



The Perryman Group  
**The Potential Economic Impact of Sustained, Significant Tariffs on Imports from Canada and Mexico** Feb 2025

Although the situation remains in flux and a temporary pause is in place, one thing is very clear: sustained, significant tariffs on imports from Canada and Mexico would be very costly to the US economy. Tariffs of 25% on virtually all goods imported from Mexico and Canada with the exception of Canadian energy products (which are scheduled to be 10%) were recently announced. If levies of this magnitude are sustained for one year, The Perryman Group estimates that about 1.9 million US jobs could be lost.

As expected, Canada and Mexico have responded. Canada was planning waves of tariffs on US exports beginning with selected food items and clothing, but at the last minute an agreement was reached with Canada pledging to enhance border protection. A 30-day delay in implementation of the tariffs on imports from Mexico was also announced following an agreement for joint measures to fight the flow of fentanyl across the border. If lasting solutions are not reached and retaliatory tariffs are enacted by Canada and Mexico, it could further escalate the economic harms.

Reducing the flow of illegal drugs into the United States is one of the stated goals of the tariffs, along with increased assistance with controlling illegal immigration. While these issues are important, the economic costs of

substantial tariffs would be enormous. (Note that in a prior brief, the effects of 25% tariffs on most goods were analyzed; this report updates the potential costs based on current proposals.)

Mexico and Canada are among the most important US trading partners, ranking second and third behind China (which is also on the list for notable tariffs). In 2023, imports from Mexico were \$475.2 billion, with another \$418.6 billion imported from Canada. Available data thus far through 2024 indicates the totals could be even higher, particularly in the case of Mexico. 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. In addition, these countries are the source of large proportions of a number of specific products (such as lumber from Canada and a variety of agricultural products from Mexico).

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

**The Potential Economic Cost of Proposed Tariffs on the US Economy**

	Total Expenditures	Gross Product	Personal Income	Jobs
Mexico	-\$342.3 b	-\$145.4 b	-\$89.1 b	-1,149,917
Canada	-\$246.3 b	-\$95.7 b	-\$58.0 b	-765,710
<b>Both Countries</b>	<b>-\$588.6 b</b>	<b>-\$241.1 b</b>	<b>-\$147.1 b</b>	<b>-1,915,626</b>

**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.

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 while integrating the three economies in fundamental ways.

If substantial tariffs are imposed, they would have the effect of raising prices as importers pass a portion of the costs along to US consumers and firms. 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 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 10% tariff on energy products and 25% tariff on other imports from [Canada](#) would lead to projected losses of nearly [\\$95.7 billion](#) in annual gross product and approximately [765,700 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 [\\$241.1 billion](#) in

annual gross product and more than [1.9 million jobs](#). The overall cost to the US economy in such a scenario would be losses of approximately [0.9%](#) of gross product, [0.9%](#) of earned income, and about [1.3%](#) 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 about 1.0 percentage point, with the effects on some of the most impacted products (including food, electronics, and automobiles) being much higher. In many instances, production moves back and forth across the border multiple times during the manufacturing process, thus amplifying the costs. The estimated effect on an average household would be costs of more than [\\$1,500](#) per year when all inflation and supply chain effects are considered.

With inflation rates averaging about 2.9% over the last 12 months, the net effect of the tariffs would be to push inflation to the 3.9% range. In addition to the negative effects on individuals, families, and businesses, increased inflationary pressures could lead to tightening by the Federal Reserve.

Clearly, imposing substantial tariffs on major trading partners is costly for all nations involved. It is crucial that agreements on key issues are reached among the North American nations as soon as possible to reduce the effects of sustaining these destructive measures for an extended period.

## 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 manufactur-

ing 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 Proposed Tariffs 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	-\$10.371 b	-\$2.692 b	-\$1.761 b	-21,977
Mining	-\$14.589 b	-\$3.356 b	-\$1.680 b	-7,726
Utilities	-\$10.488 b	-\$2.345 b	-\$1.023 b	-3,522
Construction	-\$4.001 b	-\$2.148 b	-\$1.770 b	-19,700
Manufacturing	-\$125.521 b	-\$39.814 b	-\$23.814 b	-267,168
Wholesale Trade	-\$8.258 b	-\$5.588 b	-\$3.222 b	-28,989
Retail Trade*	-\$20.993 b	-\$15.719 b	-\$9.133 b	-222,512
Transportation & Warehousing	-\$6.703 b	-\$4.364 b	-\$2.886 b	-31,161
Information	-\$3.331 b	-\$2.053 b	-\$0.876 b	-6,220
Financial Activities*	-\$21.964 b	-\$5.859 b	-\$2.253 b	-18,527
Business Services	-\$6.070 b	-\$3.662 b	-\$2.987 b	-28,795
Health Services	-\$4.779 b	-\$3.344 b	-\$2.827 b	-37,001
Other Services	-\$9.219 b	-\$4.711 b	-\$3.789 b	-72,412
<b>Total, All Industries</b>	<b>-\$246.288 b</b>	<b>-\$95.655 b</b>	<b>-\$58.023 b</b>	<b>-765,710</b>
<b>BOTH COUNTRIES</b>				
Agriculture	-\$24.255 b	-\$6.502 b	-\$4.307 b	-53,937
Mining	-\$23.507 b	-\$5.420 b	-\$2.753 b	-12,714
Utilities	-\$24.675 b	-\$5.547 b	-\$2.421 b	-8,334
Construction	-\$8.896 b	-\$4.756 b	-\$3.920 b	-43,619
Manufacturing	-\$304.379 b	-\$105.730 b	-\$63.648 b	-674,576
Wholesale Trade	-\$20.452 b	-\$13.839 b	-\$7.980 b	-71,797
Retail Trade*	-\$53.369 b	-\$39.965 b	-\$23.221 b	-565,673
Transportation & Warehousing	-\$15.692 b	-\$10.327 b	-\$6.830 b	-73,743
Information	-\$8.321 b	-\$5.130 b	-\$2.190 b	-15,542
Financial Activities*	-\$54.435 b	-\$14.262 b	-\$5.558 b	-45,791
Business Services	-\$15.060 b	-\$9.136 b	-\$7.452 b	-71,830
Health Services	-\$12.160 b	-\$8.508 b	-\$7.194 b	-94,143
Other Services	-\$23.386 b	-\$11.967 b	-\$9.620 b	-183,927
<b>Total, All Industries</b>	<b>-\$588.586 b</b>	<b>-\$241.090 b</b>	<b>-\$147.094 b</b>	<b>-1,915,626</b>

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.

## 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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