



FEDERAL RESERVE BANK
OF SAN FRANCISCO

Recent Economic and Financial Developments

Sacramento Metropolitan Chamber of Commerce

April 17, 2025

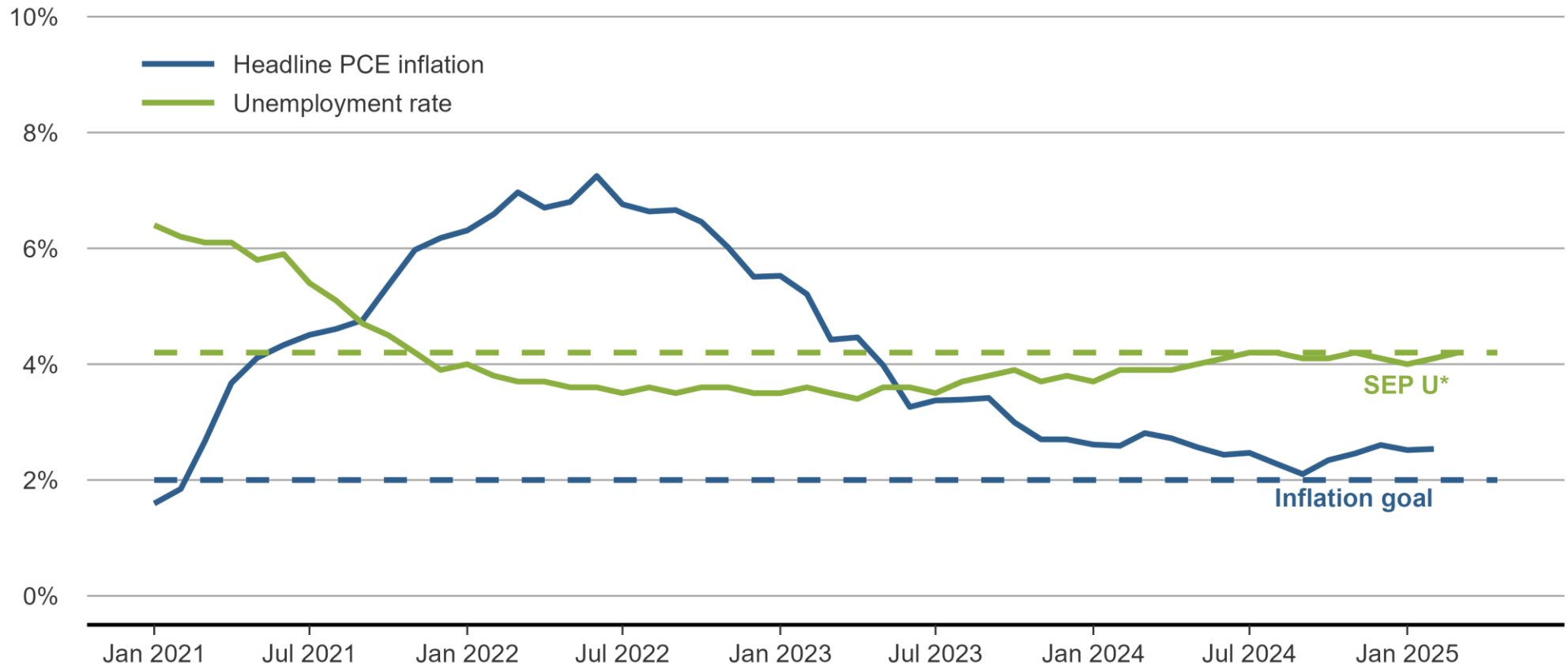
Sylvain Leduc

Executive Vice President & Director of Research

Views expressed are those of the presenter and not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Soft landing facing strong headwinds

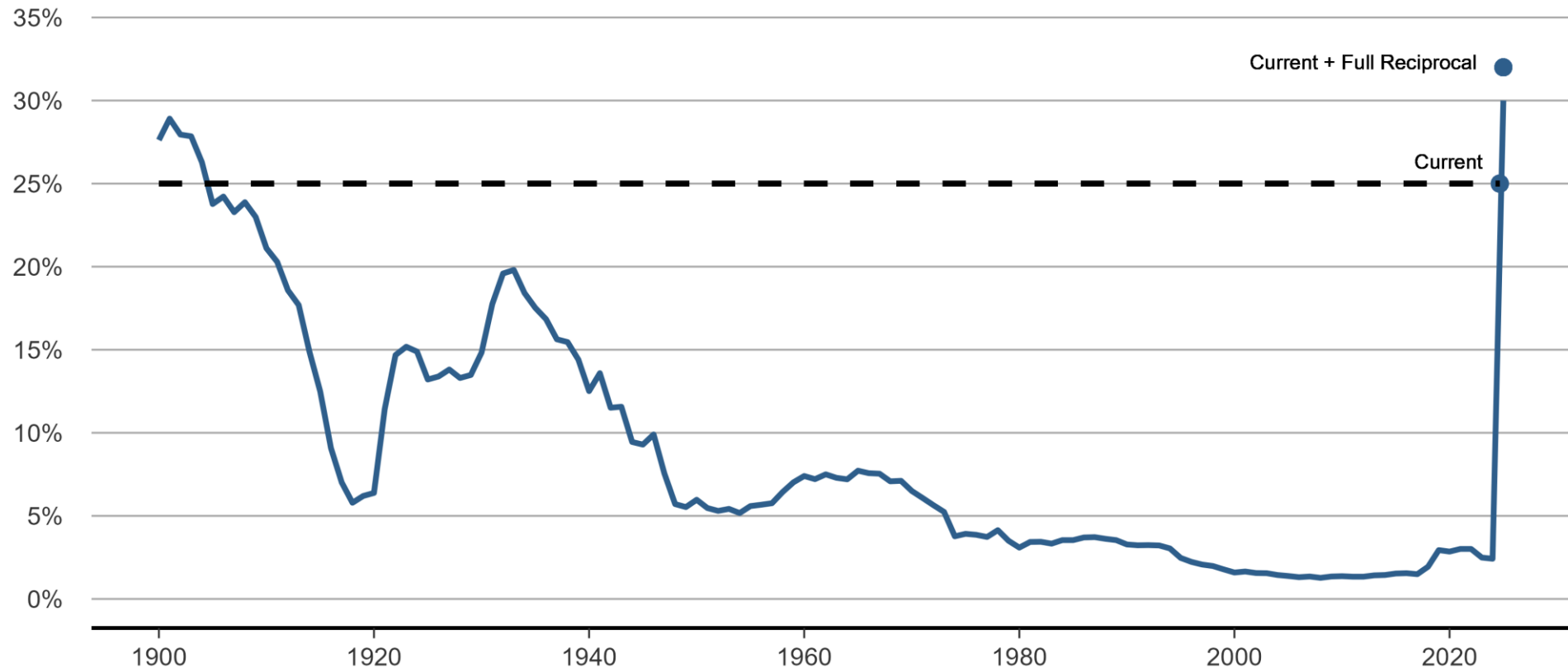
Unemployment and inflation (without forecast)



