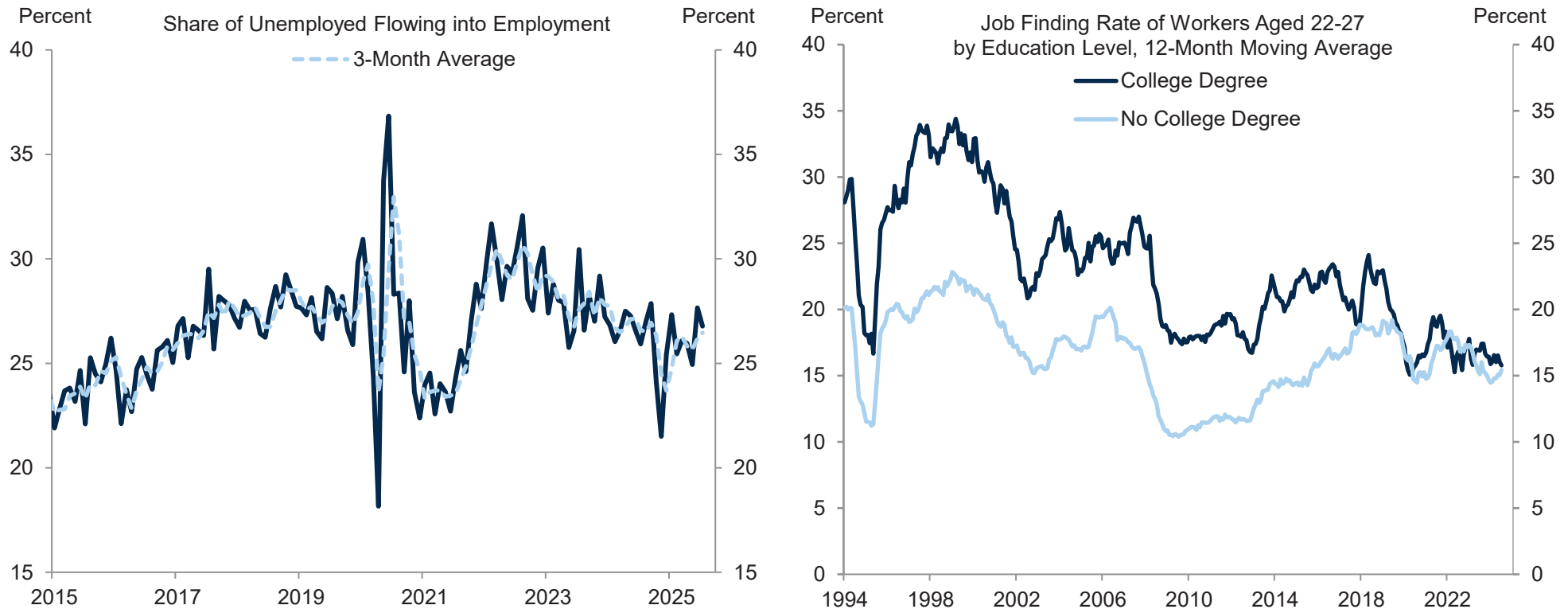
# But We're Now Trending Below the Breakeven Rate



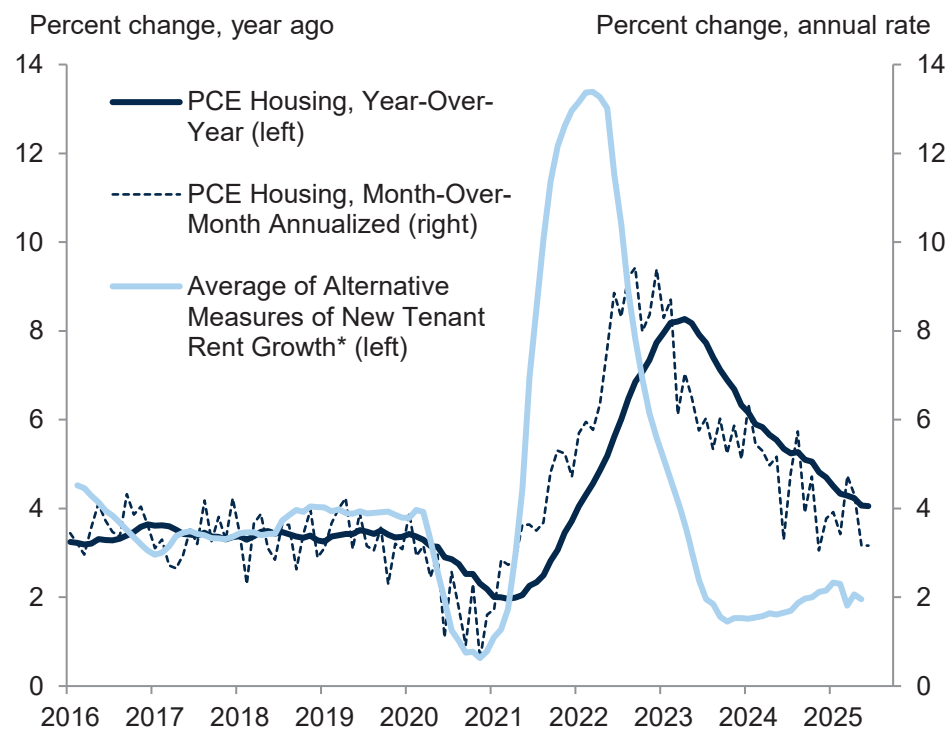
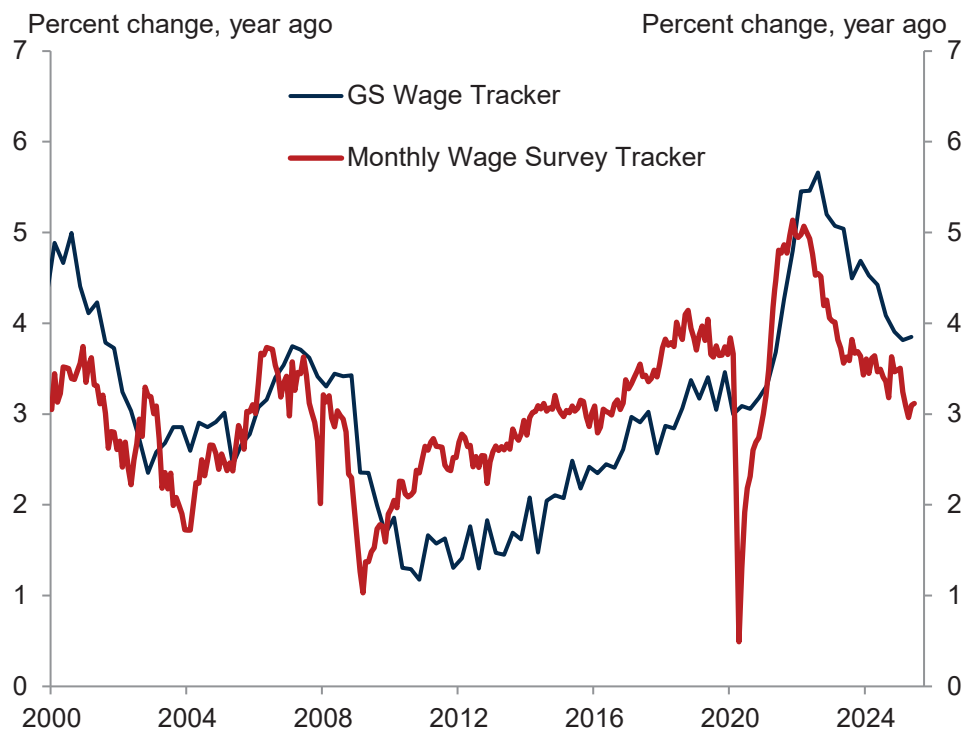
\* We estimate this as  $0.75 \times 3\text{-month average payroll growth} + 0.25 \times 9\text{-month average payroll-adjusted household employment growth}$ ; see "How to Read the Employment Report." We adjust for the earlier undercounting of immigration; see "Do the Official Statistics Fully Capture the Recent Surge in Immigration?"

