Will Tariffs Touch Off an Inflationary Impulse? Business Execs Think So.

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Summary:

Following the inflationary surge from 2021 to 2023, which was touched off by supply chain constraints and shipping bottlenecks, we evaluate a new panel of own-firm price and unit cost growth expectations in the Atlanta Fed's Survey of Business Uncertainty for signs that the anticipated impact from tariffs is broadening beyond directly affected firms. We find evidence for the potential of tariffs to touch off another bout of high inflation. First, firms that are directly exposed to tariffs have increased their year-ahead price growth expectations sharply (by 0.7 percentage points). Second, firms that are not directly exposed to tariffs but are operating in industries that are highly exposed to tariffs anticipate a moderately higher trajectory for year-ahead price growth (0.3 percentage points). Third, this broadening of overall price pressures—a key feature of the pandemic-era inflationary impulse—is only partially offset by lower price increases from tariff-exposed firms that are operating largely in industries not exposed to tariffs.

Key Findings:

1. Firms, en masse, have increased their year-ahead price growth expectations since the end of 2024. This is especially true for firms directly exposed to tariffs.

2. We find evidence of a broadening of the influence of tariffs beyond those directly exposed. Unexposed firms in exposed industries anticipate a moderately higher trajectory of year-ahead price growth.

3. The broadening of anticipated price growth is only partially offset by lower price growth expectations among tariff-exposed firms operating in largely unexposed industries.

Federal Reserve
Bank *of* Atlanta

Will Tariffs Touch Off an Inflationary Impulse? Business Execs Think So.

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"The effects on inflation [from tariffs] could be short lived—reflecting a one-time shift in the price level. It's also possible that the inflationary effects could instead be more persistent. Avoiding that outcome will depend on the size of the tariff effects, on how long it takes for them to pass through fully into prices, and, ultimately, on keeping longer-term inflation expectations well anchored."

—Fed chair Jerome Powell in his post-FOMC press conference on June 18, 2025. [1]

1. Introduction

Just a few short years after inflation as measured by the Consumer Price Index (CPI) peaked at 9.1 percent and only slowly ebbed back toward price stability (or levels in that neighborhood), the risk grew that tariffs might unleash a new inflationary impulse. That painful period of elevated inflation is still fresh in the minds of many households and, importantly, businesses who are the price-setters. Much like the episodic supply-chain constraints that were the initial drivers of that pandemic-era shock to inflation, tariffs are typically seen as causing a one-time shift in price levels. That is, the *direct* impact of tariffs falls on firms that are sourcing supplies and intermediate inputs from abroad. The additional cost of new import duties can be quickly passed through into the selling prices of these importing firms, which will show up as an increase in the *relative price* of tariff-affected goods and services. This will temporarily boost the growth rate in the CPI. Indeed, during the 2018–19 period of tariff and trade conflict, this boost is precisely what happened (see Amiti, Redding, and Weinstein, 2019).

However, this was not our experience during the pandemic-era inflationary surge. What started out as solely an increase in the relative prices of goods and services affected by supply constraints and shipping bottlenecks quickly metastasized into a high-inflation environment where the prices of nearly all goods and services in the US economy rose quickly. By early 2022, roughly 80 percent of the CPI (by expenditure weight) was rising at rates exceeding 5 percent.[2]

Evidence from business surveys, such as the Atlanta Fed's Survey of Business Uncertainty, the Business Inflation Expectations survey, and The CFO Survey (which the Atlanta Fed conducts alongside researchers at the Richmond Fed and Duke University), was instrumental in informing our understanding of how pandemic-era inflationary pressures were broadening into a persistent inflationary shock.[3] We anticipate that the collective evidence from these surveys will be just as useful this time around.

The chief concern regarding the impact of tariffs is whether we will experience the same phenomenon that we witnessed during the pandemic. That is, will price pressures spread

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[1] Transcript of Chair Powell's Press Conference, June 18, 2025
[2] Inflation Should Continue to Fall as Restrictive Policy Bites - June 29, 2023 - Federal Reserve Bank of Atlanta
[3] The Current Inflation Episode: Have We Met Our FAIT?

beyond only the prices that are directly affected by increased import duties? To answer that question, we turn to a new panel of price and unit-cost growth expectations and uncertainty from the Survey of Business Uncertainty (SBU). Specifically, we evaluate how these expectations have evolved from late 2024 through the middle of 2025, with a useful special question on the share of inputs sourced from abroad and administrative data on the share of imports by industry to isolate the impact of tariffs on firm-level price expectations and uncertainty.