Notes: Green dashed line indicates FOMC Summary of Economic Projections (SEP), and blue dashed line indicates Fed's inflation goal.
Source: Bureau of Economic Analysis

New average tariff rate currently about 25%

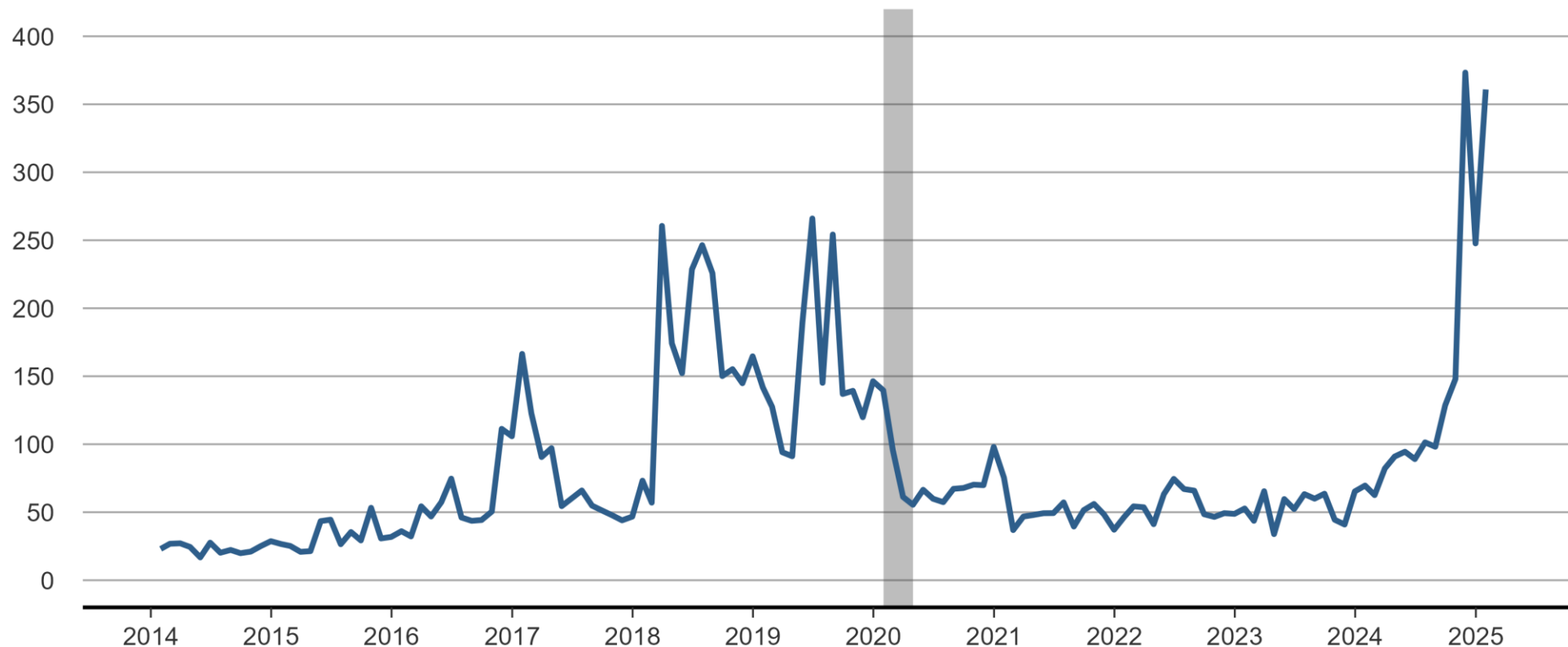
Average U.S. tariff rate



Note: Data shows customs duties on goods imports as a share of total goods imports.
Source: Department of Treasury, Bureau of Economic Analysis, Yale University's The Budget Lab, and FRBSF calculations.

Trade policy uncertainty remains high

Trade Policy Uncertainty index



Note: 100 = 1% share of articles

Source: Data downloaded from <https://www.matteoiacoviello.com/tpu.htm> on April 16, 2025.

Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo. 2020.

"The Economic Effects of Trade Policy Uncertainty." *Journal of Monetary Economics* 109, pp. 38-59.

