



The High Cost to the Texas Economy of Tariffs on Imports from Mexico, Canada, and China

The recent barrage of tariffs involves very high economic costs. The Perryman Group estimates that the US economy could lose millions of jobs if the tariffs are sustained, and with each new levy the consequences are escalating. As a large economy and leading trading region, Texas bears a substantial portion of the national burden (more than any other state).

Mexico is the state's top import source country, with \$157.6 billion in 2024. The largest categories include computer and electronic products, transportation equipment, and electrical equipment. Mexico is also the top export market for Texas. Many goods pass back and forth across the border multiple times during the production process, thus creating the prospect of cascading price increases.

Canada volumes are lower, but still a hefty \$38.6 billion in imports in 2024; top categories are transportation equipment, oil and gas, and chemicals. From China, Texas imported products valued at \$35.9 billion in 2024, including high volumes of consumer and industrial electronics, home products, and toys.

When a tariff is imposed, the importing firm (typically a US business) pays the tax to the US Treasury. Importers then pass much of the added cost to consumers and absorb any remainder through lower profits. The inevitable result is price increases and a diversion

of money from the spending stream, causing major economic dislocations and harms.

The Perryman Group recently examined the Texas losses (including multiplier effects and accounting for any offsetting gains in local production) assuming a sustained 25% tariff on goods from Mexico. The net cost to the state would be almost **\$36.4 billion** in annual gross product and about **287,500 jobs**. A 25% levy on most products from Canada (with 10% on energy) adds losses of **\$9.6 billion** in annual gross product and **76,600 jobs**, while 10% on goods from China with 25% on steel and aluminum involves costs of **\$5.8 billion** in gross product and **46,000 jobs**. The losses from just these three countries total **\$51.7 billion** in annual gross product and **410,000 jobs**, not to mention the effect retaliatory tariffs will have on exports. (Texas is by far the largest exporting state in the country.)

While things are in flux as countries around the globe retaliate and policy changes constantly and unpredictably (which creates its own set of problems), these estimates illustrate the enormous magnitude of the potential costs if the trade war persists. Irrespective of their stated purpose, tariffs are causing disruptions and higher costs across a broad spectrum of the economy. As a major trading state, Texas is particularly hard hit.

The Potential Economic Cost of Proposed Tariffs on the Texas Economy

	Total Expenditures	Gross Product	Personal Income	Jobs
25% Mexico	-\$85.6 b	-\$36.4 b	-\$22.3 b	-287,479
25% Canada (10% Energy)	-\$24.6 b	-\$9.6 b	-\$5.8 b	-76,571
10% China (25% Steel)	-\$13.1 b	-\$5.8 b	-\$3.5 b	-45,957
Total	-\$123.3 b	-\$51.7 b	-\$31.6 b	-410,007

Source: US Multi-Regional Impact Assessment System, The Perryman Group

Notes: Based on current import levels and potential dynamic effects of the proposed tariffs. Monetary values in millions of 2024 dollars. Components may not sum due to rounding. For more information, see the methodology section.

METHODS AND ASSUMPTIONS

This analysis compares the performance of the Texas economy with and without the proposed tariffs. Specifically, business activity with the tariffs in place was compared to a scenario in which the three countries trade under the current terms of the USMCA. The price differential across all industry categories was determined for more than 500 sectors. The elasticity of demand for products imported was then used to estimate the direct effects in each sector reflecting current trade patterns and market conditions. Responses such as reductions in purchases due to higher prices were fully accounted for, as was the potential for increased manu-

facturing in Texas as a result of the tariffs. These net results were then used as inputs in a dynamic interactive simulation of the US Multi-Regional Impact Assessment System and the US Multi-Regional Econometric model to estimate the total effects.

Total economic effects are quantified for several measures of business activity; these measures are different ways of looking at the same effects and are not additive. Total expenditures (or total spending) reflects the change in the dollars changing hands as a result of the negative economic stimulus of the tariffs. Gross product (or output) is production of goods and services foregone as a result of

the tariffs. This measure is parallel to the gross domestic product numbers commonly reported by various media outlets and is a subset of total expenditures. Personal income is dollars that end up in the hands of people in the areas; the vast majority of this aggregate derives from the earnings of employees, but payments such as interest and rents are also included. Job losses would persist as long as the tariffs are in place. Monetary values are given in billions of 2024 US dollars per year. Industry components may not sum to total values due to independent rounding.

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Dr. Perryman is the President and CEO of the Perryman Group and Distinguished Professor of Economic Theory and Method at the International Institute for Advanced Studies. Over the past 40 years, Dr. Perryman has helped recruit corporations providing tens of thousands of jobs through economic development work, resolved billion-dollar legal issues, and revamped public policy through impact assessments and other studies. His firm has measured economic impacts for corporate locations and expansions involving billions in investments, and his economic forecasts are used by corporations and government agencies alike.



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