



The Perryman Group

# The High Economic Cost of Proposed Tariffs on Imports from Canada and Mexico

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President-elect Trump has announced that he is considering a 25% tariff on goods from Canada and Mexico. The stated goals are to reduce the flow of fentanyl and other drugs into the United States and to increase assistance with controlling illegal immigration. While these issues are important, the economic costs of such tariffs would be enormous. If levies of this magnitude are actually implemented and sustained for an extended period, The Perryman Group estimates that almost two million US jobs could be lost.

Mexico and Canada are among the most important US trading partners, ranking second and third behind China. In 2023, imports from Mexico were \$475.2 billion, with another \$418.6 billion imported from Canada. Data thus far through 2024 indicates the totals could be even higher. Top imports from Mexico include vehicles, electric machinery, nuclear reactors and parts, and fuels. From Canada, top products are fuels, vehicles, and nuclear reactors and parts. These products are integral to the US manufacturing supply chain as well as important to consumers.

The free flow of trade protects business ties among the three nations. For example, cross-border supply chains are quite common, with certain aspects of production occurring in each country depending on relative comparative advantages. For decades, the United States, Canada, and Mexico have been cooperating through free trade agreements, including the North American Free Trade Agreement (NAFTA) and more recently the US-Mexico-Canada Agreement (USMCA). These agreements have been beneficial to all three nations, encouraging economic growth and benefiting consumers.

If substantial tariffs are imposed, they would have the effect of raising prices. In addition, dynamic effects would be initiated through the economy. The Perryman Group estimated the overall economic cost of the potential tariffs, accounting for changes in purchasing patterns and other responses.

The Perryman Group estimates that the cost to the US economy of a sustained 25% tariff on imports from Mexico would include **\$145.4 billion** in annual gross product and

## The Potential Economic Cost of 25% Tariffs to the US Economy

	Total Expenditures	Gross Product	Personal Income	Jobs
Mexico	-\$342.3 b	-\$145.4 b	-\$89.1 b	-1,149,917
Canada	-\$274.8 b	-\$105.2 b	-\$63.3 b	-826,007
<b>Both Countries</b>	<b>-\$617.1 b</b>	<b>-\$250.6 b</b>	<b>-\$152.3 b</b>	<b>-1,975,924</b>

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

Notes: Based on current import levels and potential dynamic effects of a 25% tariff. Monetary values in millions of 2024 dollars. Components may not sum due to rounding. For more information, see the methodology section.

more than 1.1 million jobs when multiplier effects are considered. In addition to the very large negative impacts on a variety of US manufacturing sectors such as electronic equipment and vehicles, consumer-related effects would lead to substantial losses of retail sales. (See the accompanying tables for results by industry.)

An ongoing 25% tariff on imports from Canada would lead to projected losses of \$105.2 billion in annual gross product and approximately 826,000 jobs (including multiplier effects). Many of the same industry groups would be negatively affected.

If tariffs are implemented on both countries, estimated economic harms total \$250.6 billion in annual gross product and almost 2.0 million jobs. The overall cost to the US economy in such a scenario would be losses of approximately 0.91% of gross product, 0.95% of earned income, about 1.27% of employment.

In addition, tariffs would likely lead to inflation as additional costs are passed on to consumers. The Perryman Group's analysis

indicates that if both tariffs are implemented, the impact on overall inflation would be an increase of 1.04 percentage points, with the effects on some of the most impacted products (including food, electronics, and automobiles) being much higher. With inflation rates averaging about 2.6% over the last 12 months, the net effect of the tariffs would be to push inflation to the 3.6% range. In addition to the negative effects on individuals, families, and businesses, increased inflationary pressures could lead to tightening by the Federal Reserve. Another consideration is that if the US implements these tariffs, Canada and Mexico could retaliate, negatively affecting US manufacturers.

Clearly, imposing substantial tariffs on major trading partners is bad for all nations involved. It is crucial that agreements on key issues are reached among the North American nations without the implementation of such destructive measures.

## METHODS AND ASSUMPTIONS

This analysis compares the performance of the US 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 manufacturing in the

United States 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.

