The Direct Economic Impact of the New USA Tariff Regime on the Local Economy

Department for the Economy June 2025

Introduction

On the 2nd of April 2025 President Trump announced an increase to import tariffs on all goods arriving to the United States (US) from countries around the world. This resulted in a 10% tariff being applied to products from the UK. A separate universal tariff of 25% was also applied to imports of steel and aluminium, as well as on automobiles and automotive parts. Separate higher tariffs were also announced on the import of goods to the US from China.

On 8th of May, the US and the UK announced a 'US-UK Economic Prosperity Deal'. This maintained the 10% US tariff baseline subject to some limited reduction/exemptions on specific commodities to include cars as well as steel/aluminium.

This paper seeks to examine the direct macro-economic consequences of these new tariffs on local business exports and assess the long-term implications for growth and employment, as well as for individual sectors of the economy. It is important to note that this analysis represents the direct impact of the new 'US-UK Economic Prosperity Deal' on local business exports compared to the trading situation ***before*** the 'Liberation Day' tariff announcement by President Trump on 2nd of April.

Economic Context

The USA represents one of the largest trading partners for local businesses taking approximately 12% or £1.9bn of total exports[1]. This compares to total exports to Ireland of £8.7bn, the rest of the EU £2.6bn and all other countries in the rest of the world combined at £3.0bn. Figure 1 below outlines the current breakdown of exports by trade partner:

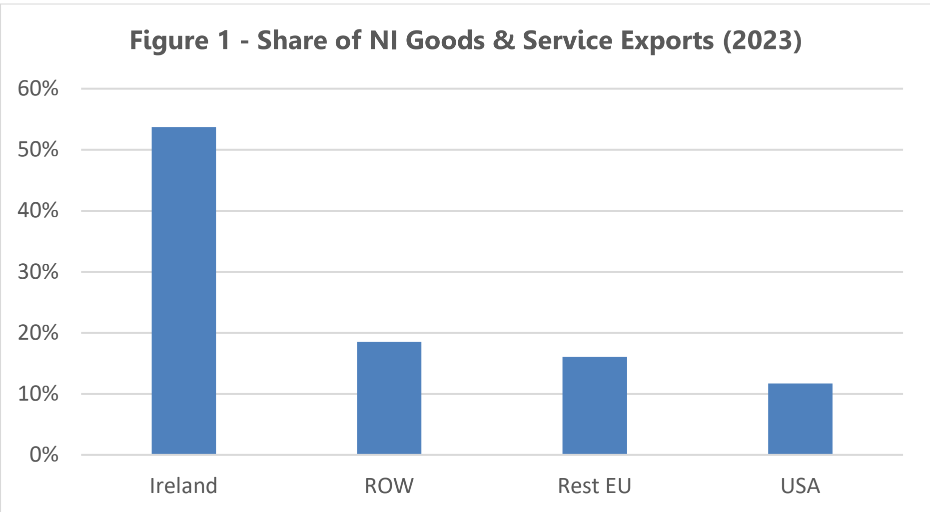

Figure 1 Source: NISRA, NIETS 2023

[1] Goods and Services Exports

Local business exports to the USA are dominated by a relatively small number of sectors and industries. Table 1 below demonstrates that almost all exports to the USA are produced by the following sectors[2]:

Sector	Percentage breakdown of exports to USA
Machinery	38%
Pharmaceutical Products	27%
Other manufacturing	21%
Beverages	5%
Electronics and electrical equipment	2%
Textiles, paper and printing	2%
Food	1%
Agriculture	1%
Rubbers and plastics	1%
Metals	1%

Table 1: Source: HMRC Regional Trade Statistics, DFE Analysis

In addition, it is also important to consider the importance of the USA market to specific sectors of the economy. Indeed, for each individual sector, Table 2 below demonstrates total USA exports as a percentage of each individual sector's total exports[3] (including Ireland).