We find that business executives, on average, have ratcheted up their year-ahead price growth expectations since the end of last year. Firms with supply chains that rely on imported goods have revised up their year-ahead expectations markedly: An extra standard deviation of import reliance had a 0.7 percentage point effect. As direct evidence on the potential for tariffs to broaden into a full-fledged inflationary shock, we find that firms with largely domestic supply chains that operate in industries heavily exposed to tariffs have increased their price growth expectations by roughly half of those firms that are directly exposed. This finding suggests that competitive pressures bleed into firms' own pricing plans, as more tariff-exposed competitors allow a firm to raise prices. Partially offsetting the spread of tariff-related price pressures, we find that tariff-exposed firms operating in industries that largely source inputs domestically have raised their year-ahead price growth expectations less than exposed firms operating in exposed industries. Here, the increase is a little over half a percentage point compared to more than two-thirds of a percentage point. On net, price expectations have increased meaningfully since the end of last year, and—although the imposition of tariffs appears to be the catalyst for the pickup in price growth expectations—the spillover onto insulated firms raises the risk of a broad-based increase in inflation.

The evolution of firm-level price growth expectations is consistent with other research attempting to estimate the impact of tariffs on inflation. Work by researchers here at the Atlanta Fed finds that the direct impact of tariffs to date (as of August 7) could raise consumer prices by roughly 1.3 percentage points. The Budget Lab at Yale University currently estimates a roughly 1.8 percent increase in consumer prices as a result of tariffs. Also, Alberto Cavallo and his coauthors, connected to Havard's Pricing Lab, track high-frequency retail pricing data and already find pricing spillovers from tariffs onto domestically sourced goods, consistent with business execs' expectations in our surveys.

Uncertainty around the evolving tariff picture is still swirling, as evidenced by the initial 90-day pause on reciprocal tariffs that ended on July 9 and then extended until August 1. Uncertainty over the forward trajectory of tariffs is also featured in our results. Firm-level price growth uncertainty increases with the share of both own-firm and industry-level inputs sourced abroad. As such, in the context of the evolving breadth and intensity of tariff imposition on global trading partners, our results are likely to be sensitive to these policy

changes and therefore are best viewed as a risk to the inflation outlook should effective tariff rates remain largely unchanged relative to where they were through the first half of 2025.

2. Data

We use a new and novel panel of the subjective probabilistic expectations for price and unit-cost growth of C-suite executives and business owners from the SBU. The SBU is a national, monthly survey of nonagricultural private employer businesses that draws from firms of all size classes and across all major industrial sectors of the US economy and now gathers more than 900 monthly responses. This innovative survey has been eliciting subjective probability distributions from business execs regarding their own-firm year-ahead sales growth and employment outcomes since early 2014. In mid-2024, the SBU added an additional panel to collect own-firm price and unit-cost growth expectations and attendant uncertainty from these panelists.

Research conducted using the SBU and published in the *Journal of Econometrics* finds that firm-level growth expectations are highly predictive of future realized growth rates and that subjective uncertainty is predictive of the size of future forecast errors (see Altig et al. 2022). In short, business executives generally do a good job of anticipating their own future growth and tend to know when their outlook is uncertain. When it comes to sales and employment growth, these features of the SBU give us further confidence in our results for price and unit-cost expectations. Moreover, other central banks (including the Bank of England, the Bank of Canada, and Germany's Bundesbank) have adopted the format of the SBU, underscoring its usefulness in both research and as an input for monetary policymakers, functioning essentially as nearly a real-time indicator of how businesses expect the economic outlook to unfold.

In addition to the monthly survey questions on price and unit-cost growth expectations, we use the results of a set of special questions posed to panelists in March 2025 that asked firms to quantify the share of their inputs sourced abroad.[4]

Detailed industry-level import shares are produced from the US Bureau of Economic Analysis's Input-Output Accounts from 2017. We use cell-block imputation to update these data with more recent, although less detailed, data from 2023.[5] From these detailed 2023 data, we compute coarse measures of industry-level exposure to imported inputs—that is, the share of total intermediate inputs used by a firm that are imported from abroad.

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[4] A detailed look at the survey questions we used can be found in the appendix.

[5] Cell-block imputation is a popular method to update more disaggregated input-output tables that might be outdated using more recent, but aggregated, input-output tables. Though this method may imply some drift bias within the coarser categories, simple imputation checks show that this is not a major source of error. Several recent papers using I-O tables have used this approach, including but not limited to, Baslandzé et al (2025) and Barbiero and Stein (2025), among others.

