



## **FOXX INVEST**

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### **US Tariffs and Consumer Sentiment in 2025: The Ripple Effects on Spending, Confidence, and Policy**

#### **Foxx Invest – Strategic Macro Research Report**

##### **Introduction: The Policy Shockwave**

As the second quarter of 2025 closes, the U.S. economy is grappling with a complex and intensifying policy shock—President Trump’s renewed push for tariffs. While tariffs may appear at first glance to be a foreign policy tool, the impact is being felt squarely at home. Through the lens of both macroeconomic indicators and detailed consumer sentiment data from the University of Michigan, this report dissects how U.S. consumers are reacting—economically, psychologically, and behaviorally.

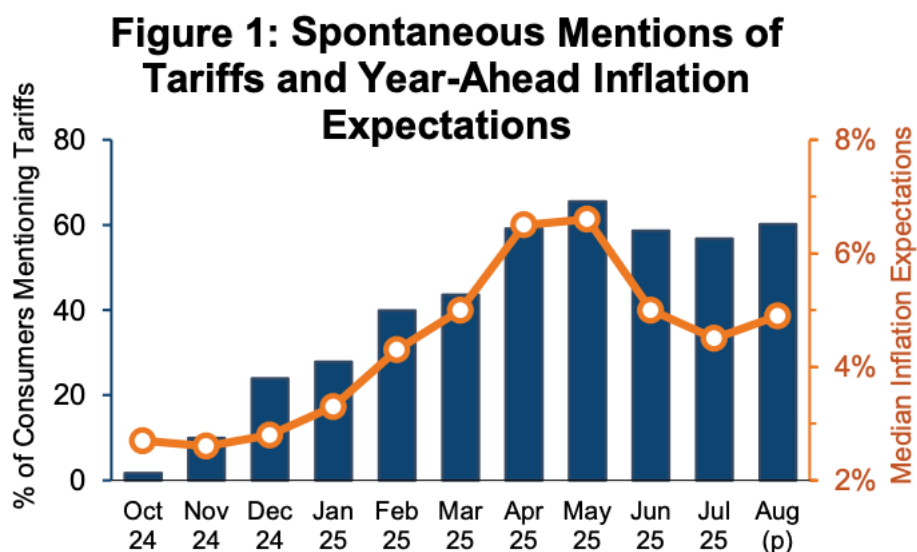
For investors and policymakers alike, these shifts matter. They influence demand patterns, company margins, capital expenditures, and long-term inflation expectations. This 1500-word deep dive combines consumer behavior, inflation psychology, income group responses, and political overlays to build a full picture of how trade policy is reshaping the American economic landscape.

##### **The Rise of Tariff Anxiety**

Since the 2024 election and Trump’s re-election campaign pledges to reintroduce and expand tariffs, consumer anxiety has surged. Spontaneous mentions of tariffs in interviews, as shown in **Figure 1**, rose sharply between November 2024 and May 2025—peaking just after the announcement (and subsequent pause) of reciprocal tariffs in April.



Parallel to tariff concern was a clear uptick in year-ahead inflation expectations, which jumped steeply through Q2. While actual CPI data has been more stable, the perception among consumers is that prices will rise—and rise soon.



### Spending Behavior: When Worry Becomes Action

The core question is: how are consumers responding to this environment of tariff-driven uncertainty and price pressure? University of Michigan data from May to July 2025 shows a marked change in spending plans.

- Only **24%** of consumers said they would continue to spend as usual on items with large price increases.
- **58%** plan to cut back.
- **13%** said they would stop buying such items altogether.

Compare this with 2022, when **36%** of consumers expected to maintain usual spending patterns under inflation. What is changed since then?



Two main factors:

1. Inflation is now being driven by policy (tariffs) rather than pandemic disruption.
2. Labor market fears have intensified. In November 2024, just 32% expected unemployment to rise. Now, **60%** do—the highest since the Great Recession.

### Demographic & Political Breakdown of Behavior

Spending intentions vary significantly by age, income, education, stock ownership, and political affiliation:

Group	Spend as Usual	Cut Back	Stop Spending
All Consumers	24%	58%	13%
Ages 18–44	22%	63%	15%
Ages 65+	31%	58%	11%
Lower Income	18%	61%	16%
Upper Income	31%	58%	9%
Non-stock Owners	20%	62%	17%
Upper-wealth Stock Owners	39%	53%	9%
Democrats	18%	64%	17%
Republicans	44%	49%	6%

Source: University Of Michigan Consumer Spending data.