Sector	Percentage of total Exports to USA
Pharmaceutical Products	48%
Machinery	22%
Electronics and electrical equipment	21%
Beverages	18%
Other manufacturing	17%
Agriculture	5%
Textiles, paper and printing	4%
Rubbers and plastics	3%
Primary	3%
Metals	3%

Table 2: Source: HMRC Regional Trade Statistics, DFE Analysis

This analysis demonstrates that the USA market is very important for the local pharmaceutical industry as well as being significant for local manufacturing, especially machinery, electronics/electrical and the beverage sector.

When it comes to assessing the potential impact of these new tariffs, it is important to be mindful of who ultimately pays the tariff. Indeed, although the tariff will be charged to the business importing the good, the ultimate incidence of the tariff is more difficult to determine, and it is likely that it will be borne by some combination of the USA importer and consumer. In addition, it is possible that the exporter will also bear some of the cost if they are pressurised to reduce prices to remain competitive in the export market. The

[2] Sectors are based on those specified within the Social Accounting Matrix that forms part of the CGE Model
3 Note that this external sales to GB are not included in this analysis

extent to which the tariff falls on any one group will ultimately depend on the nature and location of available product substitutes and how responsive demand is to a change in the price of the good.

Modelling Framework

Assessing the potential impact of this new tariff has been undertaken using a Computable General Equilibrium (CGE) model that was developed for the Department of the Economy by the Fraser of Allander Institute at the University of Strathclyde[4]. This is a type of macro-economic simulation model widely used by governments and organisations across the world such as HMRC, the Scottish Government and the World Trade Organisation to look at a variety of policy issues, including the impact of tariffs and changes to trading arrangements between countries.

The model combines economic data provided by the Northern Ireland Statistics and Research Agency (NISRA) with a complex system of equations to give an accurate representation of the structure of the local economy. Economic relationships in the model are based on theory and empirical evidence. This provides a framework to model the impact of policy changes to key economic variables. The model can also take account of different sectors of the economy, with a total of 30 individual sectors being specified.

It is important to note that the analysis produced by the model does not represent a forecast. Rather the results represent the deviation from a baseline arising from a shock to the existing economic status quo.

Furthermore, this analysis considers the direct economic impacts associated with the tariff increase and does not consider secondary impacts that could arise. These might include for example, reduced demand for local products from other countries around the world that are also negatively affected by the new tariffs. The Department is planning to undertake research work over the coming weeks that will seek to consider these impacts from other regions in more detail.

Scenarios

The analysis considers a baseline scenario that takes account of the fact that at present pharmaceutical products are excluded from the 10% tariff[5]. In addition, several alternative scenarios are considered to examine a range of potential outcomes given uncertainties around pharmaceuticals and aerospace products. Indeed, at present, both sectors are subject to further review and although it appears that aerospace products will be exempt, no details have been published, with the Trump administration suggesting that this will only apply to 'engines and similar parts". Given these uncertainties, scenarios 2 & 3, assess the impact of a 10% & 20% tariff on pharmaceutical products, whilst scenario 4 considers the impact of a tariff on aircraft parts at 0% instead of the baseline 10%.

Baseline Scenario – 10% tariff on all goods (excluding pharmaceutical products)

[4] See the following link for more information: https://www.economy-ni.gov.uk/sites/default/files/publications/economy/research-bulletin-19-6-expanding-analytical-toolkit-with-cge-model.pdf
[5] Furthermore, given the lack of data in relation to the specific goods that make up the small amount of 'metals' exports, for the purposes of this modelling exercise, it is assumed that these goods will also attract the 10% and not the 0% for steel and aluminum announced in the Prosperity Deal.

Scenario 2 – 10% tariff on all goods (including pharmaceutical products)

Scenario 3 – 10% tariff on all goods with 20% on pharmaceutical products

Scenario 4 – 10% tariff on all goods with aerospace at 0%

It is important to note that none of these scenarios takes account of the potential economic impact associated with the UK tariff reductions on imports e.g. agricultural products.