3. Impact of Tariffs on Firms' Price Growth

Firms Have Ramped Up Their Price Growth Expectations

Toward the end of 2024, alongside ebbing inflationary pressures, firms on average anticipated increasing prices by roughly 2.5 percent over the year ahead. However, as the picture around tariffs began to take shape, these expectations increased markedly, rising roughly a full percentage point through the middle of 2025, to roughly 3.5 percent (see figure 1).

Figure 1: Firms' Realized and Expected Price Growth
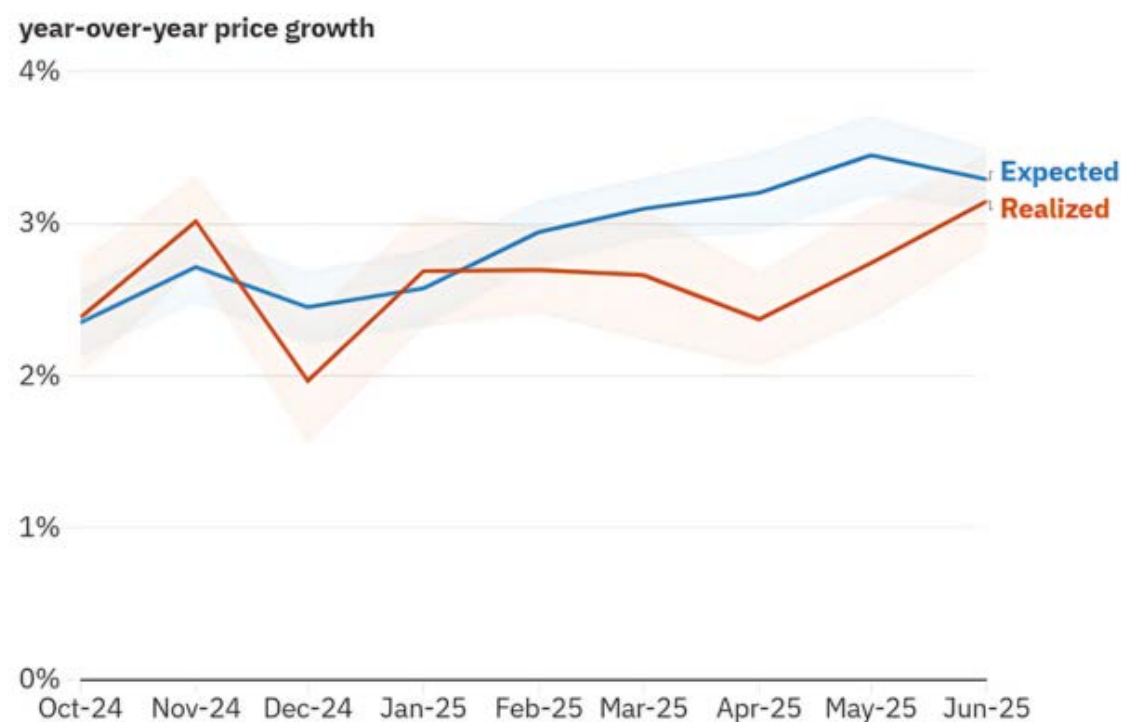
Source: Atlanta Fed's Survey of Business Uncertainty
Note: Shaded region indicates sample standard errors. Responses are from October 2024 through June 2025.

Realized (past 12-month) price growth, which ended last year roughly in line with expectations (around 2.5 percent), remained roughly flat through the first quarter of 2025. However, realized price growth has begun to pick up over the past two months, rising to 3 percent, on average, a few months after the imposition of tariffs.

Although the aggregated data point to higher price growth on the horizon, they do not formally establish a link between tariffs and higher price growth. The rest of this paper explores this link.

Price Growth Expectations and Import Exposure

When we sort firms on whether they are sourcing inputs from abroad (that is, whether they are "tariff exposed"), an interesting pattern emerges. Figure 2 depicts price growth expectations

for goods-producing firms by their tariff exposure, and figure 3 shows the same data for service providers.