\*\* First principal component of 13 measures of employment growth. For the full list of indicators, see the appendix table of our report "Are We Really at Full Employment if Wages Are Soft?"

# And the Low-Turnover Labor Market Risks Locking Out the Unemployed and New Graduates

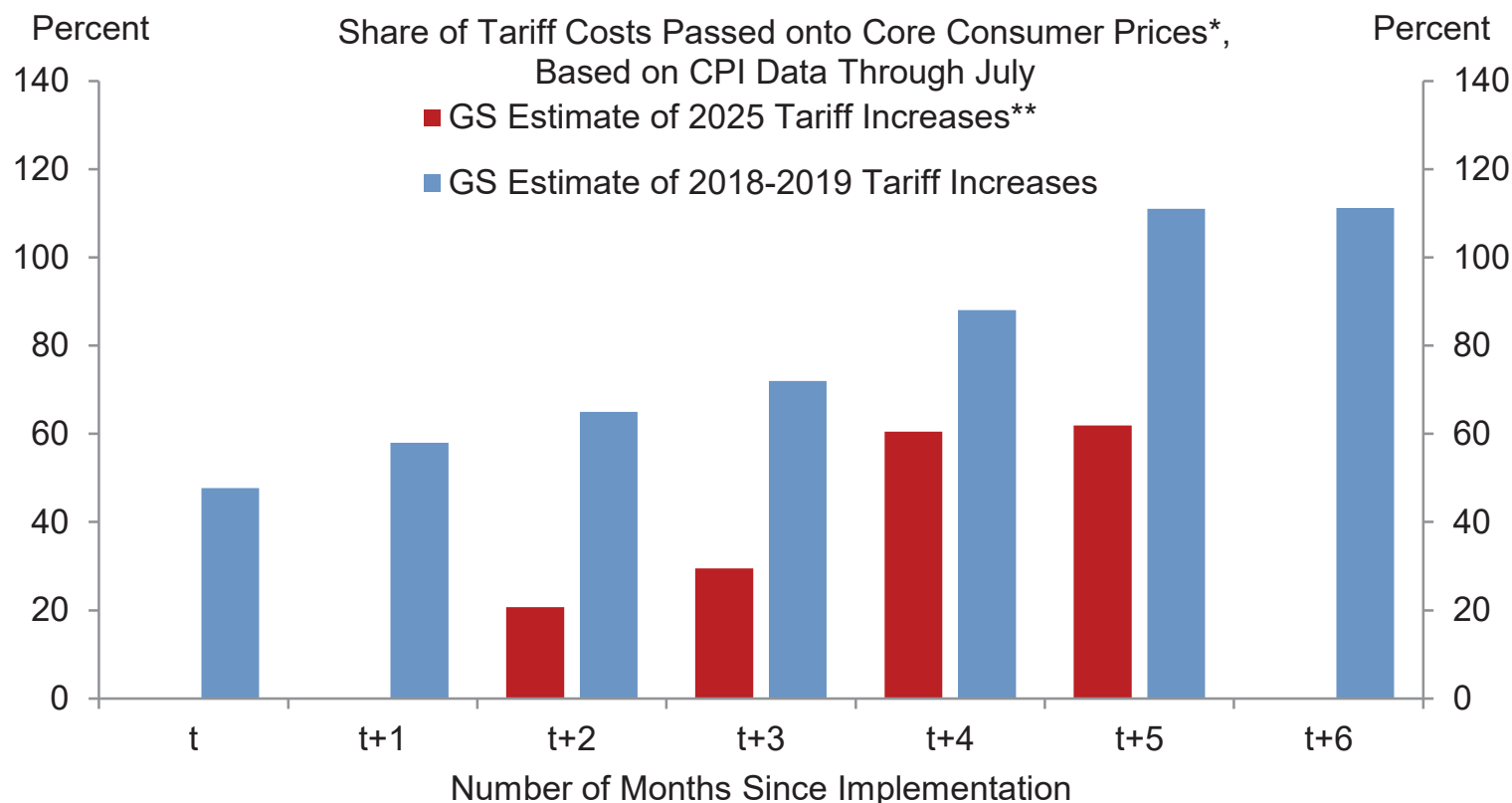


# Inflation: Leaving Tariffs Aside, the Other Inflation News—Especially Wage and Rent Growth—Is Soft



\*Average of Costar, Yardi, and Zillow measures of rent growth.

# The Early Evidence Suggests Slightly Lower Inflation Passthrough to Consumer Prices Than in 2018-19

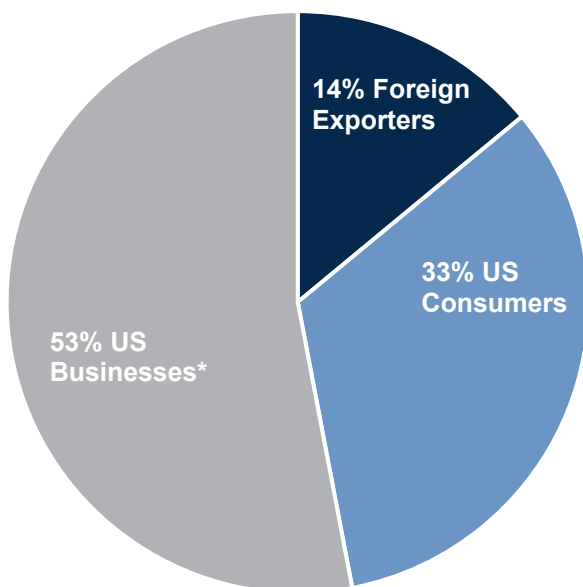


\*This estimation method may capture spillover effects (e.g. domestic producers not directly affected by tariffs may opportunistically raise prices), so the estimated passthrough rate can eventually reach over 100%.

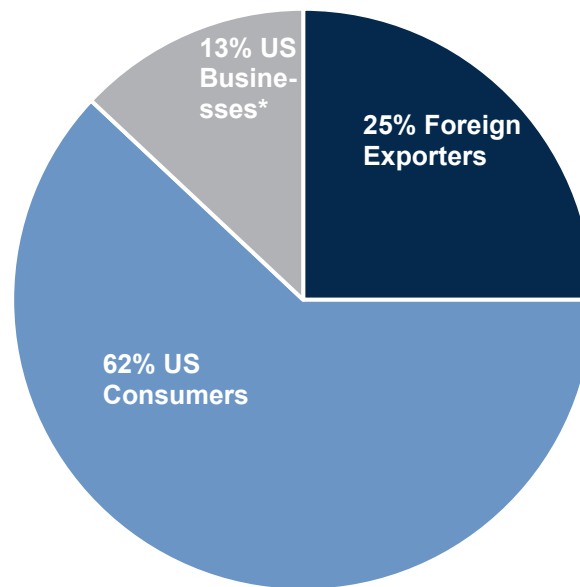
\*\*The effect for t+5 is estimated based on the initial 10% China tariff implemented in February, the effect for t+4 is estimated based on tariffs implemented in February and March, and the effect for t+3 is estimated based on tariffs implemented in February, March, and April including the 10% "reciprocal" tariff.