Headline Results

Table 3 below shows the main macro-economic results for each individual scenario:

	Baseline Scenario	**Scenario 2**	**Scenario 3**	**Scenario 4**
	10% on Exports (Ex Pharma)	**10% on Exports (Inc Pharma)**	**10% on Exports (20% on Pharma)**	**10% on Exports (aerospace 0%)**
GDP Impact	-0.15%	-0.17%	-0.19%	-0.15%
Employment	-0.09%	-0.11%	-0.12%	-0.09%
Imports	-0.48%	-0.54%	-0.59%	-0.47%
Exports	-0.57%	-0.65%	-0.72%	-0.57%
Investment	-0.15%	-0.17%	-0.19%	-0.15%
Gross wages	-0.37%	-0.42%	-0.46%	-0.37%
Exports to RUK[6]	0.21%	0.23%	0.26%	0.21%

Table 3: Headline results from the CGE Model

Baseline Scenario – 10% tariff on all goods (excluding pharmaceuticals)

The baseline scenario suggests that a 10% tariff on goods exports to the USA could result in a long term (15 years) reduction in GDP of 0.15%. This would equate to the economy being around £85m smaller than would otherwise be the case, based on the size of the economy today.

It is anticipated that gross wages would be lower by around 0.4% and the overall reduction in employment would be around 0.09% which would equate to approximately 800 jobs, based on the current size of the labour market.

Unsurprisingly the imposition of a 10% tariff would reduce exports by around 0.6%. However, this is also likely to reduce imports by around 0.5%, as fewer intermediate goods will be required to produce the exported products.

Interestingly, external sales to the rest of the UK are expected to increase. This will in part be due to the increased competitiveness of NI firms resulting from a reduced cost of labour arising from lower wages. However, this analysis assumes that the trade impact from tariffs is isolated to the local economy. The rest of the UK, as well as other countries around the world will also be facing economic headwinds from these tariffs. This will also depress demand for local businesses, magnifying the negative economic consequences for NI from the imposition of the tariff – something that is not taken account of within the modelling framework.

[6] Rest of the UK

Investment is also expected to decrease marginally by around 0.15%, which would represent a longer-term economic headwind when trying to increase the levels of business R&D, innovation and ultimately productivity within the economy.

Sectoral Results

Figure 2 below demonstrates the impact of the baseline scenario on 30 individual sectors of the economy:

