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The Potential Economic Impact of Sustained 30% Tariffs on Imports from China

After implementation of tariffs of up to 145% on all imports from China, negotiators were able to agree to a temporary reduction to a 30% levy. This rate is planned to be in place for a maximum of 90 days, providing a reprieve as trade talks continue.

China is an important US trading partner, with 2024 imports of more than \$438.9 billion and exports of \$143.5 billion. Top imports include various types of consumer electronics, computer equipment, machinery, and toys. In addition, US imports of iron and steel from China totaled almost \$12.0 billion last year. Many of these products are integral to the US manufacturing supply chain as well as important to consumers. China is also the source of large proportions of specific products such as computers and related equipment.

Tariffs have the effect of raising prices as importers pass a portion of the costs along to US consumers and firms. In addition, dynamic effects are initiated through the economy. The Perryman Group estimated the overall net economic cost of the tariffs, fully accounting for anticipated changes in purchasing and production patterns and other responses.

The Perryman Group estimates that the cost to the US economy of a sustained 30% tariff on imports from China would include **\$173.3 billion** in annual gross product each year and almost **1.4 million jobs** when multiplier effects are considered. In addition to the very large negative impacts on a variety of consumer-oriented segments such as retail trade, US manufacturing sectors such

as electronic equipment would be negatively affected. (See the accompanying table for results by industry.)

Tariffs would also likely lead to inflation as additional costs are passed on to consumers. The Perryman Group's analysis indicates that if these tariffs are sustained, the impact on overall inflation would be an increase of almost one percentage point, with the effects on some of the most impacted products (including many consumer goods) being much higher. The estimated effect on an average household would be costs of more than **\$1,000 per year** when all inflation and supply chain effects are considered. Beyond the negative effects on individuals, families, and businesses, increased inflationary pressures could ultimately lead to less expansive interest rate policy by the Federal Reserve.

Clearly, imposing substantial tariffs on major trading partners is costly for all nations involved. If a lasting agreement is not reached, it is likely that China will respond with retaliatory tariffs on US exports, which ultimately has the effect of making American products less competitive and, over time, likely decreasing export volumes. Higher tariffs increase prices, reduce trade, and cause harms across affected economies. They also create an environment of uncertainty, which can further erode business activity. An expedited resolution to the current tariff strife is in the best interest of consumers, businesses, and all affected countries throughout the world.

The Potential Economic Cost of Permanent 30% Tariffs on Imports from China on the US Economy

Industry	Total Expenditures	Gross Product	Personal Income	Jobs
Agriculture	-\$6.947 b	-\$1.947 b	-\$1.251 b	-15,554
Mining	-\$5.976 b	-\$1.434 b	-\$0.801 b	-4,004
Utilities	-\$17.037 b	-\$3.845 b	-\$1.678 b	-5,776
Construction	-\$5.580 b	-\$2.982 b	-\$2.457 b	-27,347
Manufacturing	-\$210.157 b	-\$82.849 b	-\$49.440 b	-515,053
Wholesale Trade	-\$14.479 b	-\$9.796 b	-\$5.649 b	-50,822
Retail Trade*	-\$38.393 b	-\$28.758 b	-\$16.710 b	-406,973
Transportation & Warehousing	-\$10.688 b	-\$7.089 b	-\$4.689 b	-50,624
Information	-\$6.064 b	-\$3.741 b	-\$1.597 b	-11,334
Financial Activities*	-\$37.855 b	-\$9.637 b	-\$3.817 b	-31,547
Business Services	-\$10.745 b	-\$6.546 b	-\$5.340 b	-51,473
Health Services	-\$8.741 b	-\$6.118 b	-\$5.173 b	-67,690
Other Services	-\$16.772 b	-\$8.599 b	-\$6.914 b	-132,200
Total, All Industries	-\$389.432 b	-\$173.342 b	-\$105.516 b	-1,370,396

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. Retail Trade includes Restaurants, Financial Activities includes Real Estate. For more information, see the methodology section.

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 baseline scenario assuming they were not implemented. 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.

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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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