Figure 2. Goods-Producing Firms' Price Growth Expectations by Tariff Exposure
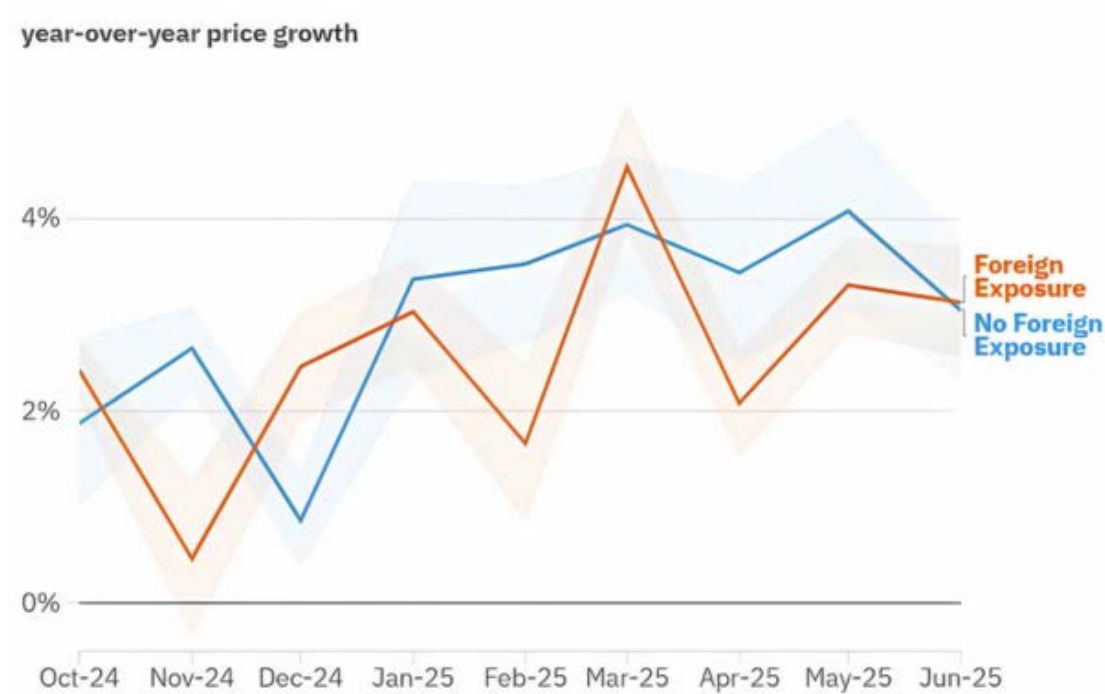
Source: Atlanta Fed's Survey of Business Uncertainty
Note: Observations are weighted by imputed sales revenue. "Exposure" is defined as having a nonzero share of nonlabor inputs in U.S. operations that are sourced from abroad. Shaded region indicates sample standard errors. Responses are from October 2024 through June 2025.

Figure 3. Service-Providing Firms' Price Growth Expectations by Tariff Exposure

Source: Atlanta Fed's Survey of Business Uncertainty
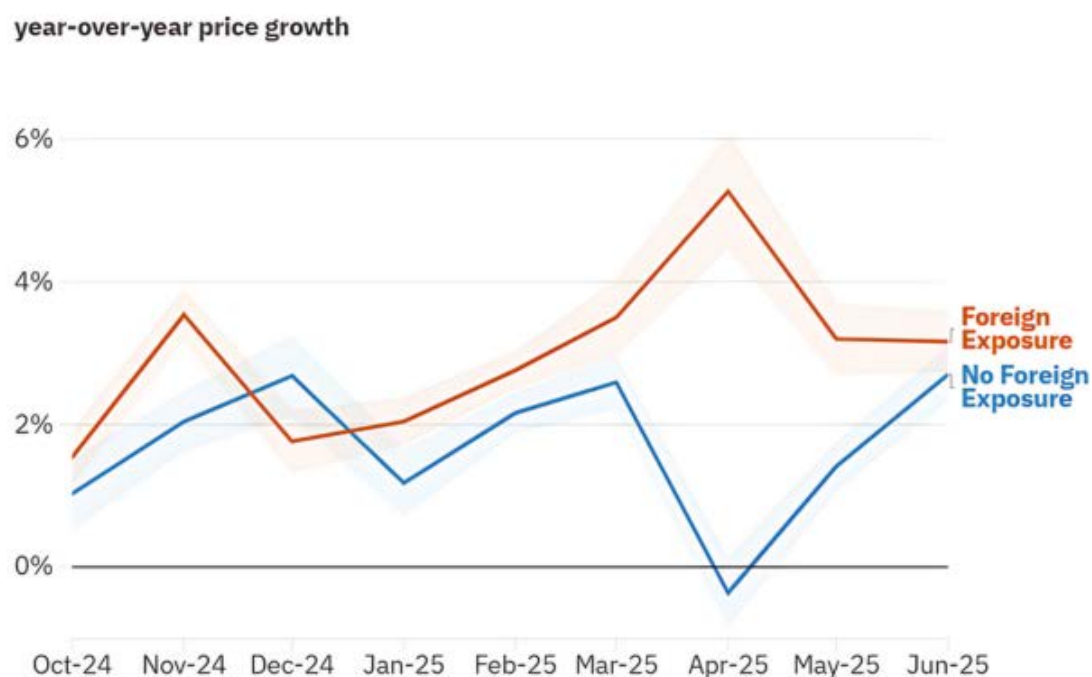Note: Observations are weighted by imputed sales revenue. Observations are weighted by imputed sales revenue. "Exposure" is defined as having a nonzero share of nonlabor inputs in U.S. operations that are sourced from abroad. Shaded region indicates sample standard errors. Responses are from October 2024 through June 2025.