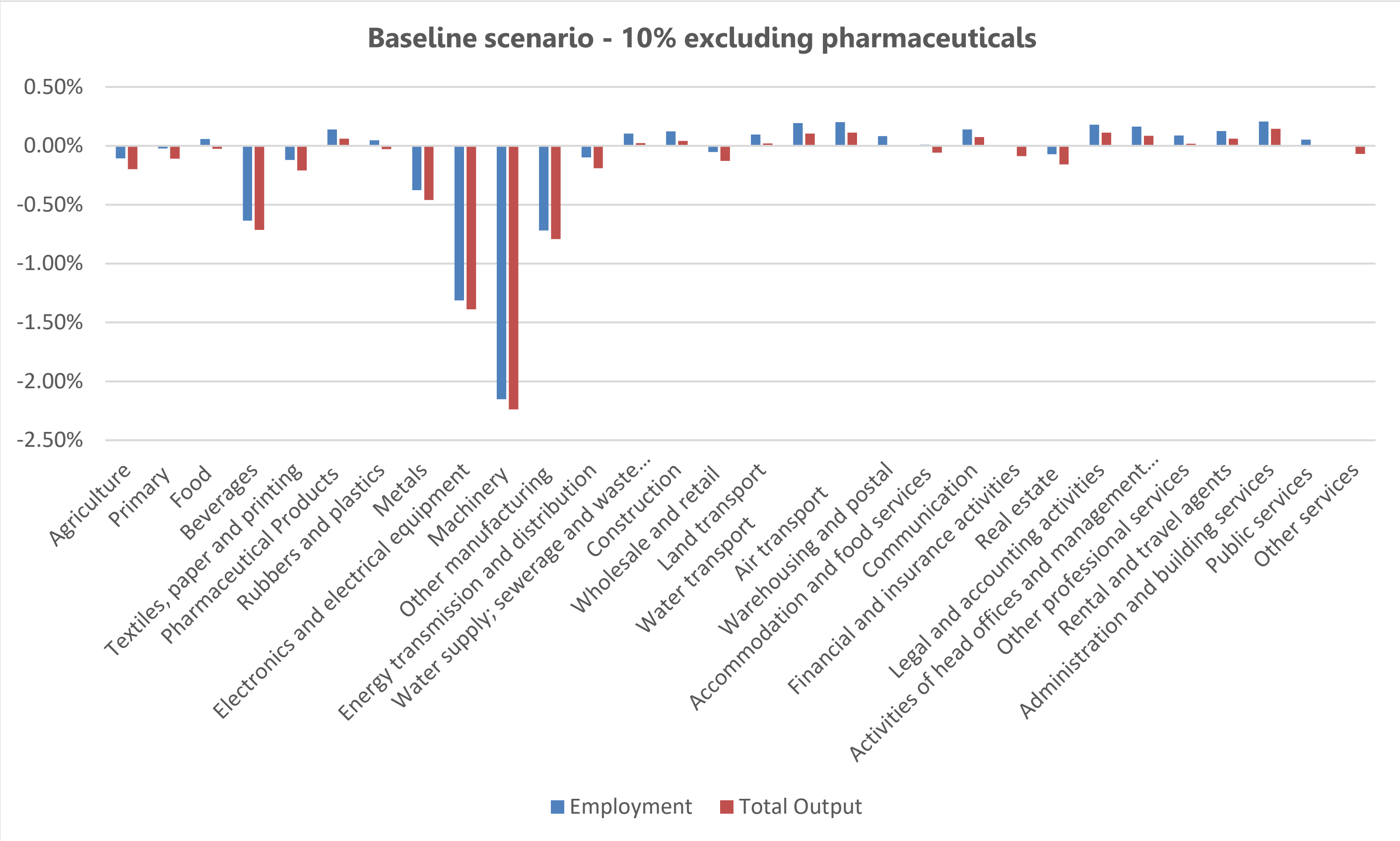

Figure 2 – Baseline Scenario - sectoral results from 10% tariff excluding pharmaceuticals

This chart highlights the fact that the machinery sector is likely to see the largest reduction in output at 2.24% and a corresponding reduction in employment of 2.15%. Other sectors that are likely to face significant reductions in output are the electronics and electrical equipment sector (-1.39%) as well as the other manufacturing sector (-0.79%).

Service & public sectors of the economy are expected to marginally increase output and employment. These results are likely due to the lower wage level throughout the economy (arising from the reduction in demand for labour) and ability of these sectors to expand output for this reason.

Scenario 2 – 10% tariff on all goods (including pharmaceuticals)

The headline results from scenario 2 indicate that GDP could be reduced by 0.17% which would equate to around £100m based on the size of the economy today. Figure 3 below outlines the impact of this scenario at a sectoral level. Unsurprisingly, given the importance of the USA market, the introduction of a tariff has a significant impact on the pharmaceutical sector, reducing output by 2.41%. Other sectors are impacted in a similar way to the baseline scenario, with the overall reduction in the wage level leading to very marginal increases in output for the service-based economy.