Tariff impacts partly depend on ability to adjust

- **Sources of imports**

- Global versus country-specific tariffs

- **Profit margins**

- Industry-wide versus firm-specific cost increases

- **Mix of inputs**

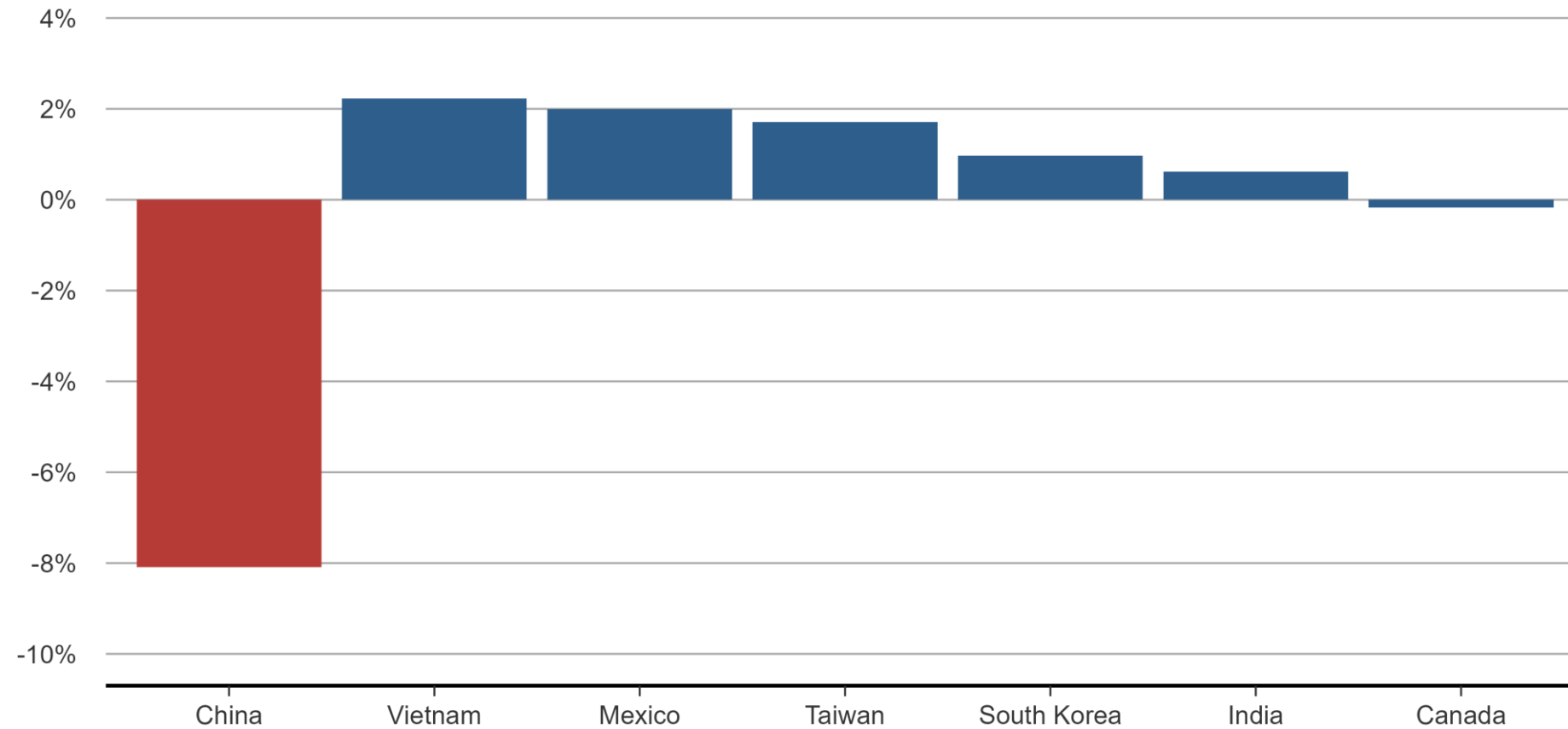
- Degree of input substitutability



Sources of imports

Tariffs on Chinese goods led to import diversion

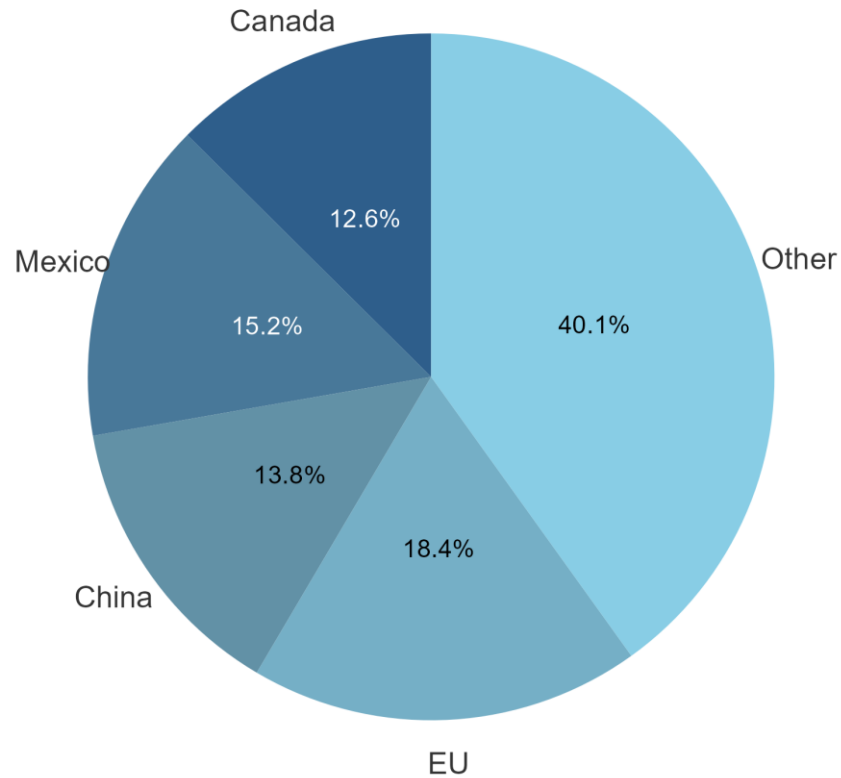
Changes in U.S. import shares by country, 2017-2024