# If Later Tariffs Follow the Pattern of the February China Tariffs, US Consumers Would Bear Most of the Costs

Division of Tariff Costs as of July,  
Based on CPI Data Through July

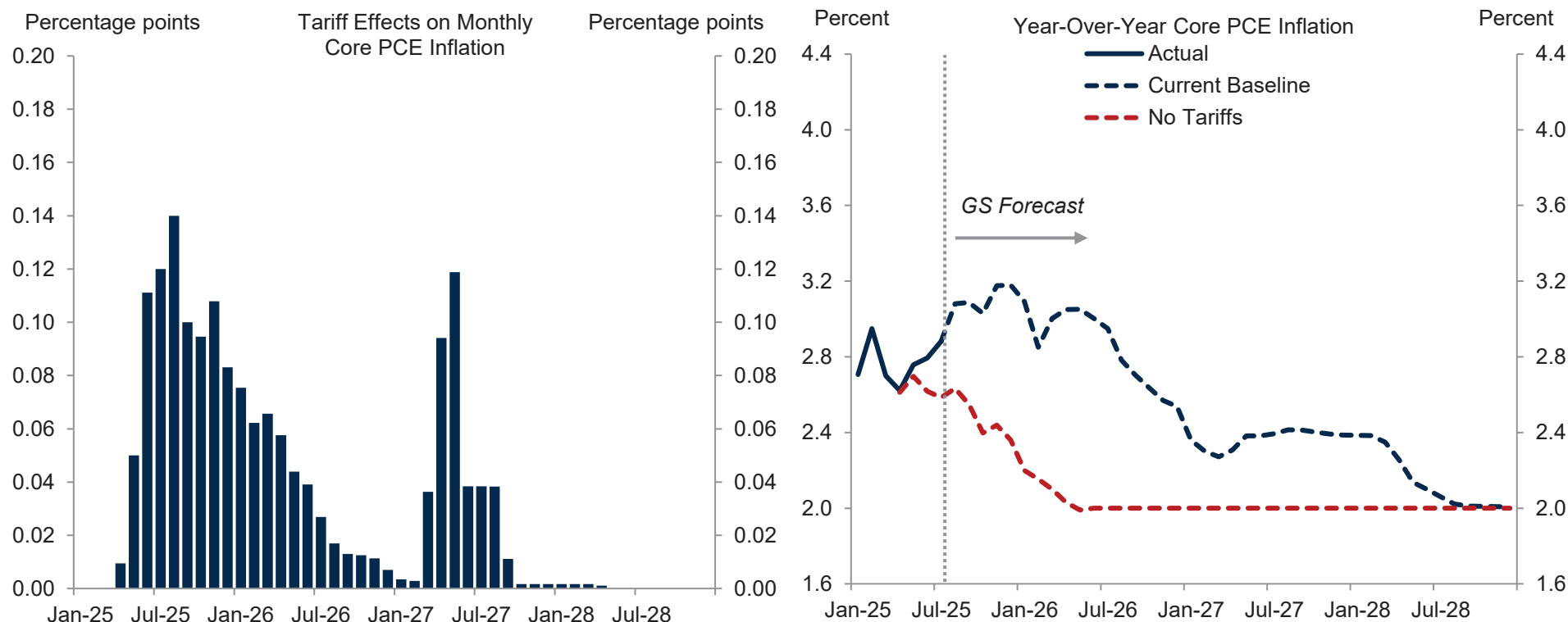


Eventual Division of Tariff Costs by October  
After All Announced Tariffs Through  
June Are in Place For More Than Four Months

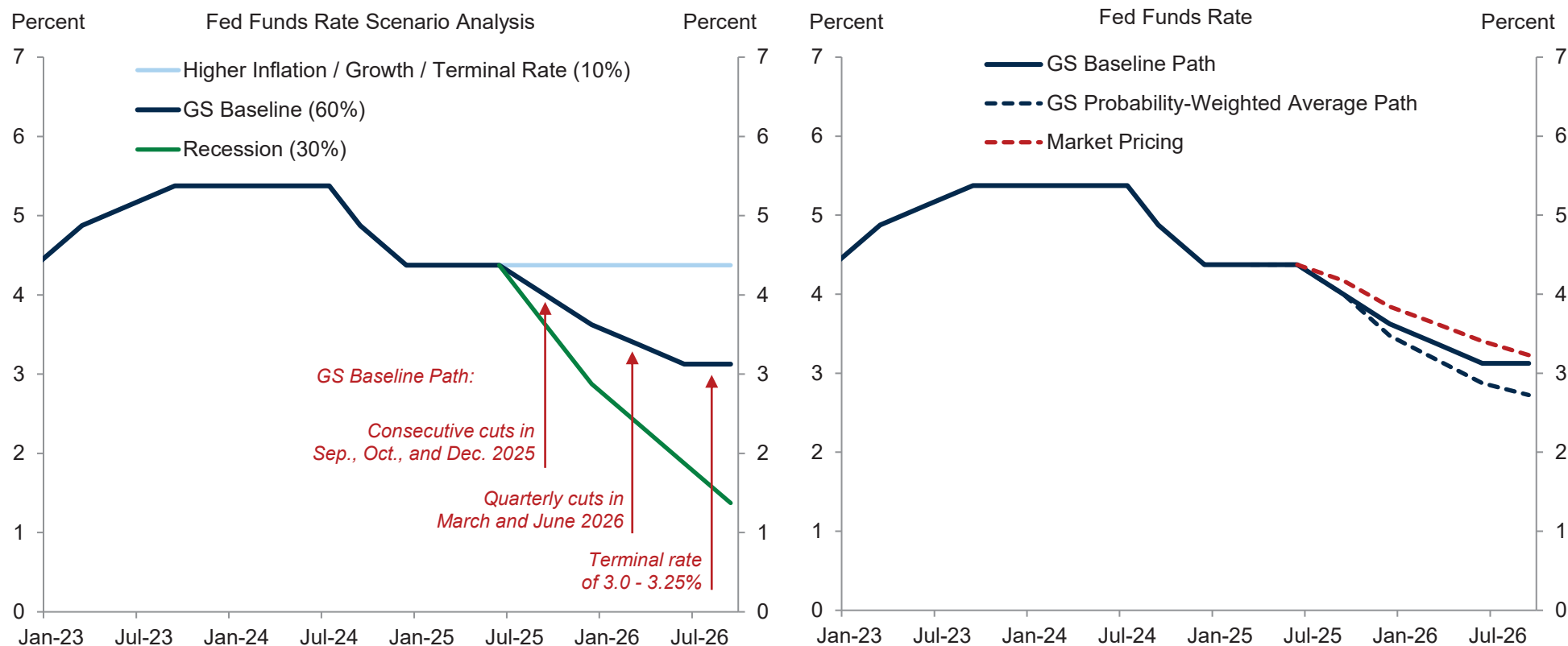


\*The share of tariff costs borne by US businesses is a net amount. Some businesses probably absorbed a larger share of tariff costs, while other businesses that competed with imported goods likely raised their prices.

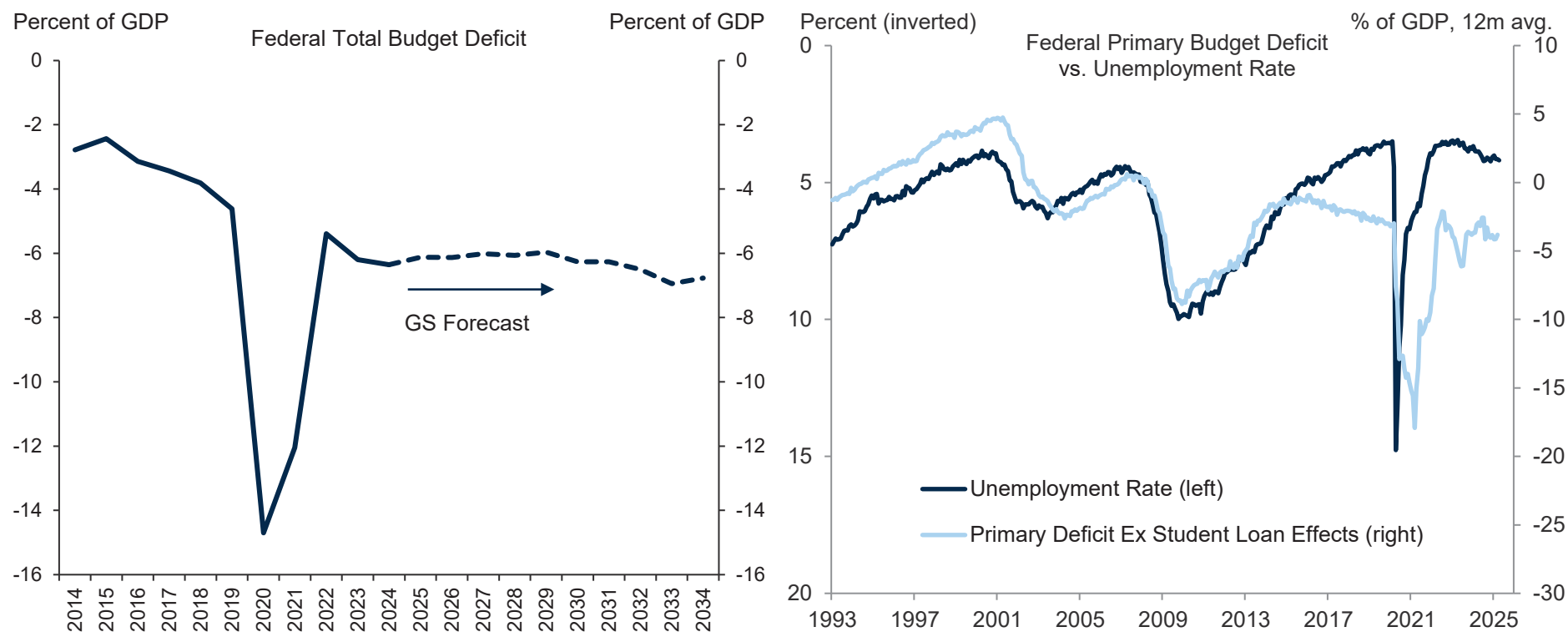
# We Expect the Underlying Trend to Approach 2% but a One-time Tariff Bump to Push Core PCE Inflation to 3.2%