Interestingly, very little difference exists between the price growth expectations of goods-producing firms by whether they source inputs from abroad. However, for services, a clear difference is evident. Tariff-exposed service-providing firms anticipate a much higher price growth trajectory than unexposed service firms (whose expectations are relatively unchanged when compared to the end of last year). For context, roughly 73.8 percent of goods-producing firms in the SBU source globally, with an average share of imports of 16.3 percent (22.1 percent conditional on sourcing from abroad). In contrast, only 39.6 percent of service-producing firms source from abroad and at a much lower share (9.7 percent of inputs, 24.5 percent conditional on sourcing from abroad). These figures suggest two potential scenarios. First, it suggests that unexposed (mainly goods-producing) firms anticipate having some additional pricing power due to their competitors likely passing on increased tariff duties to their customers. Second, it suggests that some unexposed firms (largely in the service sector) might be attempting to tamp down on their price growth in the face of price increases elsewhere in the economy.

To dig further into how firms' expectations are evolving in light of the imposition of tariffs, we look at these data at the firm level, combined with administrative data on the share of imports by detail industrial sector. Through a regression and difference-in-difference style

approach, we will parcel out the effects of tariffs on firms' own cost pressures against those stemming from changing competitive pricing pressures.

Firm-Level Response to Tariff Pressures

To level-set, we first look at how firms' own exposure to tariffs through imported intermediates affects their expected price growth over the next 12 months. We do not see the effective tariff being imposed on their intermediate inputs, which were uncertain (and remain so) at the time of the question. Instead, having more imported intermediates is a sufficient statistic to expect additional costs from the tariff policy.

We also examine firms' unit cost growth expectations over the next 12 months, which should also detect the effect of tariff policy, perhaps a bit more expansively because it can pick up the entire chained effect—thus, if the firm itself does not import much of its imports but knows its suppliers are exposed to tariffs, this awareness would show up in their expected cost growth.

For both expected unit cost growth and firms' own import exposure, we standardize the variables by dividing their own standard deviations, a process that makes the variables more comparable and the regression coefficients more easily interpretable. For context, one standard deviation of intermediate import exposure is 21.2 percent, and the average is 12.1 percent. One standard deviation of firms' unit cost growth expectations is 6.8 percent over the entire sample, while the average is 4.1 percent.

Given the richness of our data, we evaluate both year-ahead price growth expectations and the attendant price growth uncertainty, as measured by the standard deviation of the subjective probabilistic distribution.[6] Using these as dependent variables in our regression analysis allows us to capture both the level effect and the uncertainty effect stemming from tariff exposure. Table 1 shows these regression coefficients, which represent how much firms' pricing plans differ by their tariff exposure. In the table's top panel, we include the effect after March 2025, which is our main result. The bottom panel shows the effect prior to November 2024, presumably before tariff expectations began to take hold. Standard errors are in parentheses. All specifications are also robust to running as quantile regressions at the median.

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[6] Our results are all robust to truncating outliers (that is, winsorizing) expected price changes, but for our main analysis we use the data as reported because the tariffs as sometimes announced were quite large and could cause very large swings in prices.