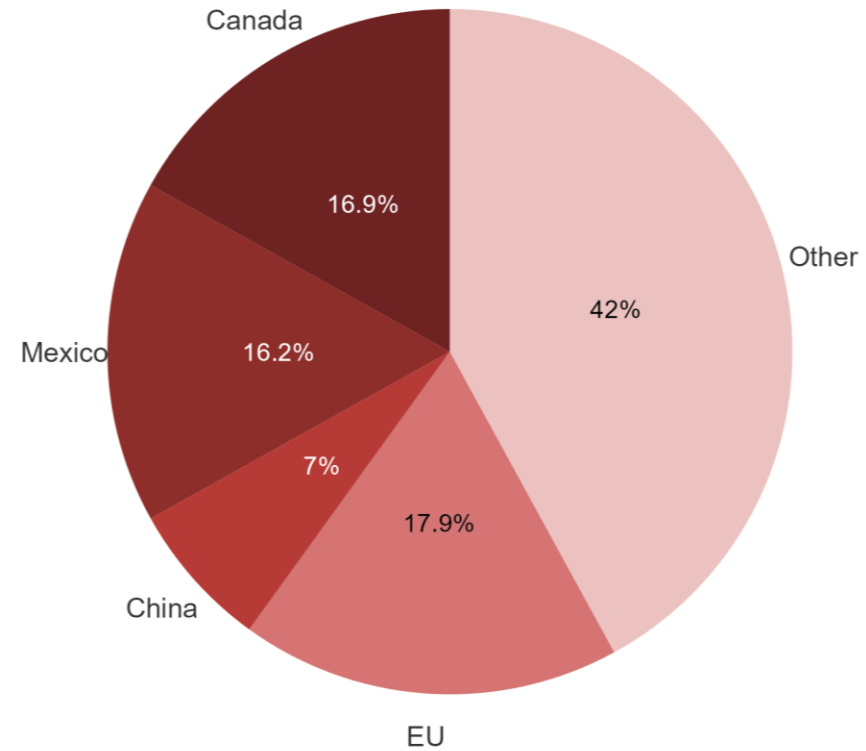
Source: Census Bureau/Haver Analytics

Less scope to diversify trade this time around

Share of Imports in 2024



Share of Exports in 2024

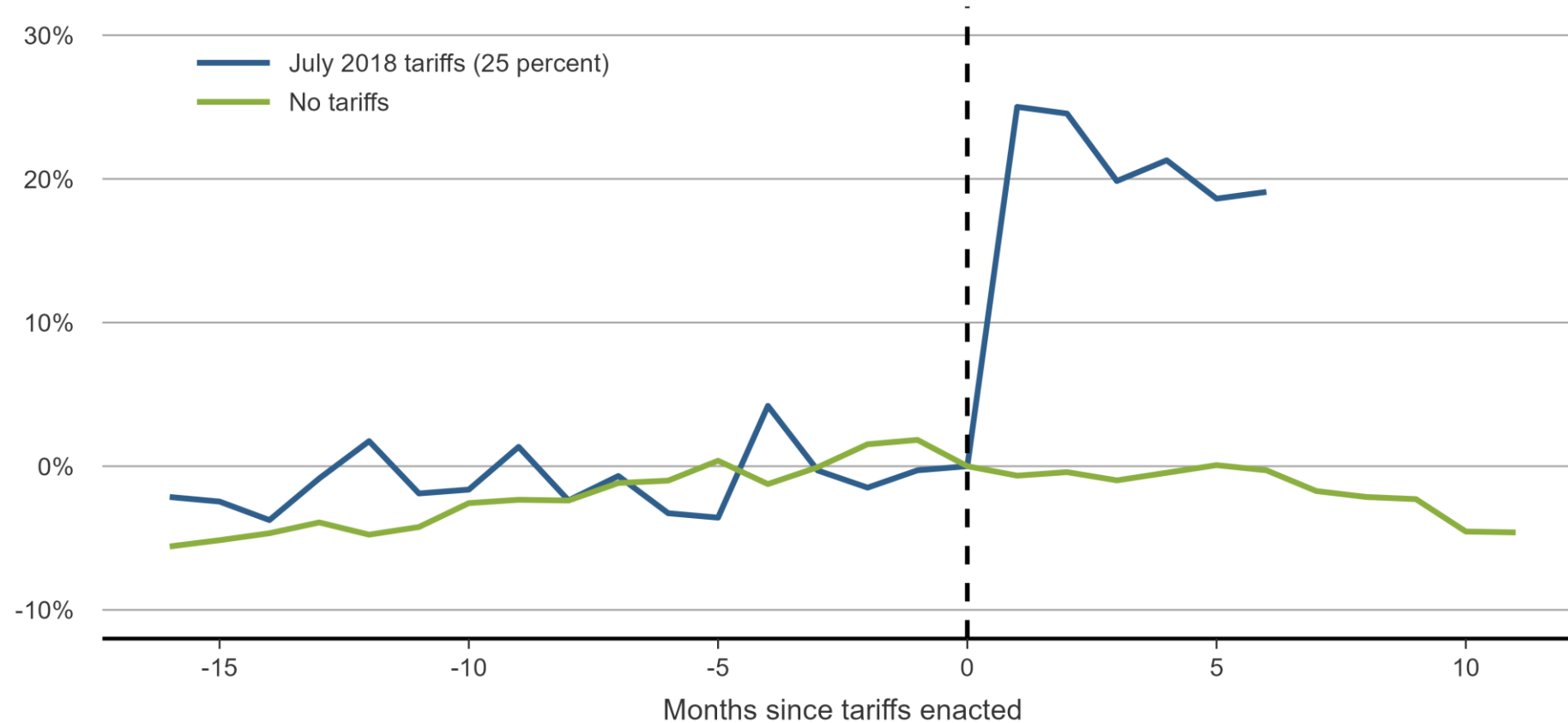




Tariffs pass through to prices

Tariffs fully passed through to import prices

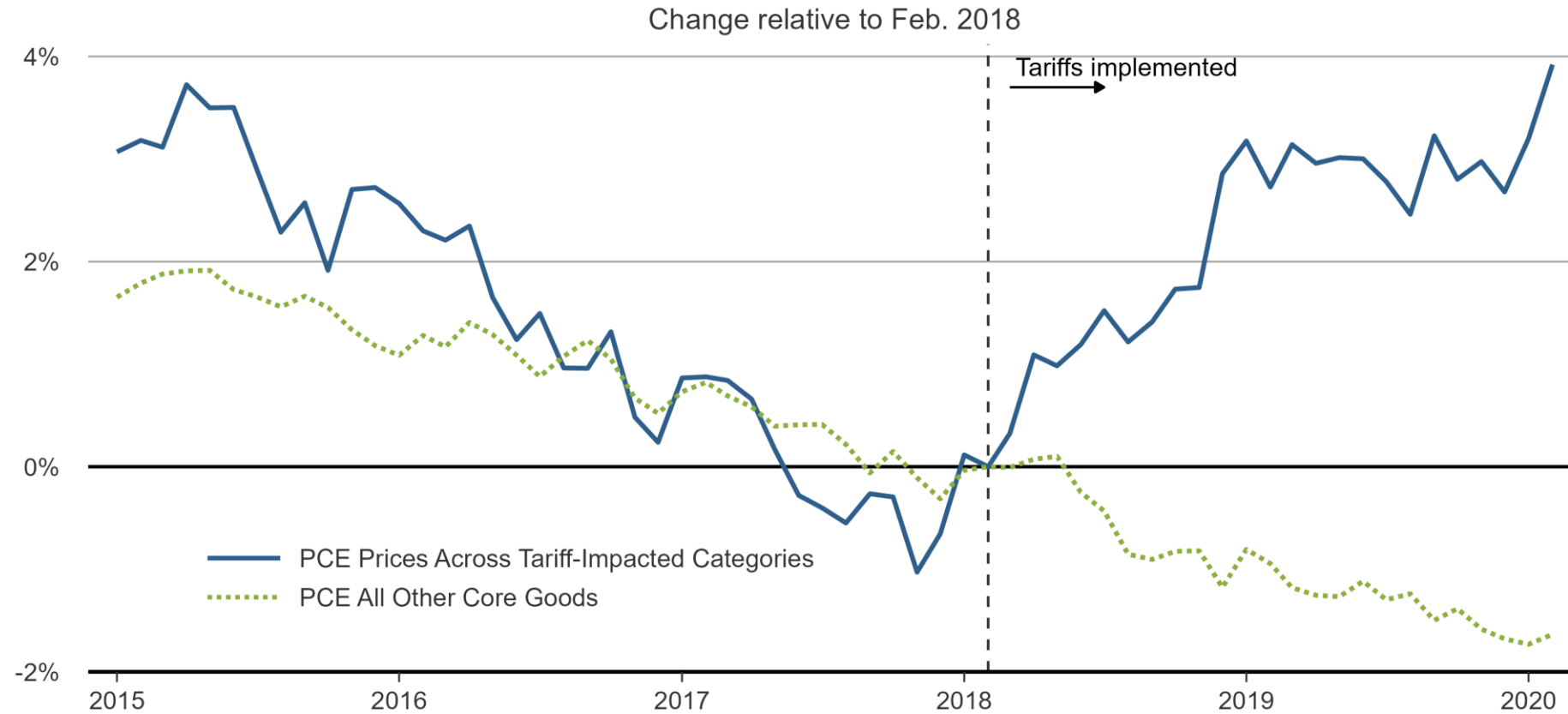
Effect of 2018 tariffs on tariff-inclusive import prices



Note: 12-month percent change
Source: Amiti, Redding, and Weinstein (2019)

Tariffs passed through to consumer prices

Effect of 2018-2019 tariffs on core goods prices



Note: Tariffed industries include auto parts, motorcycles, recreational vehicles, furniture, linens, carpets, sewing items, as well as household appliances (including laundry equipment) and cleaning products.