# Fed: We Expect 3 Consecutive 25bp Cuts Starting in September + 2 Cuts in 2026 to a Terminal Rate of 3.0-3.25%

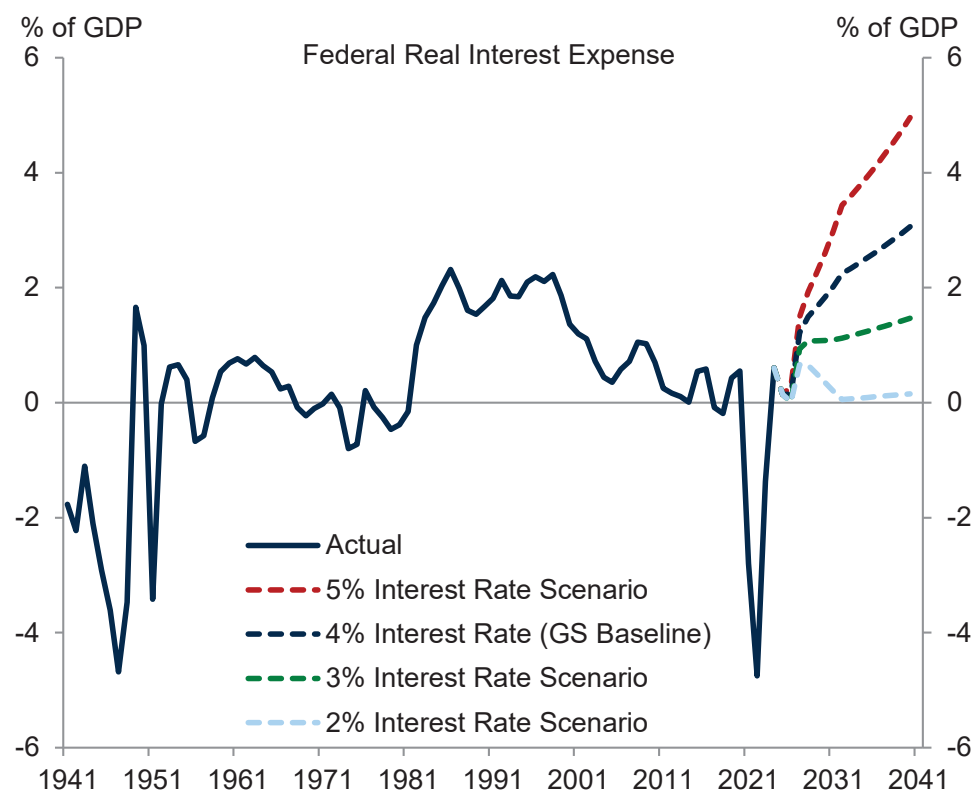
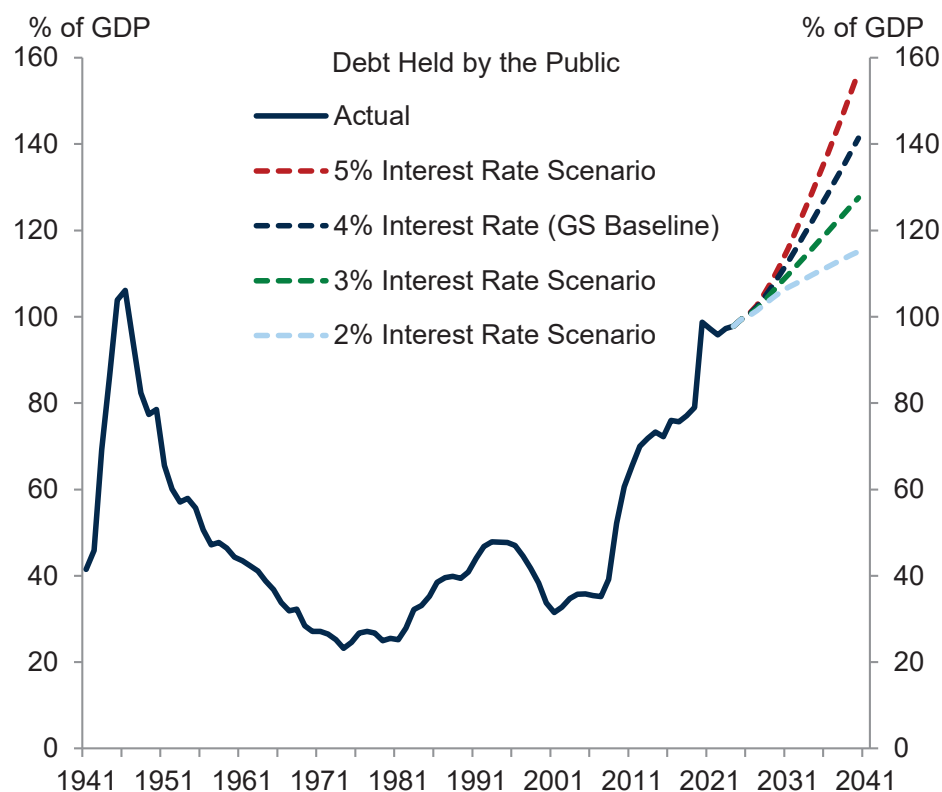