These numbers are more than statistics—they are indicators of economic fragility and optimism. Wealthier and Republican-aligned consumers are more likely to “hold the line” on spending. But across all groups, the majority are tightening up.



## Sentiment, Psychology, and Stagflation Fears

University of Michigan analysts link spending behavior to **sentiment scores**, inflation expectations, and expectations about labor markets.

- The 13% who expect to **stop spending** report **very low sentiment** and **very high** inflation/unemployment fears.
- The 24% still spending normally? They are the most optimistic across all indicators.
- The 58% who plan to **cut back** fall somewhere in between.

**Consumers who expect to scale back their spending have lower sentiment and higher inflation expectations.**

Anticipated Spending Response	%	Sentiment Index	Inflation Expectations		% Expecting Unemployment to Rise (1 Year)
			1 Year	5-10 Year	
Will Spend As Usual	24	89	2.9	2.8	39
Will Cut Back	58	50	5.4	4.4	65
Will Stop	13	33	9.8	9.0	79

Source: University of Michigan Consumer Sentiment data

The data illustrates that we are not in a typical inflation cycle. This is closer to **stagflation**—where rising prices are coupled with falling income confidence.

## Advance Buying: A Throwback to the 70s

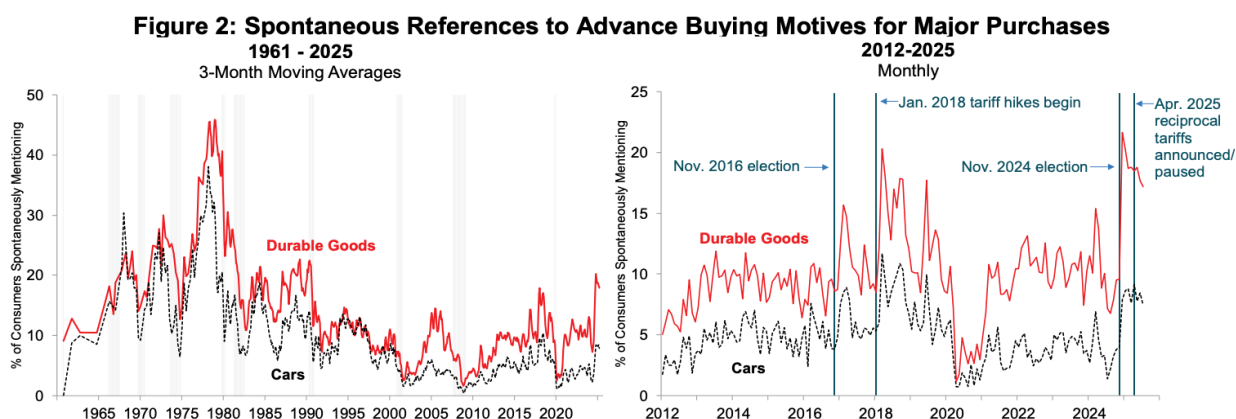
With prices expected to rise further, consumers are also exhibiting behaviors we last saw during the inflation cycles of the 1970s and 1980s: **advance buying**.

In 2025, **30%** of consumers say it is better to buy major items (cars, appliances, furniture) now—even before they are needed—to avoid higher prices later. That is up from 27% in 2022, and much higher than the 18–23% range in 1979–1981.



This chart shows two clear trends:

1. Advance buying spiked after the 2024 election—much like it did after Trump’s 2016 win.
2. Consumers rushed purchases before the April 2025 reciprocal tariffs kicked in, hoping to avoid post-policy price hikes.



Source: University of Michigan Consumer Sentiment data

The vertical shaded areas on the graph to the left indicate years of stagflation and or recession in the US economy. Attention must be given to the advance buying from 2001 to 2005 which then was followed by a recession in 2007-2010. On the right graphs, advance buying has peaked again and consumer confidence on the future of tariffs is weakening.