Input mix

Higher tariffs may incentivize automation

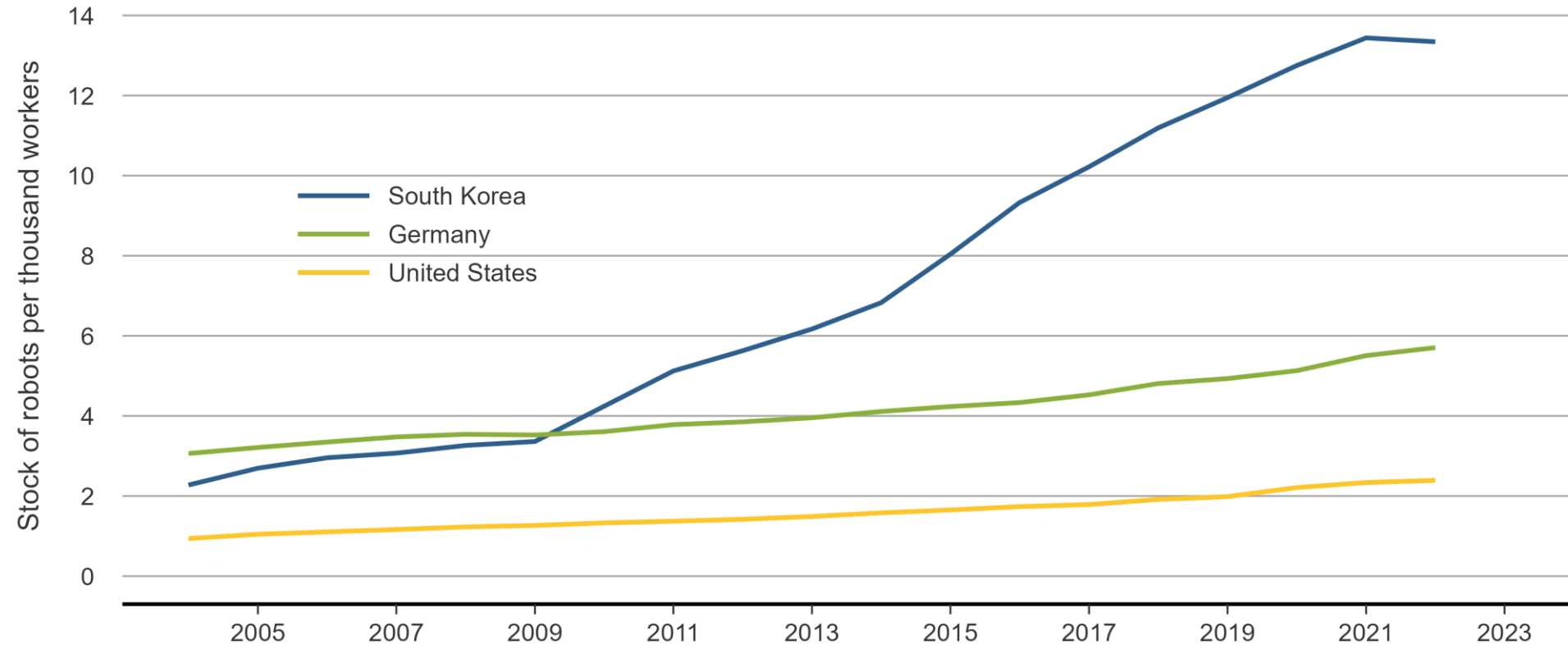
San Francisco Fed working paper 2024-16

Industries that rely more on imports
automate more when trade policy uncertainty rises

| | Imports | Robots | Employment | Productivity |
|---------------------------|---------|--------|------------|--------------|
| Industries importing more | ↓ | ↑ | n.c. | ↑ |

Trade surplus countries are also automating

Robot density by country



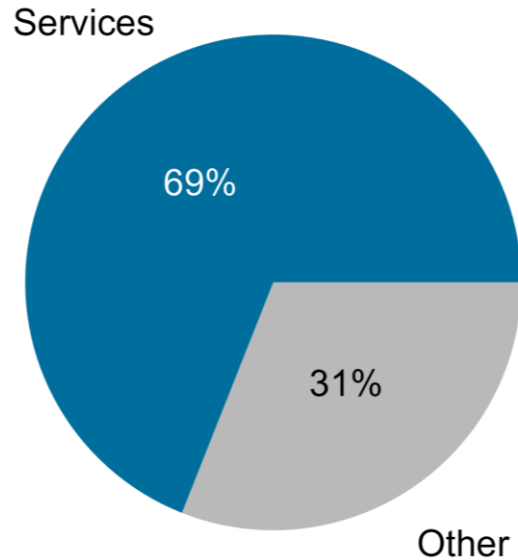
Source: International Federation of Robotics, Bureau of Labor Statistics & OECD via Haver Analytics



Spillovers

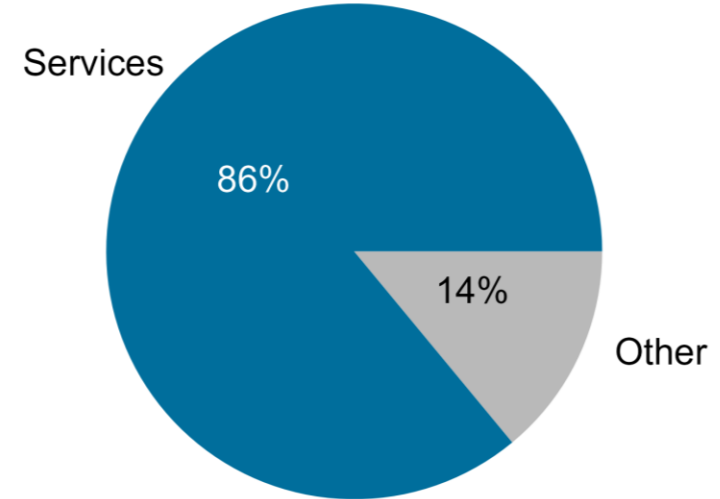
How could tariffs impact the whole economy?