# Fiscal Sustainability: Tax & Spending Changes + Tariffs + Rising Interest Expense Keep Deficit on a Similar Path

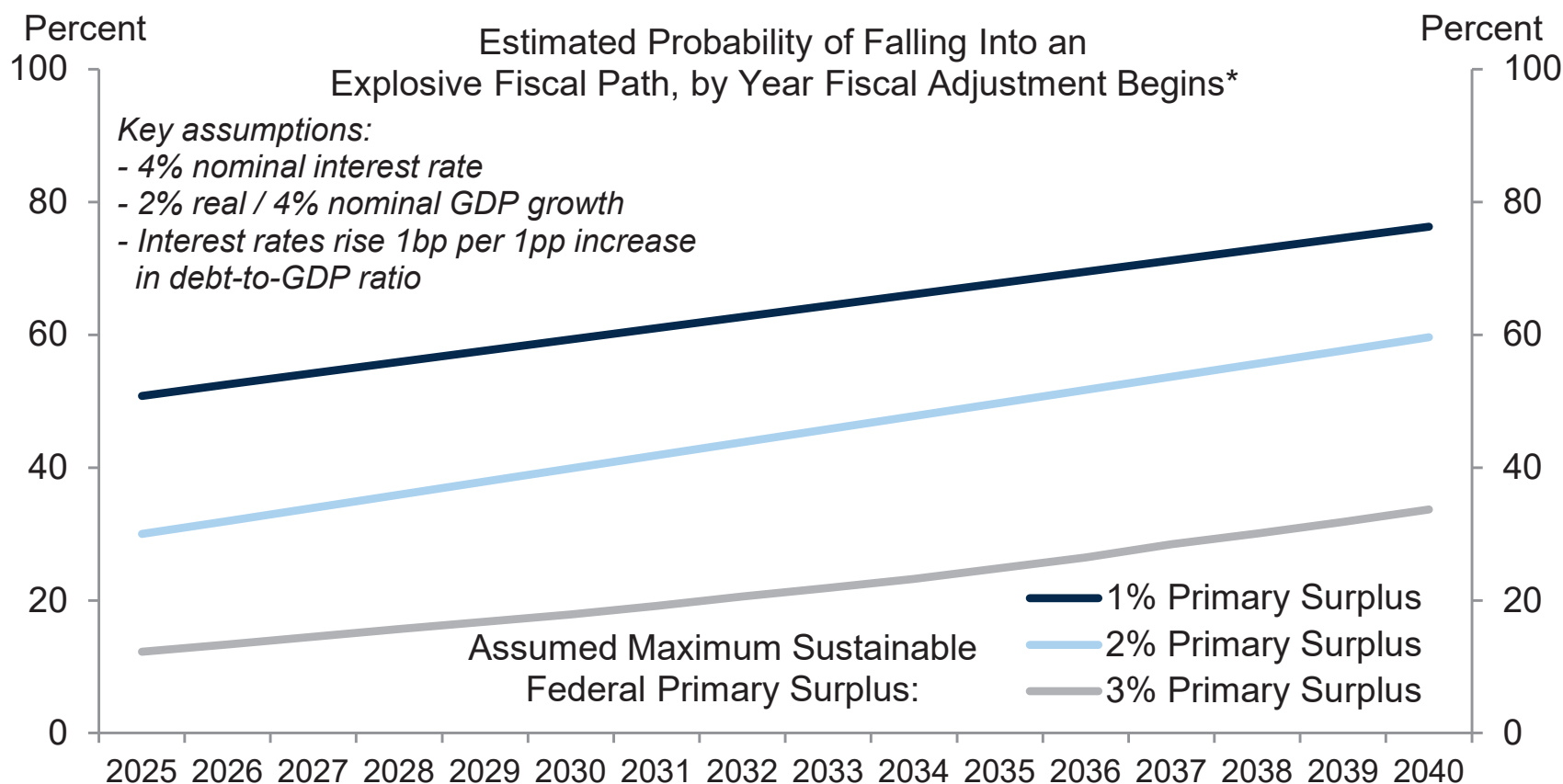




# Higher Market Interest Rates Have Made the Fiscal Trajectory Look Far Worse Than It Did Last Cycle

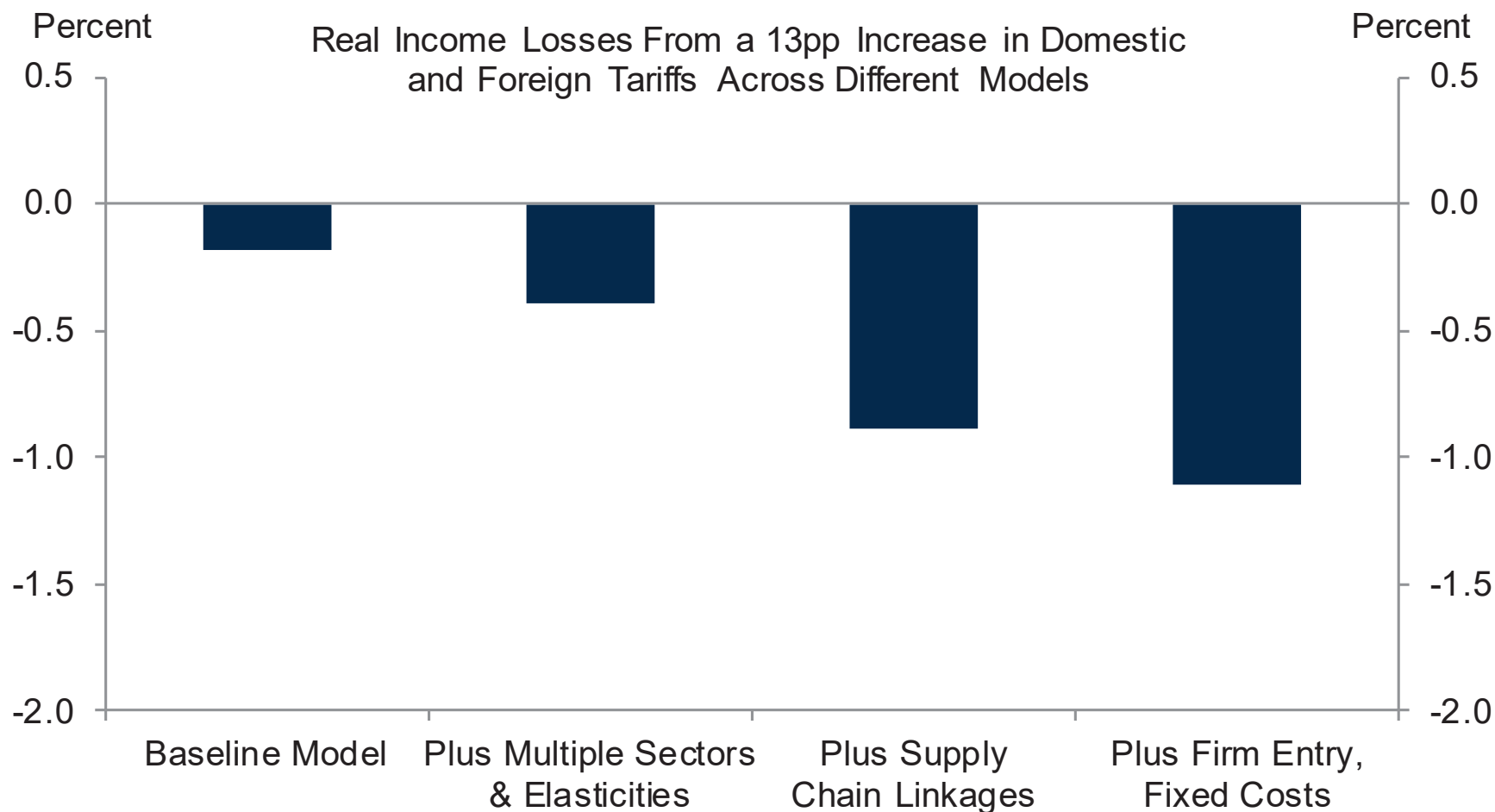


# Key Risk: Debt Could Reach Level Where We Are Unlikely to Run Large Primary Surplus to Cover Interest Expense

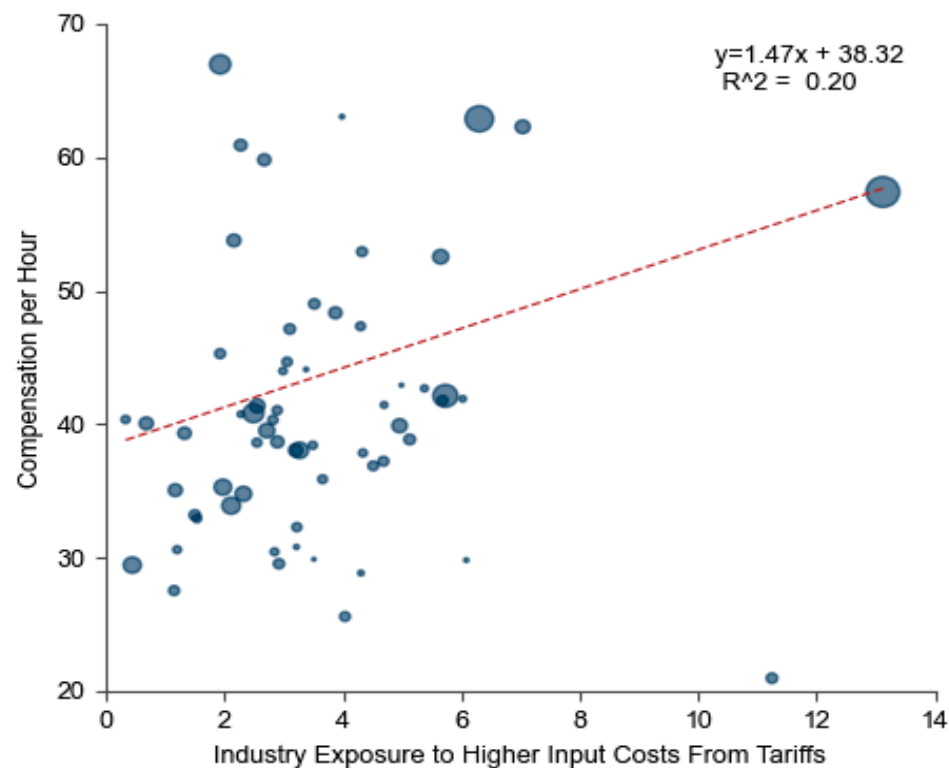
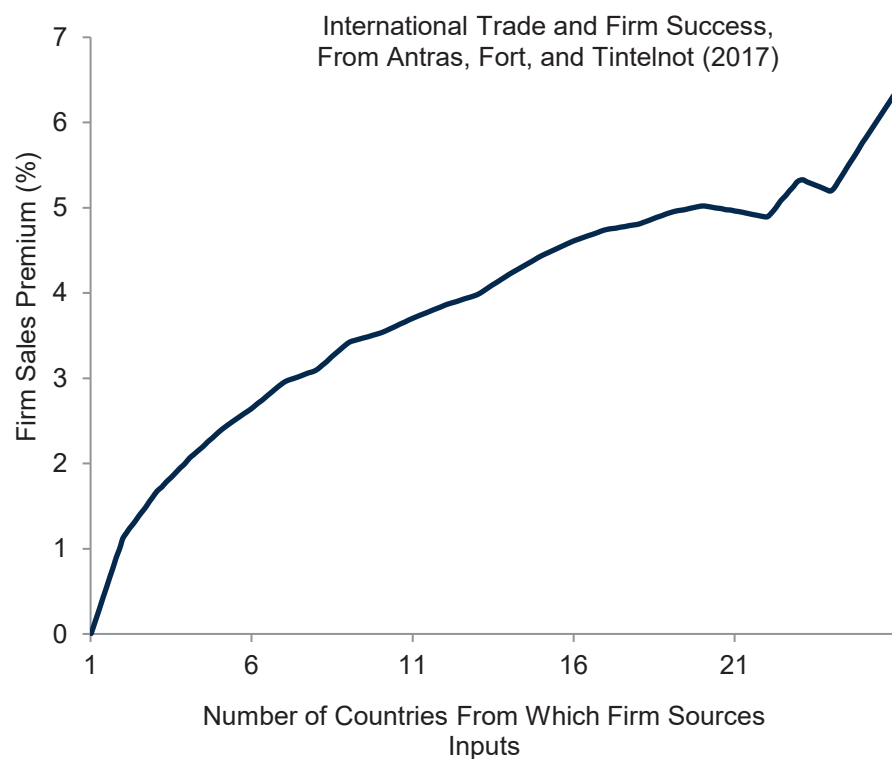