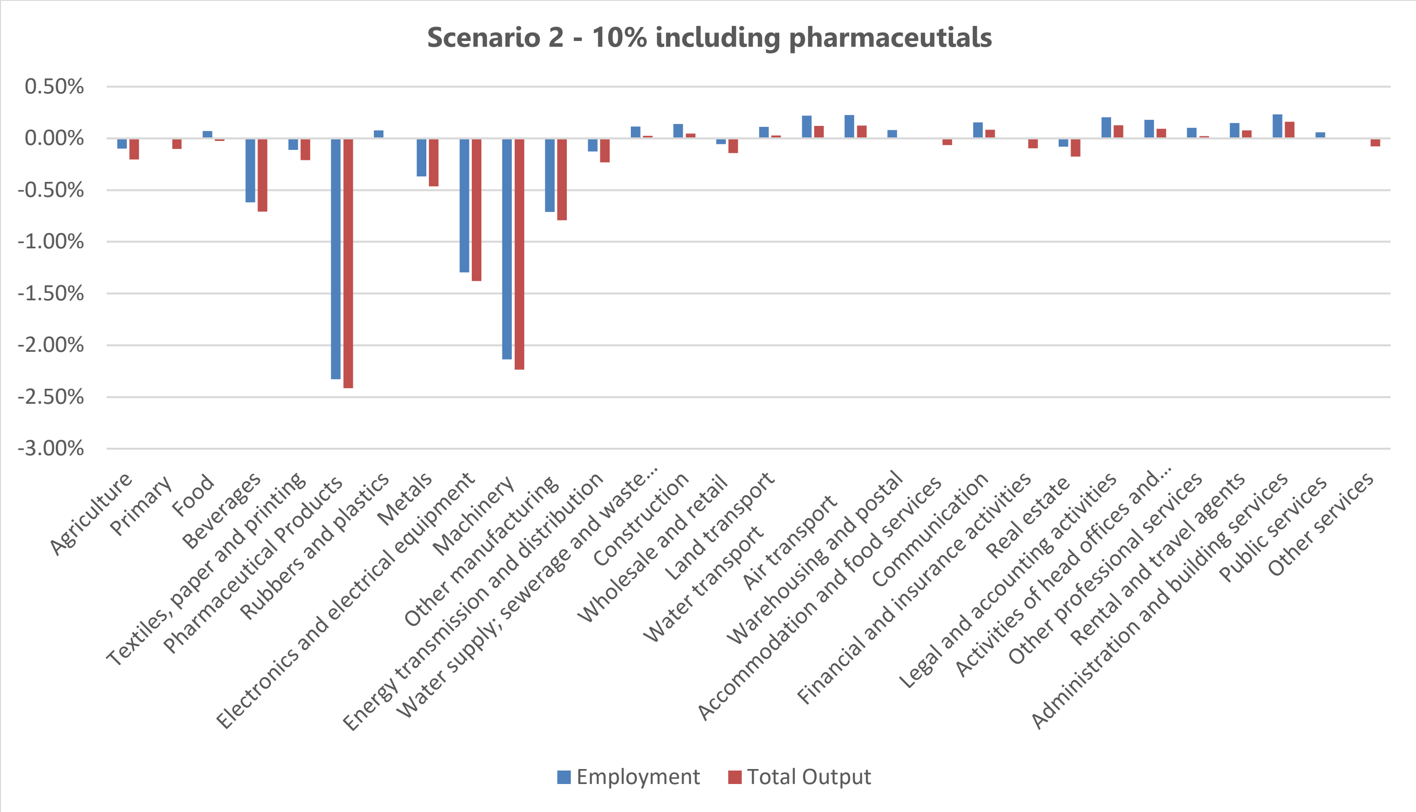

Figure 3 - Scenario 2 sectoral results from 10% tariff including pharmaceuticals

Scenario 3 – 10% tariff on all goods with 20% on pharmaceutical products.

If the Trump administration decides to impose a tariff on pharmaceutical products, it may be the case that this is significantly larger than the 10% modelling assumption used in scenario 2. To consider the impact of a higher tariff, figure 4 presents the results from a scenario that has a 10% base tariff on all products, except for pharmaceutical that has a 20% tariff.