Share of Services in Consumption



Personal Consumption Expenditures 2019

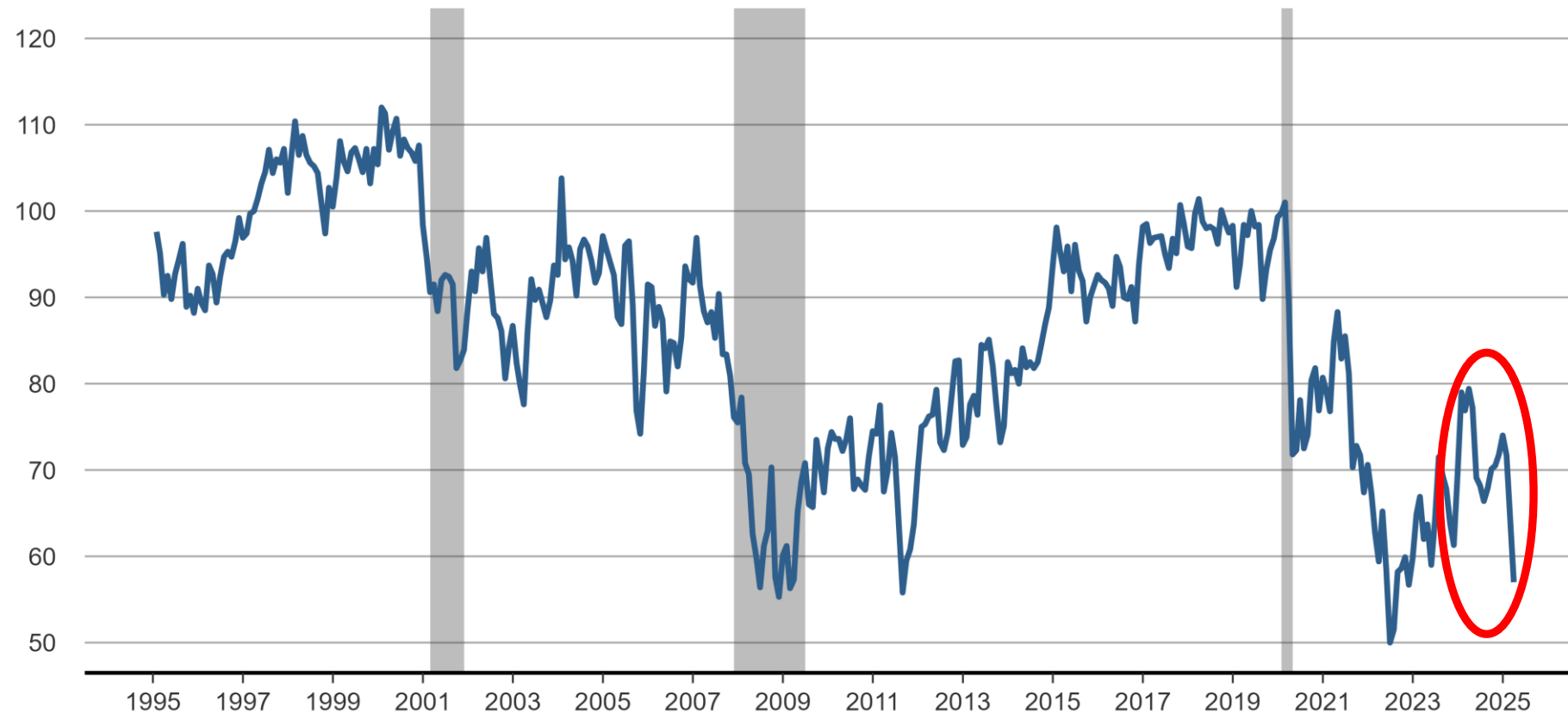
Share of Services in Employment



Establishment survey, 2019

Spillovers may arise through lower confidence

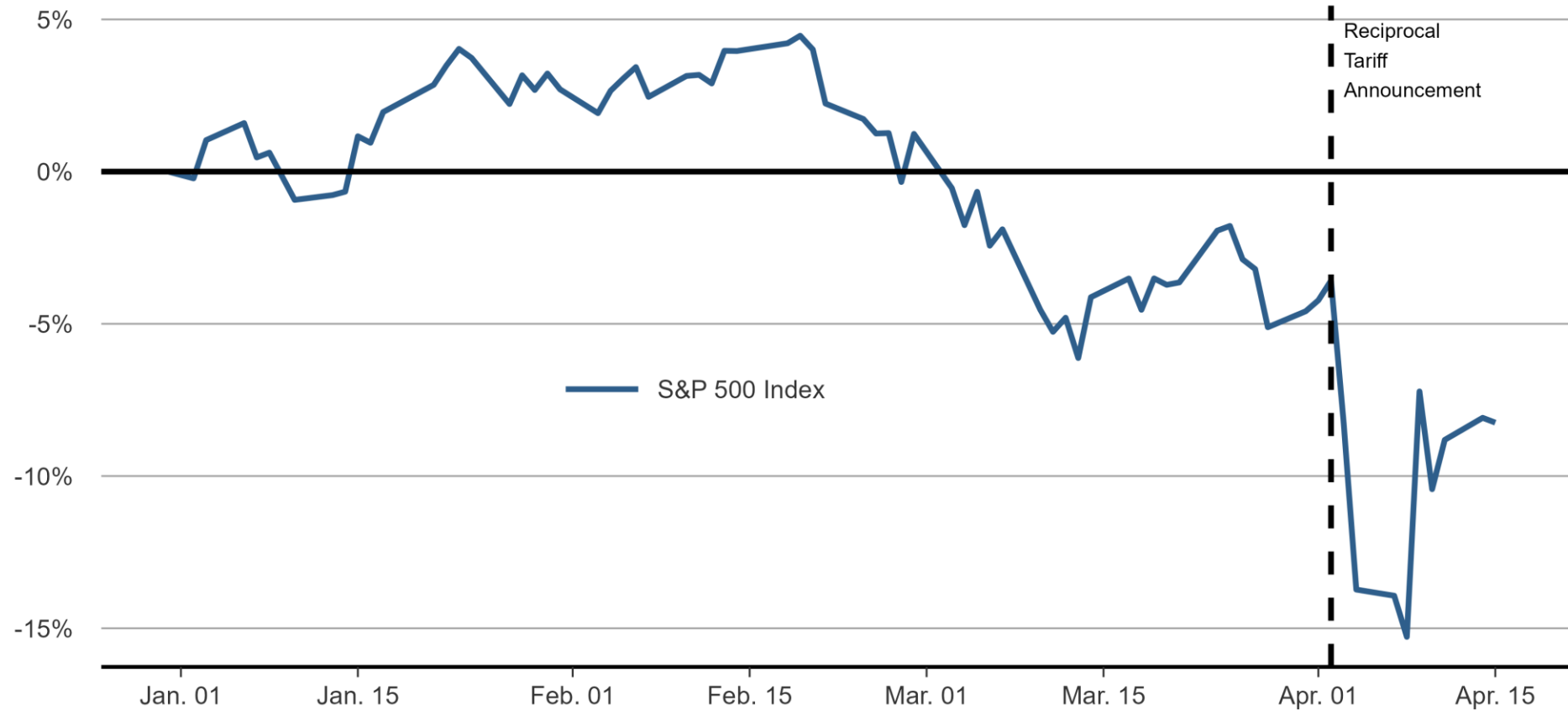
Consumer sentiment



Note: Levels indexed to Quarter 1, 1966
Source: University of Michigan's Survey of Consumers