\* We assume that deficit reduction starts in the year shown and takes 10 years to reach the targeted primary surplus. We simulate shocks to growth, interest rates, and the deficit based on historical data and assess how probable it is that after 25 years the debt/GDP ratio rises to a level where the economy cannot avoid an explode debt trajectory even with the maximum assumed primary budget surplus.

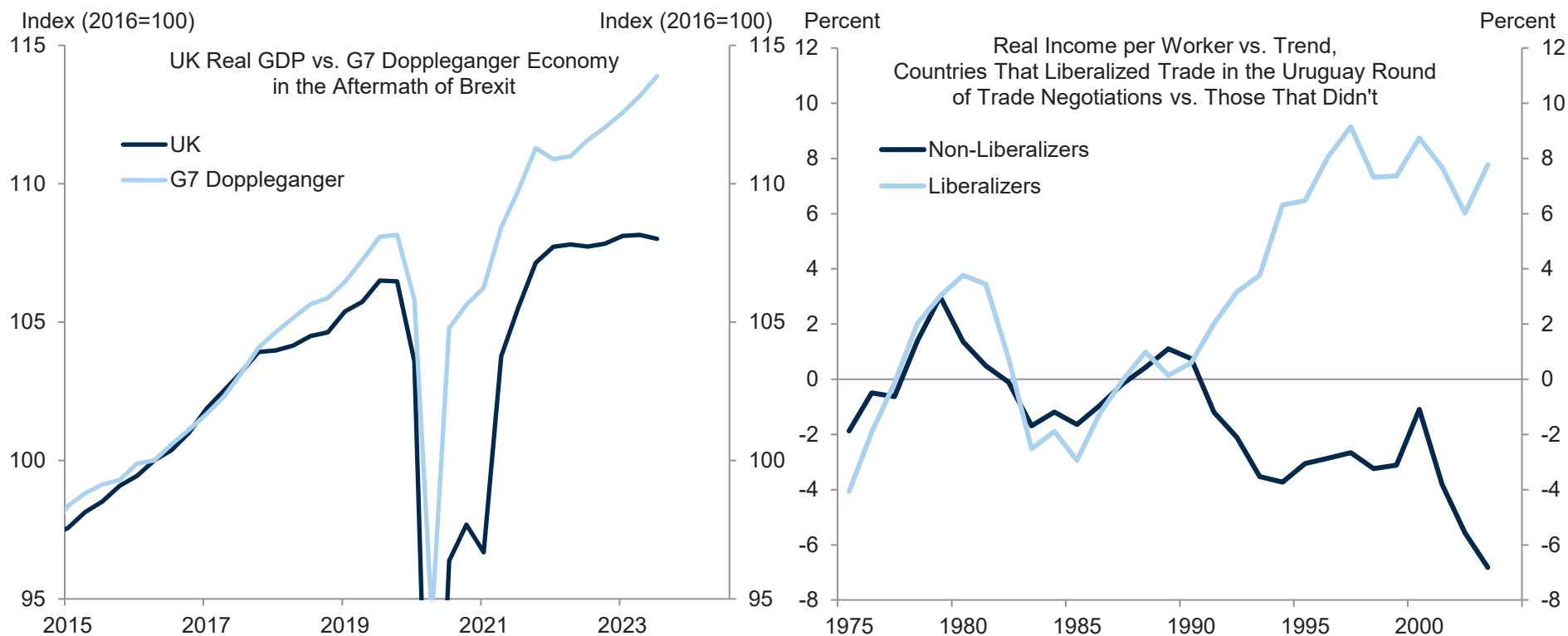
# Long-run Effects of Tariffs: Tariffs Sacrifice Some Benefits of Comparative Advantage from Trade, Lowering National Income