Table 1: The Impact of Tariffs on Firms' Price and Cost Growth Expectations

	(1) $(exp. \Delta Price)$	(2) $(exp. \Delta Price)$	(3) $(sd. \Delta Price)$	(4) $(sd. \Delta Price)$
Since March 2025				
Imports	0.70 (0.25)		1.14 (0.26)	
Expected Cost		2.93 (0.14)		0.54 (0.09)
N	874	874	874	874
Prior to November 2024				
Imports	−0.06 (0.19)		−0.18 (0.11)	
Expected Cost		2.58 (0.13)		0.23 (0.08)
N	719	1,190	719	1,190

Note: Columns (1) and (2) use expected price growth as their dependent and (3) and (4) have the standard deviation. Regressions are run with a constant, which is omitted and standard errors in parentheses.
Source: Atlanta Fed's Survey of Business Uncertainty; US Bureau of Economic Analysis, "The Use of Commodities by Industries, After Redefinitions – Detail" and authors' calculations

The first two columns make it clear that in the post-tariff period, both import exposure and expected unit cost growth increase firms' expected price growth, which is to say that if a firm imports more, then they are more tariff-exposed and thus have greater anticipated price growth—significantly more than unexposed firms. The effect of unit cost growth on price growth is about four times larger than the effect of import exposure, which seems reasonable given that most firms probably did not expect their effective tariff rate to be larger than 25 percent prior to March 2025. In the early period, we see an essentially zero effect on expected price growth from intermediate import intensity. This is a good placebo test, showing that there was no preexisting trend of importers raising prices. (If anything, it was the other direction, though that estimate, −0.06, is not statistically significant.) Unit cost growth does have a significant effect on expected price growth, as theory and practice suggest it should, though we should note that in that early period, the drivers of unit cost growth expectations were factors besides tariffs. Note that the expected unit cost effect in the recent period is slightly higher than it had been, which could be for a number of reasons but now very well could be because of how widespread the unit-cost shocks from tariffs are—an idea we explore in greater detail below.

We also find that exposure to tariffs has a significant impact on unit cost and price growth uncertainty, reinforcing much of the discussion of this period as one of uncertainty and showing up not only in firms' decisions such as investments but also in their plans to change prices. That import exposure brings about greater uncertainty than expected unit cost growth is, again, intuitive because the cost shock of more intermediate inputs could be either large or small, depending on the tariff level eventually realized—but it was not known at the time we posed the question. Again, in the earlier period, there was no uncertainty effect.

Supply-Chain Exposure at the Industry Level
Seeing that firms respond to their own cost pressures by planning to raise prices is evidence of direct pass-through. But the key question here is how does tariff exposure change the competitive landscape—and thereby prices? As we suggested, this factor is potentially important in how inflation might play out. To study this, we merged industry-level data on imports of intermediate goods to measure how a firm's competitors would be affected.[7]

Specifically, we use data from the US Bureau of Economic Analysis's (BEA) input-output accounts to construct industry-level shares of imported inputs to total inputs used in that industry's production process. A higher level of import share means that to produce one unit of output, this industry uses a relatively larger share of inputs that are imported from abroad. Likewise, a lower import share indicates that they need less imports for each unit of output. We use this as a coarse measure of industry-level import exposure. We fold this measure in with the SBU firm data by matching firms to their industries at the most aggregated National Industry Classification System (NAICS) level.

To add some context around this, in table 2 we portray the ten industries that rely the most on imported inputs and the ten industries that are least reliant on them. A clear pattern emerges. On the one hand, goods-producing industries like *medicinal and botanical manufacturing, telephone apparatus manufacturing,* and *computer manufacturing,* make up the entirety of the top ten most import-exposed industries in our data. On the other hand, service-producing industries like *insurance, radio and television broadcasting,* and *financial vehicles* are among the least exposed. Furthermore, the range of exposure is quite vast, with the most import-exposed industries having more than half of all inputs into their production come from abroad, while the least exposed industries are almost completely unreliant on imports.

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[7] In this analysis we use one-digit industrial sectors. Although the administrative data are available at a more granular level, it is difficult to map this into our survey data, which do not always have such detailed industry coding.

Table 2: Industry-Level Import Shares of Inputs

Industry	Import Share (%)	NAICS-2
Panel A: Most Import-Exposed Industries		
Medicinal and botanical manufacturing	57.49	32
Biological product (nondiagnostic) manufacturing	57.15	32
Pharmaceutical preparation manufacturing	52.57	31
Seafood product preparation and packaging	43.61	33
Computer terminals and other peripheral equipment manufacturing	42.16	31
Coffee and tea manufacturing	37.24	33
Telephone apparatus manufacturing	35.35	33
Storage battery manufacturing	35.08	33
Jewelry and silverware manufacturing	34.93	32
Petroleum refineries	34.89	33
Panel B: Least Import-Exposed Industries		
Forestry and logging	0.07	11
Radio and television broadcasting	0.46	51
Tenant-occupied housing	0.69	53
Insurance agencies, brokerages, and related activities	0.75	52
Funds, trusts, and other financial vehicles	1.05	52
Promoters of performing arts and sports	1.10	71
Religious organizations	1.19	81
Motor home manufacturing	1.43	33
Pipeline transportation	1.47	48
Poultry processing	1.52	31

Note: This table presents the most and least import-exposed BEA industries. Import share is calculated as the percentage of industry inputs that are imported. Source: Bureau of Economic Analysis, "The Use of Commodities by Industries, After Redefinitions—Detail" and authors' calculations.