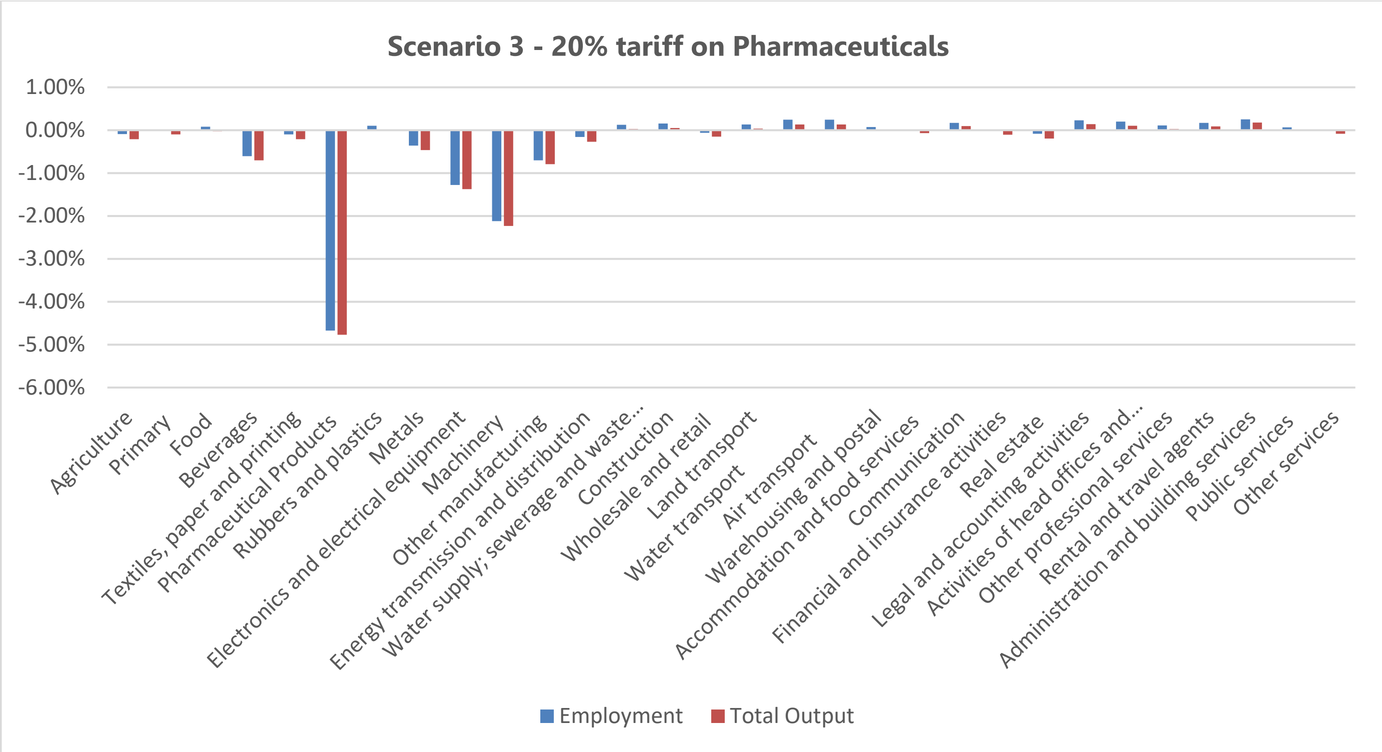

Figure 4 – Scenario 3 - 20% tariff on pharmaceutical products

In this scenario GDP is reduced by 0.19% (£110m) and exports by 0.72%. At a sectoral level, the reduction in output from the pharmaceutical sector has almost doubled to 4.77% with employment in this sector reducing by 4.68%. Given the importance of the USA market for the pharmaceutical exports, it is evident that import tariffs would have the potential to significantly affect the output of this sector.

Scenario 4 - 10% tariff on all goods with aerospace at 0%

Under the terms of the US UK Economic Prosperity deal, all goods imports from the UK will be subject to a baseline 10% tariff except for cars and steel/aluminium. It has also been suggested that aerospace parts will have a 0% tariff applied, however no specific details of this exemption have been published. To consider the impact of such an exemption, the following results have been produced from a scenario whereby all products (including pharmaceutical products) have a 10% tariff applied, except for aerospace parts that are assumed to be tariff free i.e. 0%.