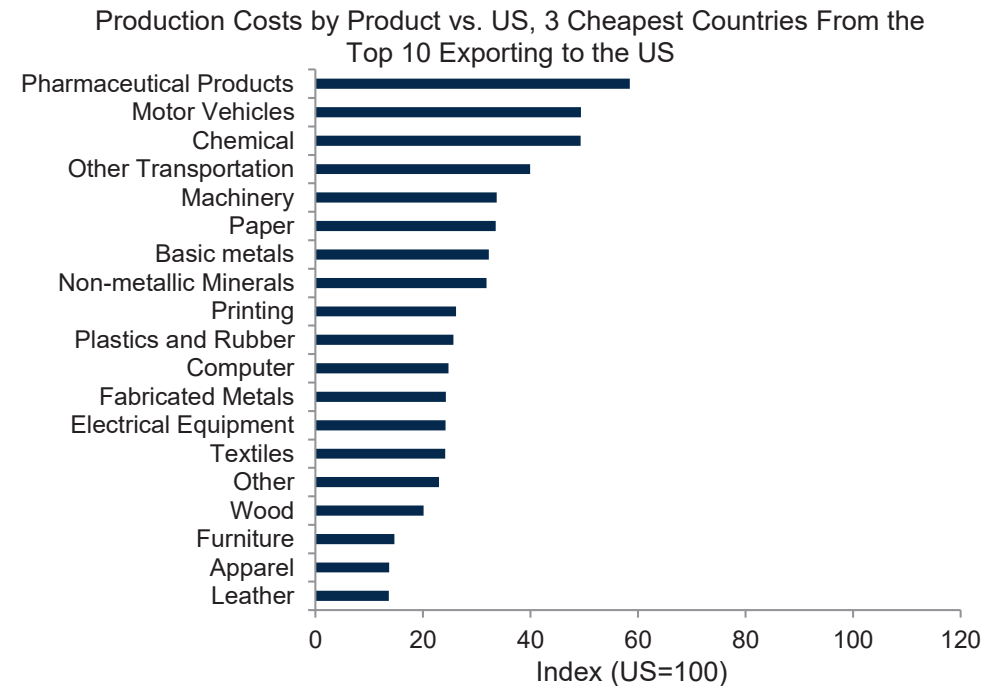
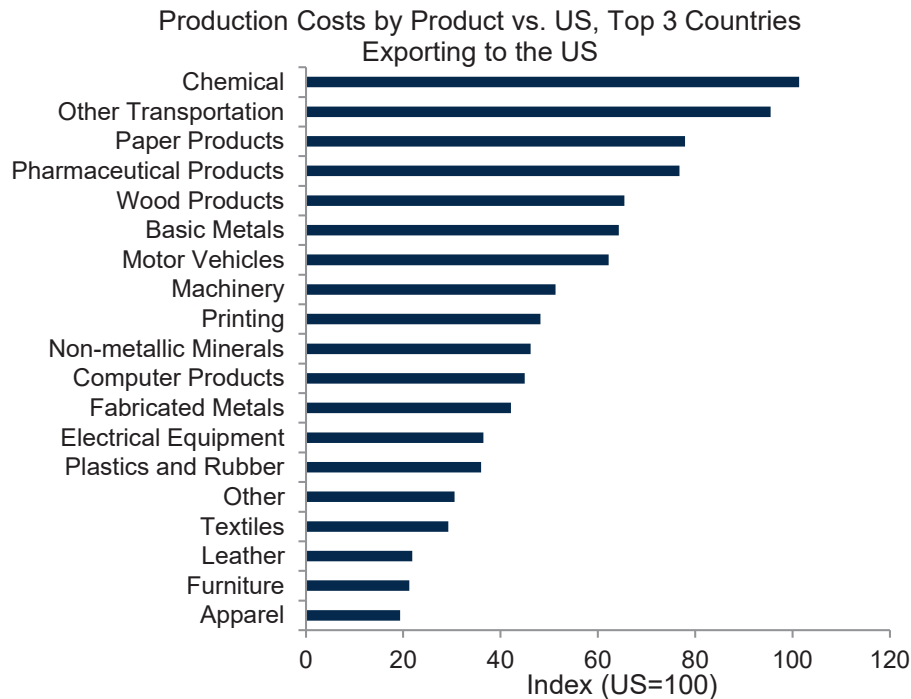
# Tariffs Disproportionately Hurt the Most Productive Companies and Industries, Reducing the Economy's Aggregate Productivity



# Brexit and 1990s Trade Liberalization Suggest That Trade Barriers Can Have Long-Lasting Negative Effects on GDP



# For Substantial Reshoring to Take Place, Tariffs Would Likely Need to Be Very High, Very Broad, and Credibly Permanent



# US Economic Forecasts



## THE US ECONOMIC AND FINANCIAL OUTLOOK

(% change on previous period, annualized, except where noted)

|  | 2022     | 2023     | 2024     | 2025     | 2026   | 2027   | 2024     |          |        |          | 2025     |          |        |          |
|--|----------|----------|----------|----------|--------|--------|----------|----------|--------|----------|----------|----------|--------|----------|
|  |          |          |          |          |        |        | Q1       | Q2       | Q3     | Q4       | Q1       | Q2       | Q3     | Q4       |
| <b>OUTPUT AND SPENDING</b>             |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| Real GDP                               | 2.5      | 2.9      | 2.8      | 1.7      | 1.7    | 2.1    | 1.6      | 3.0      | 3.1    | 2.4      | -0.5     | 3.0      | 1.4    | 1.2      |
| Real GDP (annual=Q4/Q4, quarterly=yoy) | 1.3      | 3.2      | 2.5      | 1.3      | 1.8    | 2.1    | 2.9      | 3.0      | 2.7    | 2.5      | 2.0      | 2.0      | 1.5    | 1.2      |
| Consumer Expenditures                  | 3.0      | 2.5      | 2.8      | 2.0      | 1.6    | 2.1    | 1.9      | 2.8      | 3.7    | 4.0      | 0.5      | 1.4      | 1.3    | 0.8      |
| Residential Fixed Investment           | -8.6     | -8.3     | 4.2      | -2.7     | -2.5   | 2.3    | 13.7     | -2.8     | -4.3   | 5.5      | -1.3     | -4.6     | -11.0  | -5.0     |
| Business Fixed Investment              | 7.0      | 6.0      | 3.6      | 2.9      | 2.3    | 4.0    | 4.5      | 3.9      | 4.0    | -3.0     | 10.3     | 1.9      | -0.5   | -0.2     |
| Structures                             | 3.6      | 10.8     | 3.5      | -3.4     | -0.9   | 3.0    | 6.2      | 0.2      | -5.0   | 2.9      | -2.4     | -10.3    | -4.0   | -3.0     |
| Equipment                              | 4.4      | 3.5      | 3.4      | 6.1      | 2.2    | 3.6    | 0.3      | 9.9      | 10.8   | -8.7     | 23.7     | 4.8      | -2.2   | -2.0     |
| Intellectual Property Products         | 11.2     | 5.8      | 3.9      | 3.6      | 4.1    | 4.9    | 7.5      | 0.7      | 3.1    | -0.5     | 6.0      | 6.4      | 3.0    | 3.0      |
| Federal Government                     | -3.2     | 2.9      | 2.6      | -0.4     | -1.2   | 0.6    | -0.4     | 4.3      | 8.9    | 4.0      | -4.6     | -3.7     | -3.0   | -3.0     |
| State & Local Government               | 0.2      | 4.4      | 3.9      | 2.2      | 0.6    | 1.2    | 3.1      | 2.3      | 2.9    | 2.5      | 2.0      | 3.0      | 0.7    | 0.5      |
| Net Exports (\$bn, '17)                | -1,042   | -933     | -1,034   | -1,066   | -930   | -968   | -977     | -1,036   | -1,069 | -1,053   | -1,359   | -1,026   | -960   | -920     |
| Inventory Investment (\$bn, '17)       | 119      | 33       | 39       | 29       | 50     | 61     | 18       | 72       | 58     | 9        | 161      | -26      | -23    | 5        |
| Nominal GDP                            | 9.8      | 6.6      | 5.3      | 4.4      | 4.8    | 4.3    | 4.7      | 5.6      | 5.0    | 4.8      | 3.2      | 5.0      | 4.3    | 4.3      |
| Industrial Production, Mfg.            | 2.7      | -0.5     | -0.5     | 1.0      | 1.7    | 2.9    | -0.9     | 1.4      | -0.8   | -1.7     | 3.7      | 2.0      | 0.2    | 0.0      |
| <b>HOUSING MARKET</b>                  |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| Housing Starts (units, thous)          | 1,552    | 1,421    | 1,371    | 1,284    | 1,224  | 1,315  | 1,415    | 1,343    | 1,338  | 1,387    | 1,401    | 1,327    | 1,234  | 1,176    |
| New Home Sales (units, thous)          | 637      | 665      | 685      | 652      | 670    | 644    | 677      | 685      | 707    | 671      | 655      | 652      | 620    | 680      |
| Existing Home Sales (units, thous)     | 5,083    | 4,103    | 4,067    | 3,983    | 3,978  | 4,132  | 4,143    | 4,023    | 3,937  | 4,163    | 4,127    | 3,990    | 3,888  | 3,926    |
| Case-Shiller Home Prices (%yoy)*       | 7.5      | 5.3      | 3.8      | 0.4      | 0.7    | 2.2    | 6.5      | 5.9      | 4.4    | 3.8      | 3.8      | 2.2      | 1.4    | 0.4      |
| <b>INFLATION (% ch, yr/yr)</b>         |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| Consumer Price Index (CPI)**           | 6.4      | 3.3      | 2.9      | 2.8      | 2.6    | 2.2    | 3.2      | 3.2      | 2.7    | 2.7      | 2.7      | 2.5      | 2.9    | 2.9      |
| Core CPI **                            | 5.7      | 3.9      | 3.2      | 3.2      | 2.6    | 2.2    | 3.8      | 3.4      | 3.3    | 3.3      | 3.1      | 2.8      | 3.1    | 3.2      |
| Core PCE** †                           | 5.0      | 3.0      | 2.9      | 3.3      | 2.7    | 2.0    | 3.0      | 2.7      | 2.7    | 2.8      | 2.8      | 2.7      | 3.0    | 3.2      |
| <b>LABOR MARKET</b>                    |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| Unemployment Rate (%)^                 | 3.5      | 3.8      | 4.1      | 4.4      | 4.2    | 4.0    | 3.9      | 4.1      | 4.1    | 4.1      | 4.2      | 4.1      | 4.4    | 4.4      |
| U6 Underemployment Rate (%)^           | 6.6      | 7.2      | 7.5      | 8.2      | 7.8    | 7.5    | 7.3      | 7.4      | 7.7    | 7.5      | 7.9      | 7.7      | 8.1    | 8.2      |
| Payrolls (thous, monthly rate)         | 380      | 216      | 168      | 76       | 115    | 117    | 196      | 133      | 133    | 209      | 111      | 64       | 64     | 65       |
| Employment-Population Ratio (%)^       | 60.1     | 60.1     | 60.0     | 59.5     | 59.5   | 59.4   | 59.9     | 59.0     | 59.1   | 59.0     | 59.9     | 59.7     | 59.5   | 59.5     |
| Labor Force Participation Rate (%)^    | 62.3     | 62.5     | 62.5     | 62.2     | 62.1   | 61.9   | 62.7     | 62.6     | 62.7   | 62.5     | 62.5     | 62.3     | 62.2   | 62.2     |
| Average Hourly Earnings (%yoy)         | 5.4      | 4.4      | 3.9      | 3.7      | 3.3    | 3.2    | 4.2      | 3.9      | 3.8    | 3.9      | 3.9      | 3.9      | 3.7    | 3.5      |
| <b>GOVERNMENT FINANCE</b>              |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| Federal Budget (FY, \$bn)              | -1,376   | -1,694   | -1,833   | -1,850   | -1,950 | -2,150 | --       | --       | --     | --       | --       | --       | --     | --       |
| <b>FINANCIAL INDICATORS</b>            |          |          |          |          |        |        |          |          |        |          |          |          |        |          |
| FF Target Range (Bottom-Top, %)^       | 4.25-4.5 | 5.25-5.5 | 4.25-4.5 | 3.5-3.75 | 3-3.25 | 3-3.25 | 5.25-5.5 | 5.25-5.5 | 4.75-5 | 4.25-4.5 | 4.25-4.5 | 4.25-4.5 | 4-4.25 | 3.5-3.75 |
| 10-Year Treasury Note^                 | 3.88     | 3.88     | 4.58     | 4.20     | 4.20   | 4.25   | 4.20     | 4.36     | 3.81   | 4.58     | 4.23     | 4.24     | 4.25   | 4.20     |
| Euro (€/€)^                            | 1.07     | 1.11     | 1.04     | 1.21     | 1.25   | 1.25   | 1.08     | 1.07     | 1.11   | 1.04     | 1.08     | 1.18     | 1.17   | 1.21     |
| Yen (\$/¥)^                            | 132      | 141      | 157      | 137      | 127    | 120    | 151      | 161      | 143    | 157      | 150      | 144      | 146    | 137      |