# The Potential Economic Cost of a 25% Tariff on Imports from Canada and Mexico on the US Economy

Industry	Total Expenditures	Gross Product	Personal Income	Jobs
<b>MEXICO</b>				
Agriculture	-\$13.884 b	-\$3.810 b	-\$2.547 b	-31,960
Mining	-\$8.918 b	-\$2.064 b	-\$1.072 b	-4,988
Utilities	-\$14.187 b	-\$3.203 b	-\$1.398 b	-4,812
Construction	-\$4.895 b	-\$2.608 b	-\$2.149 b	-23,919
Manufacturing	-\$178.858 b	-\$65.916 b	-\$39.834 b	-407,408
Wholesale Trade	-\$12.194 b	-\$8.252 b	-\$4.758 b	-42,807
Retail Trade*	-\$32.376 b	-\$24.246 b	-\$14.088 b	-343,161
Transportation & Warehousing	-\$8.989 b	-\$5.963 b	-\$3.944 b	-42,582
Information	-\$4.990 b	-\$3.077 b	-\$1.314 b	-9,323
Financial Activities*	-\$32.471 b	-\$8.404 b	-\$3.306 b	-27,264
Business Services	-\$8.990 b	-\$5.473 b	-\$4.465 b	-43,035
Health Services	-\$7.380 b	-\$5.164 b	-\$4.367 b	-57,143
Other Services	-\$14.167 b	-\$7.256 b	-\$5.831 b	-111,515
<b>Total, All Industries</b>	<b>-\$342.298 b</b>	<b>-\$145.434 b</b>	<b>-\$89.071 b</b>	<b>-1,149,917</b>
<b>CANADA</b>				
Agriculture	-\$10.624 b	-\$2.767 b	-\$1.809 b	-22,588
Mining	-\$28.676 b	-\$6.449 b	-\$3.114 b	-13,559
Utilities	-\$11.513 b	-\$2.574 b	-\$1.123 b	-3,867
Construction	-\$5.111 b	-\$2.747 b	-\$2.264 b	-25,194
Manufacturing	-\$129.200 b	-\$40.908 b	-\$24.431 b	-274,490
Wholesale Trade	-\$8.791 b	-\$5.948 b	-\$3.429 b	-30,856
Retail Trade*	-\$22.961 b	-\$17.189 b	-\$9.986 b	-243,415
Transportation & Warehousing	-\$7.165 b	-\$4.666 b	-\$3.086 b	-33,317
Information	-\$3.622 b	-\$2.233 b	-\$0.953 b	-6,764
Financial Activities*	-\$25.222 b	-\$6.910 b	-\$2.557 b	-20,939
Business Services	-\$6.683 b	-\$4.022 b	-\$3.281 b	-31,624
Health Services	-\$5.215 b	-\$3.648 b	-\$3.085 b	-40,368
Other Services	-\$10.067 b	-\$5.141 b	-\$4.136 b	-79,027
<b>Total, All Industries</b>	<b>-\$274.849 b</b>	<b>-\$105.202 b</b>	<b>-\$63.254 b</b>	<b>-826,007</b>
<b>BOTH COUNTRIES</b>				
Agriculture	-\$24.508 b	-\$6.577 b	-\$4.356 b	-54,548
Mining	-\$37.594 b	-\$8.513 b	-\$4.186 b	-18,548
Utilities	-\$25.700 b	-\$5.777 b	-\$2.521 b	-8,678
Construction	-\$10.006 b	-\$5.355 b	-\$4.413 b	-49,113
Manufacturing	-\$308.058 b	-\$106.823 b	-\$64.265 b	-681,898
Wholesale Trade	-\$20.984 b	-\$14.199 b	-\$8.187 b	-73,663
Retail Trade*	-\$55.337 b	-\$41.434 b	-\$24.074 b	-586,576
Transportation & Warehousing	-\$16.153 b	-\$10.629 b	-\$7.030 b	-75,900
Information	-\$8.612 b	-\$5.309 b	-\$2.267 b	-16,087
Financial Activities*	-\$57.693 b	-\$15.314 b	-\$5.863 b	-48,203
Business Services	-\$15.673 b	-\$9.495 b	-\$7.746 b	-74,658
Health Services	-\$12.595 b	-\$8.813 b	-\$7.451 b	-97,511
Other Services	-\$24.234 b	-\$12.397 b	-\$9.966 b	-190,542
<b>Total, All Industries</b>	<b>-\$617.147 b</b>	<b>-\$250.636 b</b>	<b>-\$152.325 b</b>	<b>-1,975,924</b>

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

Notes: Based on current import levels and potential dynamic effects of a 25% tariff. Monetary values in millions of 2024 dollars. Components may not sum due to rounding. Retail Trade includes Restaurants, Financial Activities includes Real Estate. For more information, see the methodology section.

## THE PERRYMAN GROUP



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### M. RAY PERRYMAN, PH.D.

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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