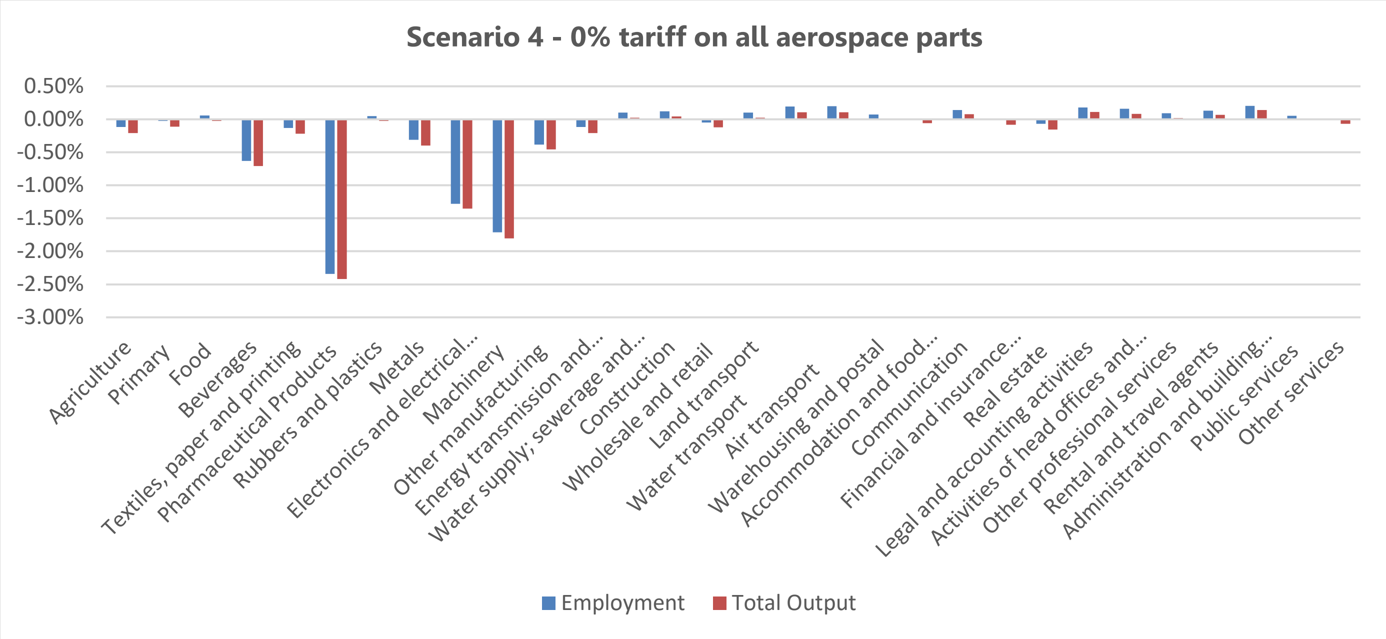

Figure 5 – Scenario 4 -10% tariff on all products except for aerospace 0%

In this scenario, long term GDP is reduced by 0.15%, which would be approximately £85m based on the size of the economy today. Employment would also be expected to be 0.09% lower, which would represent around 800 jobs based on current employment levels. At a sectoral level, both the machinery and other manufacturing sectors perform better, with output reducing by 1.80% and 0.45% respectively. This is compared to 2.2% and 0.8% under scenario 2, which has a 10% tariff on all goods.

This analysis underscores the importance of an exemption for tariffs on aerospace parts, with approximately 10% of the total negative impact associated with the 10% baseline tariff (including on pharmaceutical products), being mitigated by having an exemption for this one sector.

Conclusion

This analysis provides a modelled estimate of the direct trade impacts associated with the new tariff regime being introduced by the USA. It is evident that these tariffs will adversely affect local businesses and represent a significant headwind for businesses when trying to grow exports over the longer term.

It is also likely that many of the businesses impacted will be in specific geographic areas e.g. Mid Ulster and Armagh, Banbridge and Craigavon council areas. This is due to the importance of the manufacturing and pharmaceutical industries to these areas, which will have implications for the regional balance agenda being taken forward by the Department. In addition, the tariffs will negatively impact business investment over the long term which will serve as a headwind against efforts to increase investment and improve productivity.

Further analysis and stakeholder engagement will be necessary to ensure the economy adapts effectively to any new tariffs that are introduced.