



Update on U.S. Tariffs and Their Economic Impact



The evolving landscape of U.S. tariffs in 2025 is reshaping industries, particularly manufacturing, and exerting significant macroeconomic effects.

ECONOMIC IMPACT OF TARIFFS

According to the Yale Budget Lab, the tariffs implemented in 2025 are projected to reduce U.S. real GDP growth by 0.5% points annually in 2025 and 2026, while employment is expected to decline by approximately 505,000 jobs in 2025. The average effective tariff rate reached 18.3% pre-substitution, the highest since 1934, and 17.3% post-substitution, the highest since 1935. These measures have increased the overall price level by 1.8% in the short run, equivalent to a \$2,400 income loss per household, and by 1.5% post-substitution, or \$2,000 per household.¹

SECTORAL EFFECTS

Tariffs have disproportionately affected clothing and textiles, with short-run price increases of 40% for shoes and 38% for apparel. Long-term increases are estimated at 19% and 17%, respectively. While manufacturing output is projected to grow by 2.1% in the long run, construction is expected to contract by 3.5%, and agriculture by 0.9%.¹

FISCAL AND GLOBAL IMPACT

The tariffs are anticipated to generate \$2.7 trillion in revenue over 2026–2035, with \$466 billion in negative dynamic revenue effects, resulting in \$2.2 trillion in dynamic revenues. Globally, Canada's economy is expected to shrink by 2.1% in the long run, while the U.S. economy contracts by 0.4%.¹ The EU and UK may see slight economic gains.

AUTOMOTIVE INDUSTRY CHALLENGES

The automotive sector is facing unprecedented challenges due to tariffs, declining electric vehicle (EV) demand, and high transition costs to EVs. President Trump's tariffs on imported cars and parts have caused significant financial losses for manufacturers like Toyota, VW, and Ford, with costs expected to impact consumers. Global EV sales are slower than anticipated, comprising only 10% of total sales by the end of 2025. Major OEMs, including Toyota, VW, Stellantis, Ford, Tesla, Mercedes-Benz, Renault, and BMW, reported declining revenues, profits, and sales in 2025. Manufacturers are pivoting to plug-in hybrid electric vehicles (PHEVs) as a transitional technology.²

LEGAL CHALLENGES AND POLICY REFORM

Ongoing litigation surrounding tariffs imposed by President Trump is creating uncertainty. Landmark cases such as *V.O.S. Selections Inc. v. Trump* and *Learning Resources, Inc. v. Trump* challenge the legality of these tariffs. Conflicting rulings from federal courts have led to appeals, with potential Supreme Court review expected by mid-2026, with a ruling not until 2028. The litigation has sparked calls for legislative reform, including the proposed Trade Review Act, which would limit presidential authority and require Congressional approval.³

KEY DEVELOPMENTS IN 2025

- + **August 2025:** Effective U.S. tariff rate at 15.8%; tariffs on South Korea leave Q3 GDP growth forecast unchanged at 2%.⁴
- + **July 2025:** U.S. tariff rates approach 20%; trade agreements with the EU (July 27) and Vietnam (July 2); speculation of a 30% tariff for the EU; 50% tariffs imposed on Brazil; copper prices rise after 50% tariffs.⁴
- + **June 2025:** 50% aluminum tariffs disrupt the MWP market.⁴

COVERAGE IMPLICATIONS

Directors and officers (D&O) liability insurance can be activated if a company's leadership fails to adequately plan for the impact of tariffs, potentially leading to financial harm, regulatory scrutiny, or shareholder lawsuits.

Key considerations:

Potential Triggers for D&O Claims Due to Tariff Mismanagement

- + **Failure to Disclose Material Risks:** If executives do not properly disclose the financial impact of tariffs on earnings, supply chains, or operations, shareholders or regulators could allege misrepresentation or inadequate risk disclosure.
- + **Breach of Fiduciary Duty:** Directors have a duty to act in the best interest of the company. If they fail to implement risk mitigation strategies (e.g., diversifying suppliers, adjusting pricing models, or securing alternative contracts), stakeholders may claim negligence.
- + **Stock Price Drops & Shareholders' Lawsuits:** If poor tariff planning leads to significant revenue declines, cost overruns, or supply chain disruptions, investors might sue, claiming mismanagement led to financial losses.
- + **Regulatory Investigations & Fines:** Companies that fail to comply with new tariff regulations could face government inquiries, fines, or penalties, which could trigger D&O coverage for defense costs.

Other Relevant Insurance Coverages

- + **Trade Credit Insurance:** If tariffs disrupt supply chains or business relationships, resulting in customer defaults, this coverage could help mitigate financial losses.
- + **Business Interruption Insurance:** If tariffs cause operational delays or supply shortages, leading to lost revenue, depending upon policy provisions, this coverage might be applicable.
- + **Errors & Omissions (E&O) Insurance:** If a company provides consulting or advisory services (e.g., financial, legal, or trade advice) and miscalculates the tariff impact, it could be liable for professional negligence.



Companies should proactively assess their D&O coverage terms to ensure they include tariff-related risks. Reviewing policy exclusions and engaging with insurers early can help mitigate potential claim denials. If your operations are particularly exposed to tariff risks, you may need customized risk management strategies.

CONCLUSION

The U.S. tariffs of 2025 are reshaping the economic and industrial landscape, with significant implications for GDP growth, employment, consumer prices, and global trade dynamics. Legal challenges and policy debates continue to unfold, adding uncertainty to the future of trade and tariff authority. Industries are adapting by diversifying supply chains and reevaluating investment priorities to navigate the complexities of a tariff-driven economy.

REFERENCES:

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- ² Jacobs, F. (n.d.). *Tariffs are not the only thing pushing carmakers into the red*. Global Fleet. <https://www.globalfleet.com/en/manufacturers/global-analysis/tariffs-are-not-only-thing-pushing-carmakers-red?a=FJA05&t%5B0%5D=OEMs&t%5B1%5D=Tariffs&t%5B2%5D=PHEVs&curl=1>
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- ⁴ J.P. Morgan Global Research. (2025, August 11). *US Tariffs: What's the Impact?* J.P. Morgan Global Research. <https://www.jpmorgan.com/insights/global-research/current-events/us-tariffs>

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