Table 3 relates firms' expected price growth to industries' import share. Again, we look separately at the period since tariff policies were announced and the period before they began taking shape. In the first column, we regress a firm's price growth on its industry's import share. Notice that the response is almost the same magnitude as we saw for a firm's own import share and, again, it is negligible in the earlier period.

The industry's import share could be raising firms' prices because of the indirect competitive pressures or because the industry-level import behavior is a good predictor of a firm's own importing. That is to say, the industry's importing might be correlated with price

growth because the industry's importing is correlated with a firm's importing, which we have already shown to increase price growth. To isolate the indirect effect of competitive pressures, we look at columns 2 and 3.

In columns 2 and 3, we include in our regression either a firm's own imports or the expected unit cost growth. Notice that the coefficient on an industry's import share now approximately halves, while the firm's own imports or expected unit cost growth has similar coefficients to those shown in table 1. The interpretation here is that about half of the industry-level exposure effect (in column 1) was coming from the industry's correlation with a firm's own import shares or their own expected unit cost growth. But the other half seems to fairly consistently derive from competitive pressures.

A standard deviation increase in one's own import share increases expected price growth by about 0.6 percentage points. On top of this, if the firm is in an industry in which its competitors are also importing more, firms expect to raise their prices even more (another one-third of a percentage point for every standard deviation increase in import exposure). Although the effect of the industry's import share is quite consistent—whether also controlling for a firm's own imports or expected cost growth—it's important to note that it is consistently small and insignificant in the earlier period.

The results shown in table 3 suggest a potential intensification of tariff impacts beyond the effect that tariffs have on an individual firm's price growth expectations. They also point to a potential broadening of tariffs' inflationary impact because even if a given firm is not heavily and directly exposed to tariffs, industry-level exposure might allow them more room to push through higher price increases.

Table 3: Expected Price Growth and Industries' Import Share

	(1) $(exp. \Delta Price)$	(2) $(exp. \Delta Price)$	(3) $(exp. \Delta Price)$
Since March 2025			
Industrial Sector Import Share	0.68 (0.22)	0.327 (0.66)	0.36 (0.19)
Imports		0.66 (0.26)	
Cost Growth			3.53 (0.19)
N	874	874	874
Prior to November 2024			
Industrial Sector Import Share	0.09 (0.16)	0.07 (0.18)	0.16 (0.14)
Imports		-0.07 (0.19)	
Cost Growth			2.58 (0.13)
N	719	719	1,190

Note: Regressions are run with a constant, which is omitted, and standard errors are in parentheses. Source: Atlanta Fed's Survey of Business Uncertainty; U.S. Bureau of Economic Analysis, "The Use of Commodities by Industries, After Redefinitions—Detail" and authors' calculations.

How the Industry's Exposure Affects Firms' Own Price Expectations: A Differencing Approach
Though these regression effects are clear, they do not necessarily tell the whole story: imposing a certain structure on the effects. The regression shown in table 3 imposes a linear structure, meaning that it assumes the industry's import exposure will increase expected price growth regardless of a given firm's own exposure level. But this might not be the case; it could be that the industry's price changes depends on the firm's or vice versa. This more complicated relationship can be a good window into how competitive pressures influence expected price growth and how a tariff's effects might spread beyond those most directly exposed.

Let's imagine a couple scenarios where firm-level and sector-level import intensity varies discretely. First, consider a firm that is not directly exposed to tariffs (has no imports) operating in an industry that is heavily reliant on imports. Conversely, think about a firm that is heavily import-dependent but operates in an industry that is insulated from tariffs (very few imports). In that first scenario—the highly exposed industry—tariffs have put a lot of upward pressure on competitors' prices, creating an environment where the unexposed firm feels more confident in raising their prices as well. In the second scenario—that of the exposed firm operating in an unexposed industry—competitive pressures might limit the exposed firm's ability to raise prices.

Although our earlier results point to the potential intensification of tariff impacts through the additional 0.3 percentage point increase in price growth expectations stemming

from industry-level import exposure, this could go the other way: exposed firms in unexposed industries could have slower price growth and thereby temper price growth. We can look directly at these potentially offsetting effects to directly view the way competitors' exposure changes a firm's price growth.