Decline in equity prices may lower spending

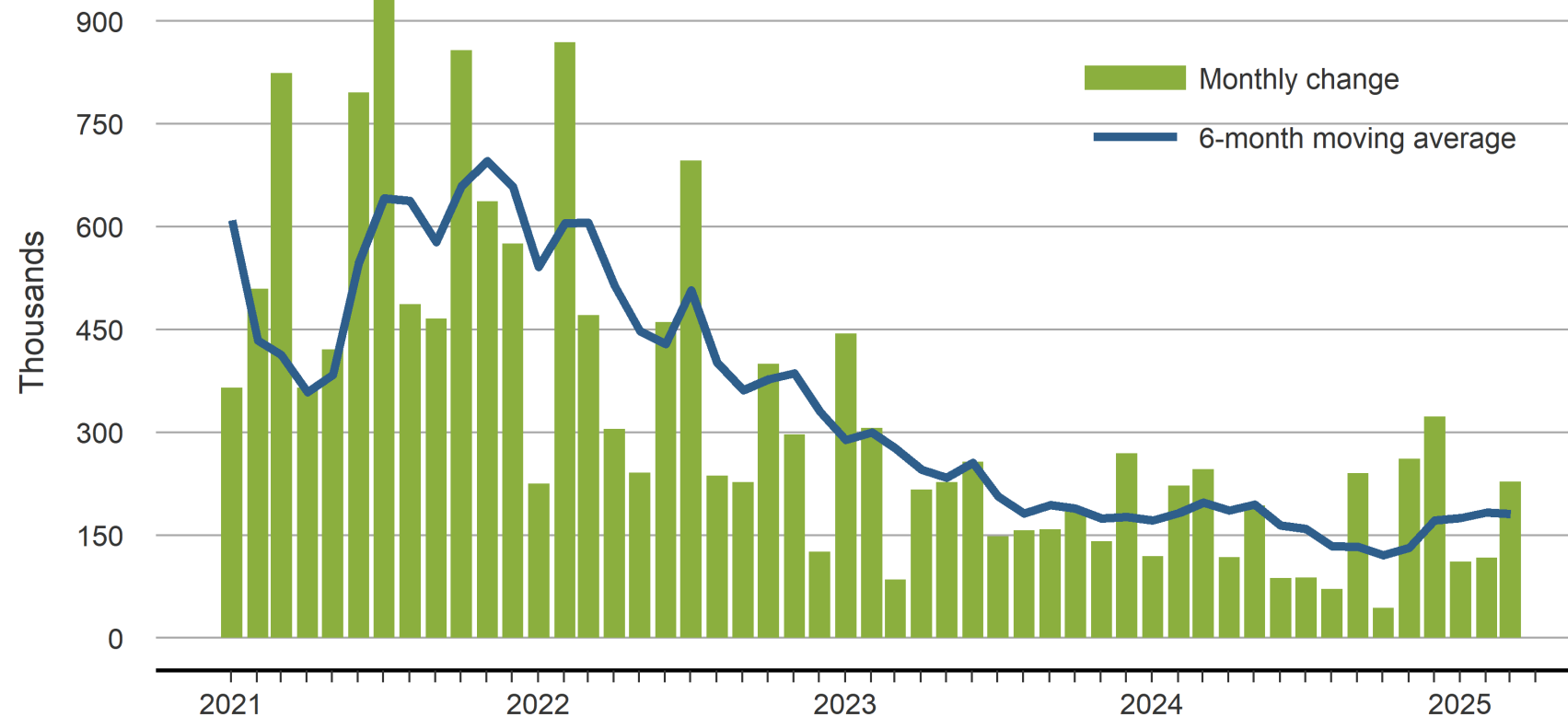
Year-to-date percent change



Note: Year-to-date percent change.
Source: Standard and Poor's via Haver Analytics.