\* Weighted average of metro-level HPIs for 381 metro cities where the weights are dollar values of housing stock reported in the American Community Survey. Annual numbers are Q4/Q4.

\*\* Annual inflation numbers are December year-on-year values. Quarterly values are Q4/Q4.

† PCE = Personal consumption expenditures. ^ Denotes end of period.

Note: Published figures in bold.

Source: Goldman Sachs Global Investment Research.

# GS Market Strategy Forecasts

|  | GS Forecasts |       |        | Forward pricing |       |       | Upside vs. forward pricing |         |         |
|--|--------------|-------|--------|-----------------|-------|-------|----------------------------|---------|---------|
|  | 3m           | 6m    | 12m    | 3m              | 6m    | 12m   | 3m                         | 6m      | 12m     |
| <b>Equities</b>                                      |              |       |        |                 |       |       |                            |         |         |
| S&P 500  | 6400         | 6600  | 6900   | 6430            | 6490  | 6587  | 0%                         | 2%      | 5%      |
| STOXX Europe 600                                     | 550          | 560   | 570    | 548             | 549   | 544   | 0%                         | 2%      | 5%      |
| Topix  | 3050         | 3100  | 3200   | 2999            | 3000  | 2975  | 2%                         | 3%      | 8%      |
| MSCI AC Asia-Pac ex Japan                            | 660          | 680   | 710    | 663             | 668   | 671   | 0%                         | 2%      | 6%      |
| MSCI EM  | 1270         | 1300  | 1370   | 1264            | 1274  | 1280  | 0%                         | 2%      | 7%      |
| <b>10 Year Government Bond Yields</b>                |              |       |        |                 |       |       |                            |         |         |
| US   | 4.23%        | 4.20% | 4.20%  | 4.30%           | 4.34% | 4.44% | -8 bps                     | -14 bps | -24 bps |
| Germany  | 2.92%        | 3.00% | 3.12%  | 2.74%           | 2.79% | 2.88% | 18 bps                     | 21 bps  | 25 bps  |
| Japan  | 1.62%        | 1.72% | 1.82%  | 1.58%           | 1.65% | 1.77% | 3 bps                      | 7 bps   | 5 bps   |
| UK   | 4.28%        | 4.25% | 4.25%  | 4.62%           | 4.65% | 4.75% | -34 bps                    | -40 bps | -50 bps |
| <b>Corporate Bond Spreads (bps, upside vs. spot)</b> |              |       |        |                 |       |       |                            |         |         |
| Bloomberg USD IG                                     | 87           | 85    | 85     |                 |       |       | 9                          | 7       | 7       |
| Bloomberg USD HY                                     | 302          | 300   | 300    |                 |       |       | 16                         | 14      | 14      |
| EM Hard Currency Sovereign                           |              |       | 360    |                 |       |       |                            |         | 63      |
| <b>Commodities</b>                                   |              |       |        |                 |       |       |                            |         |         |
| WTI Crude Oil (\$/bbl)                               | 62.0         | 59.0  | 51.0   | 62.3            | 61.9  | 61.5  | 0%                         | -5%     | -17%    |
| Brent Crude Oil (\$/bbl)                             | 65.0         | 62.0  | 55.0   | 65.6            | 65.3  | 65.0  | -1%                        | -5%     | -15%    |
| LME Copper (\$/mt)                                   | 9,650        | 9,720 | 10,025 | 9,732           | 9,776 | 9,849 | -1%                        | -1%     | 2%      |
| TTF Natural Gas (EUR/MWh)                            | 39           | 34    | 29     | 34.4            | 34.6  | 32.1  | 13%                        | -2%     | -10%    |
| NYMEX Natural Gas (\$/mmBtu)                         | 3.90         | 4.50  | 4.50   | 3.72            | 3.92  | 3.89  | 5%                         | 15%     | 16%     |
| <b>FX (upside vs. USD)</b>                           |              |       |        |                 |       |       |                            |         |         |
| EUR/USD  | 1.17         | 1.20  | 1.25   | 1.17            | 1.17  | 1.18  | 0%                         | 2%      | 6%      |
| USD/JPY  | 142          | 138   | 135    | 147             | 145   | 143   | 3%                         | 5%      | 6%      |
| USD/CNY  | 7.10         | 7.00  | 6.90   | 7.12            | 7.09  | 7.03  | 0%                         | 1%      | 2%      |