### Tariffs: Good Time or Bad Time to Buy?

The most fascinating part of this data is the dual role of tariffs in decision-making:

- In late 2024 and early 2025, consumers **positively referenced tariffs**—as in, “buy now before it gets worse.”
- By April 2025, that flipped. Most now say it is a **bad time to buy** due to tariffs.

This switch highlights the **compression of the consumer reaction window**. Instead of acting over years, consumers are now adjusting within months.



## **Strategic Takeaways for Investors & Advisors**

1. Tariffs are now a front-line macroeconomic factor, not just a headline issue. They influence behavior within weeks.
2. Consumer psychology is shifting fast. The buy-now mentality coexists with high debt aversion—a rare combination.
3. Higher-income households may support short-term resilience in spending, but broader sentiment remains fragile.
4. Sectors likely to benefit in the near-term: durables, autos, and utility/infrastructure suppliers to pre-emptive buyers.
5. But do not ignore the downside: retailers, travel, restaurants, and luxury goods may suffer from the 58% of consumers cutting back.

## **Earnings Season, and Everyone's Watching Tariffs**

After a big rally that pushed the S&P 500 to new highs, investors are shifting focus. The next test? Q3 Earnings season — and how President Trump's new tariff policies are starting to hit company profits.

Starting Oct 15, large U.S. companies — especially banks — will begin reporting second-quarter results. What investors really want to see is whether higher tariffs are showing up in company expenses, pricing strategies, and overall earnings.

According to Goldman Sachs, the effective U.S. tariff rate has jumped from around 3% to 13% this year. And they expect it to rise even further, possibly hitting 17% soon. While the policy was announced back in February, the real financial impact is now just beginning to show up in balance sheets and income statements.

“Clients have been keenly focused on who will ultimately shoulder the cost of tariffs,” says David Kostin, Chief U.S. Equity Strategist at Goldman.



### **Tariffs and Pricing: Can Companies Pass the Cost Along?**

Goldman expects that about 70% of the cost of these tariffs will be pushed onto consumers through higher prices. But that has not fully played out yet. In fact, recent inflation data shows that price increases in May were softer than expected.

What does that mean? Many companies — especially those most exposed to global supply chains — are only raising prices modestly. Some have not raised them at all. Instead, they are either eating the cost themselves or trying to delay the impact.

That creates pressure on profit margins. And that's where things get tricky. Analysts have already begun lowering their expectations for company profits, especially in sectors that import a lot of goods or materials.

Some companies had stocked up on inventory earlier in the year, knowing the tariffs were coming. That helped them avoid the worst of the impact in the short term. But that buffer will not last forever. For now, the overall inventory-to-sales ratio for the S&P 500 has not changed much — meaning the cushion is limited.

### **Earnings Growth is Slowing, But Not Falling Apart**

Most analysts expect earnings growth for the S&P 500 to slow to 4% this quarter, down from 12% in Q1. That is still growth — just not at the pace we saw earlier this year.

Margins (what companies keep after covering costs) are expected to shrink slightly, falling from 12.1% to 11.6%.

That said, Goldman Sachs believes most companies will still beat the now-lowered expectations. In other words, the bar has been lowered, and many companies will likely step over it.

Meanwhile, the U.S. economy overall is still holding up well. Goldman expects GDP to grow around 4.5% this year, and consumer spending — across all income levels — remains healthy. Plus, the number of companies raising their future sales forecasts has ticked up again, after dipping in April.



## **CapEx Still Alive — But Not for Everyone**

Despite all the noise around tariffs, most companies have not slammed the brakes on investment. In fact, average capital spending estimates have gone up slightly. But that does not mean every industry is bullish.

The real action is happening in tech and utilities — especially those tied to artificial intelligence and data centers. These companies are spending aggressively to expand.

By contrast, sectors that rely heavily on imports or global supply chains are holding back. Some are dealing with ongoing policy uncertainty, and others are worried about retaliation from trading partners. These firms are being more cautious with their budgets.

## **Final Word**

Trade policy is no longer abstract. It is embedded in wallets, household budgets, and corporate earnings. From spending slowdowns to advance buying spikes, the American consumer is telling us something loud and clear:

**Tariffs have consequences—and they are already here.**

Credits

University of Michigan for their data permissions

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