Using an approach like a "difference-in-differences," we can compare the tariff effect in these two scenarios: we look at how much more price growth a firm expects in the period since the tariffs were introduced relative to the early period—essentially the excess expected price growth. If prices are growing more because of industry exposure than firm exposure, we can see the industry effect. Table 4 looks at exposed and unexposed industries, defined as those above and below the average exposure, respectively, and relatively exposed and unexposed firms within those industries, defined as firms that import more or less than their sector average. The result is that firms with heavy imports but in relatively unexposed industries that restrain their pricing power expect to raise their prices by less than a firm that itself is unexposed but is in an industry that imports heavily. The 0.2 percentage point gap in expected price growth is the way in which easing competitive pressure itself is leading firms to expect to raise prices—quite close to the regression coefficient of 0.3 percentage points that we cited earlier.

Table 4: Exposed and Unexposed Industries

	Excess expected price growth (Post-March 2025 – pre-November 2024)
Exposed firm, unexposed industry	0.66
Unexposed firm, exposed industry	0.87
Difference	0.22

Source: Atlanta Fed's Survey of Business Uncertainty; U.S. Bureau of Economic Analysis, "The Use of Commodities by Industries, After Redefinitions – Detail" and authors' calculations

From this exercise we see that anticipated price growth for firms overall has risen sharply relative to the period prior to March 2025 and particularly when the industry's import exposure allows it. Our earlier results on the impact of tariffs showed a direct effect on exposed firms' price growth expectations and an additional boost to price growth expectations coming from industry-level effects. Combined with these results, our evidence suggests that, on net, we are likely to see a broadening and intensifying inflationary impulse because entire industries are raising prices. Firms can pass tariffs on to customers without losing too much share because their competitors are doing the same.

4. Conclusion

Tariffs have become a salient feature of the economic landscape. US firms are grappling with many aspects of the impacts that current tariffs and the uncertain trajectory of future tariffs

are having on their business decisions, which has especially important ramifications as this grappling involves their pricing plans.

We find that business executives, on average, have ratcheted up their year-ahead price growth expectations—to a large extent, the result of firms with supply chains that rely on imported goods having markedly revised upward (by 0.7 percentage points) their year-ahead expectations of price increases. Additionally, firms that are largely unexposed to tariffs (due to largely domestic supply chains) but operate in heavily exposed industries anticipate increasing their year-ahead price growth as well (by roughly half of those firms that are directly exposed). Our finding is evidence that competitive pressures bleed into firms' own pricing plans, as more tariff-exposed competitors allow a firm to raise prices. Partially offsetting the broadening and intensifying tariff-related price pressures, competitive forces can restrain pricing plans: we find that tariff-exposed firms operating in industries that largely source inputs domestically have raised their year-ahead price growth expectations by less than exposed firms operating in exposed industries. However, on net, the direct and industry-level effects of tariffs for exposed firms and those operating in exposed industries outweigh the mitigating effect from exposed firms operating in unexposed industries.

In sum, these results suggest that the possibility of seemingly one-time tariff-related price increases becoming a full-fledged inflationary impulse—like the episode we lived through just a few years ago—is elevated.

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Appendix

SBU Price and Cost Questionnaire and Sourcing Special Questions

What percent of <u>non-labor input supplies</u> for your firm's U.S. operations does your firm <u>source from abroad</u>?

%

Looking back, over the <u>last 12 months</u>, what was the approximate percentage change in the **average price** your firm charges, considering all products and services?

- *Please use a negative sign to indicate a decline*

%

Looking ahead, from now to <u>12 months from now</u>, what approximate percentage change in the **average price** your firm charges, considering all products and services, would you assign to each of the following scenarios?

- *Please use a negative sign to indicate a decline*

The LOWEST percentage change in average price would be about:	[ ] %
A MIDDLE percentage change in average price would be about:	[ ] %
The HIGHEST percentage change in average price would be about:	[ ] %

Looking back, over the <u>last 12 months</u>, what was the approximate percentage change in the **average unit costs** for your firm?

- *Please use a negative sign to indicate a decline*

[   ] %

Looking ahead, from now to 12 months from now, what approximate percentage change in your firm's **average unit costs** would you assign to each of the following scenarios?

- *Please use a negative sign to indicate a decline*

The LOWEST percentage change in average unit costs would be about:	☐ %
A MIDDLE percentage change in average unit costs would be about:	☐ %
The HIGHEST percentage change in average unit costs would be about:	☐ %