Tariffs otherwise hitting a solid labor market

Payroll employment



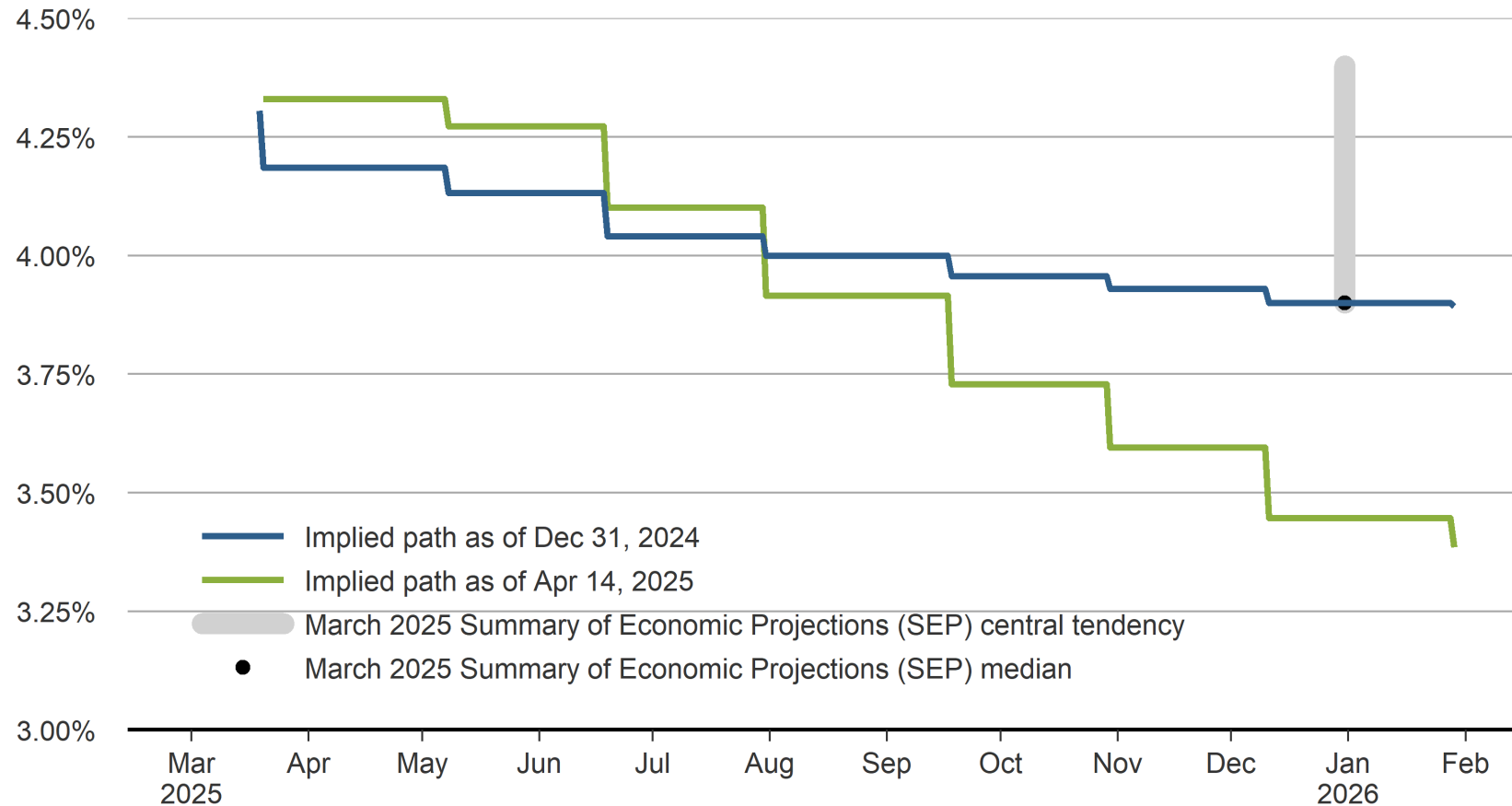
Source: Bureau of Labor Statistics



Monetary policy expectations

Financial markets pricing in lower interest rates

Expected federal funds rate path



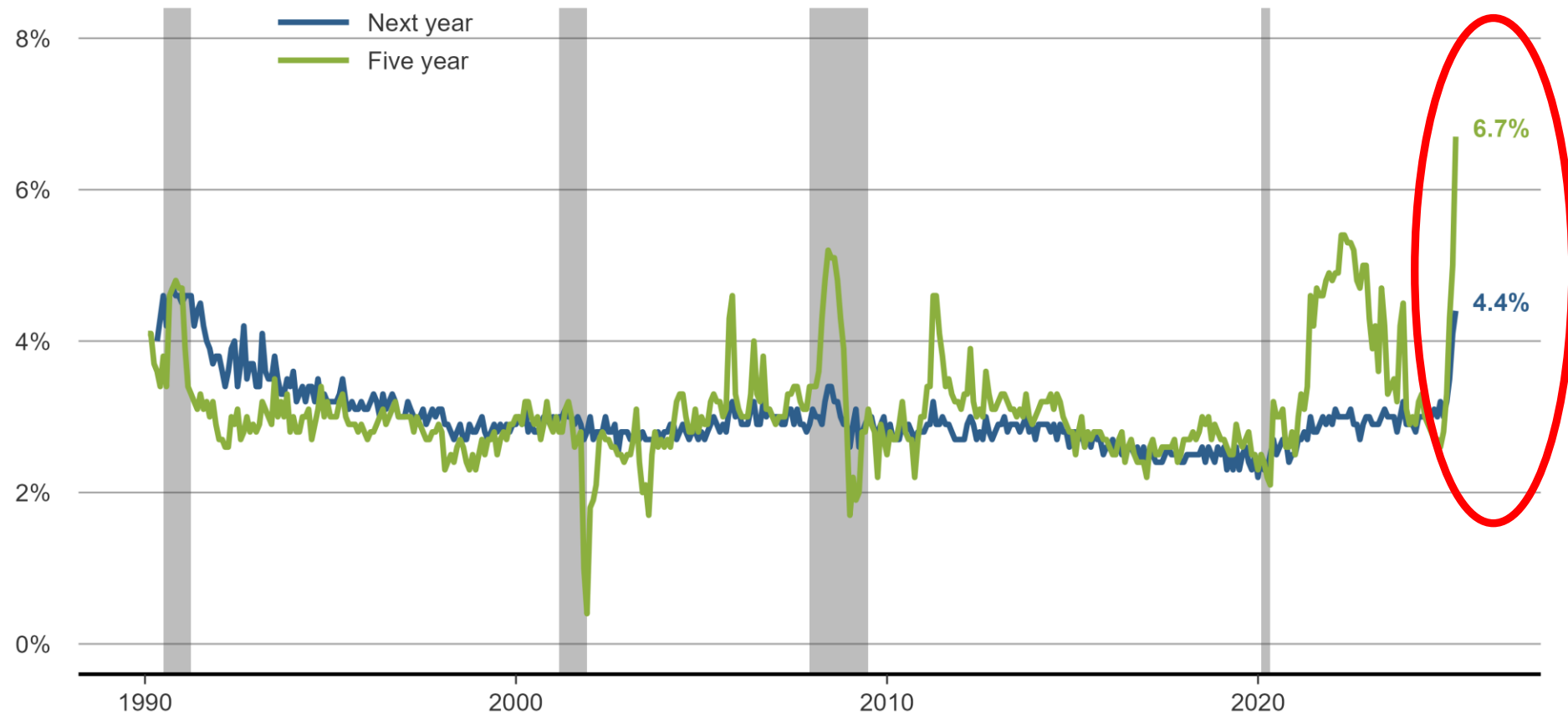
Notes: Effective federal funds rate path as implied from futures contracts covering announced FOMC meeting dates through February 2026. Black dots represent March 2025 Summary of Economic Projections (SEP) median estimate. Central tendency shading shown in gray.



Inflation risks

Household inflation expectations are way up

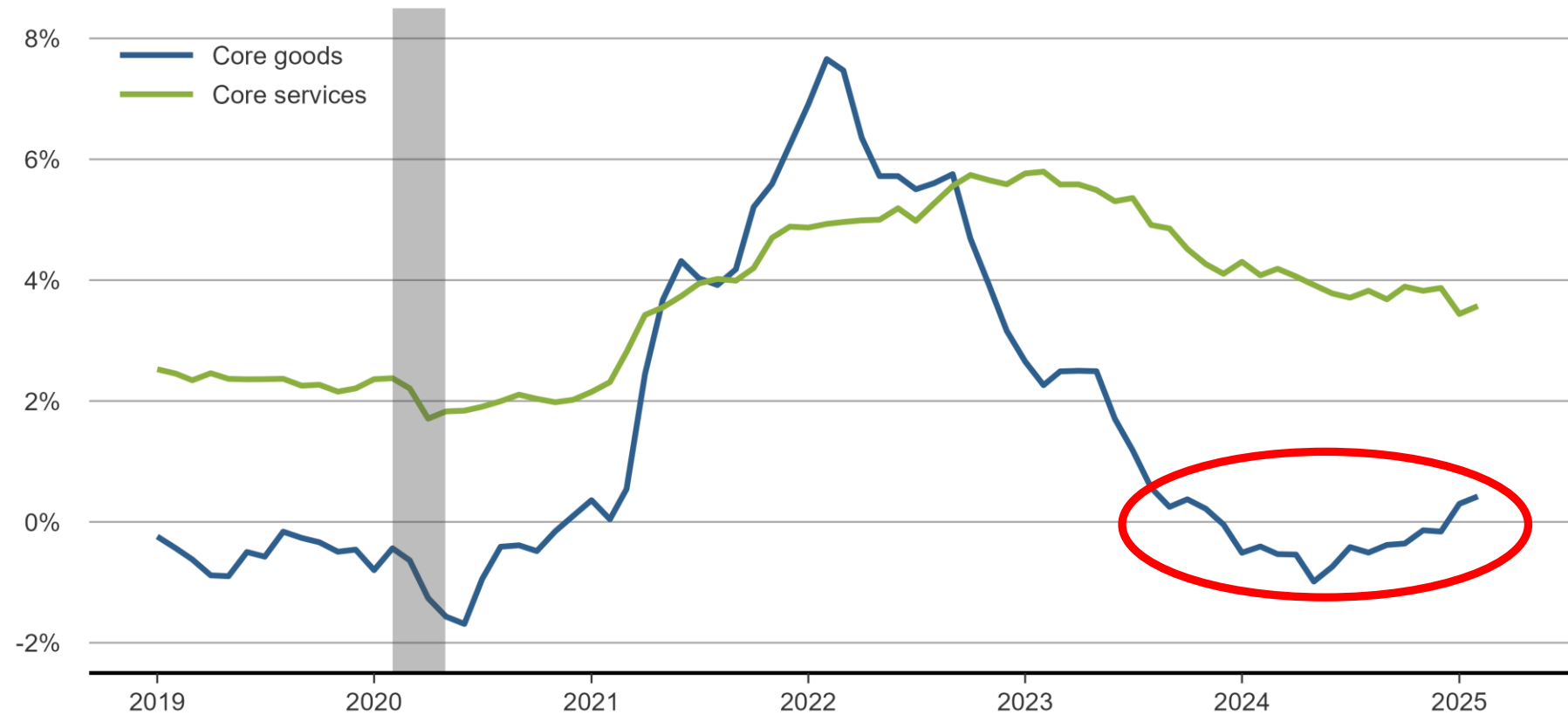
Inflation expectations, Michigan Survey



Source: University of Michigan/Haver Analytics

Goods price inflation likely to go higher

PCE inflation indices



Source: Haver Analytics

The background features a large, faint, circular seal of the Federal Reserve Bank of San Francisco. The seal includes an eagle with spread wings at the top, a shield with stars and stripes in the center, and the text "FEDERAL RESERVE BANK OF SAN FRANCISCO" around the perimeter. The date "MAY 20, 1914" is also visible at the bottom of the seal.

Thank you

**FEDERAL RESERVE BANK
OF SAN FRANCISCO**