



The Perryman Group

The Economic Cost of Proposed 5% Tariffs on Imports from Mexico June 2019

President Trump has stated that he will impose a 5% tariff on all goods from Mexico on June 10 if Mexico does not take action to slow the volume of immigrants at the US border. The Perryman Group analyzed the economic implications of such a tariff and found that it would likely cost hundreds of thousands of US jobs if enacted and maintained.

Mexico has long been a top trading partner for the United States. In fact, Mexico recently passed China to become the largest, due in part to trade issues with China which have reduced the volume of US-China trade. For the first quarter of 2019, US exports to Mexico totaled \$64.0 billion, while imports were \$86.6 billion. Some of the products imported from Mexico are consumer items, but many others are inputs for US goods. Household budgets are affected, as are firm profits and competitiveness.

Free trade is clearly beneficial. Basic economic theory and centuries of evidence support this fact. Moreover, the US and Mexican economies are well integrated, and cross-border supply chains are common. By taking advantage of the comparative

strengths of both nations, goods can be produced which are more competitive in global markets. A tariff, on the other hand, reduces competitiveness.

"Much is at stake for both nations and if Mexico retaliates and imposes tariffs on the US or the tariffs go higher than 5%, the negative effects on the economy would be even greater."
-M. Ray Perryman

A 5% tariff on all imports coming to the US from Mexico would likely cause costs to US consumers and businesses to rise substantially. People and firms in the US would pay more for Mexican goods because while tariffs are collected at the border, they are largely passed

on to consumers and producers. The payments would be made in the US, but a certain portion would likely be absorbed by offsetting price reductions in response to market conditions.

US EFFECTS

After adjusting for likely price responses across the spectrum of goods the US imports from Mexico, The Perryman Group estimates that the proposed tariffs would lead to an increase in **direct** costs of about \$28.1 billion each year. These additional costs would impact consumers, producers, and supply chains and work their way through the economy. When multiplier

effects are considered, the net losses to the US economy for every year a 5% tariff is in place would include an estimated \$41.5 billion in gross domestic product and \$24.6 billion in income. The overall job loss would be about 406,000.

TEXAS EFFECTS

Texas would bear the lion's share of this loss given the extensive commerce that occurs between the state and Mexico. Mexico is Texas' largest export market by a substantial margin, accounting for 35% of exports from the state in 2018. The Perryman Group estimates that the proposed 5% tariff would result in additional **direct** costs of \$8.7 billion. When multiplier effects are considered, these higher costs would likely cause losses to the Texas economy including almost \$11.9 billion in gross product and nearly \$7.1 billion in income each year as well as 117,335 jobs.

The Annual Economic Impact of a 5% Tariff on All Imports from Mexico on Business Activity in the United States

Results by industry

Industry	Total Expenditures	Gross Product	Personal Income	Jobs
Agriculture	-\$2.463 b	-\$0.680 b	-\$0.444 b	-6,652
Mining	-\$2.056 b	-\$0.507 b	-\$0.285 b	-1,770
Construction	-\$3.064 b	-\$1.533 b	-\$1.263 b	-16,893
Manufacturing	-\$23.761 b	-\$7.358 b	-\$4.128 b	-57,469
Transportation & Utilities	-\$8.706 b	-\$3.351 b	-\$1.938 b	-20,380
Information	-\$2.252 b	-\$1.382 b	-\$0.590 b	-5,030
Wholesale Trade	-\$3.670 b	-\$2.483 b	-\$1.431 b	-15,472
Retail Trade*	-\$10.724 b	-\$8.031 b	-\$4.667 b	-136,516
Financial Activities*	-\$18.782 b	-\$7.072 b	-\$2.496 b	-24,211
Business Services	-\$5.560 b	-\$3.596 b	-\$2.934 b	-33,972
Health Services	-\$3.349 b	-\$2.305 b	-\$1.948 b	-30,634
Other Services	-\$6.182 b	-\$3.171 b	-\$2.508 b	-56,959
Total, All Industries	-\$90.569 b	-\$41.469 b	-\$24.633 b	-405,959

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

Notes: Monetary values given in billions of 2019 US dollars per year, jobs are overall permanent job losses. Components may not sum due to rounding. Retail Trade includes Restaurants, Financial Activities includes Real Estate.

CONCLUSION

Much is at stake for both nations. If Mexico retaliates and imposes tariffs on the US, which is likely, the negative effects on the economy would be even greater. US exports would become less affordable for Mexican customers, purchases would be reduced, and US firms would suffer in the Mexican market.

Even beyond tariffs are changes in investment patterns, supply chains, and strategic plans. Any increase in the level of the tariffs would also increase the economic harm. With a replacement for the North American Free Trade Agreement not yet finalized, negotiations could become more difficult. All in all, the potential economic harm from tariffs on imports from Mexico totals tens of billions in gross product and hundreds of thousands of jobs, but the fallout could be much greater over time.

A 5% tariff on goods imported from Mexico would be paid by those in the US who receive the goods. However, the incidence of the effect would be absorbed in both countries, as market pressures would likely cause suppliers in Mexico to absorb some of the increase in the form of price reductions or other concessions. To account for this fact, TPG examined the price elasticities of demand and supply for the various goods and estimated the total cost imposed on US businesses and consumers by the tariffs. As these added expenses make their way through the economy, they have downstream effects on consumers, producers, and supply chains. These direct costs are allocated across the US and Texas economies based on the spending patterns that would be expected to be impacted.

The Perryman Group's input-output assessment system (the US Multi-Regional Impact Assessment System) was used to estimate the total economic impact (including multiplier effects) of the increased direct costs associated with the tariffs. The model was developed by the firm about 40 years ago and has been consistently maintained and updated since that time. It has been used in hundreds of analyses for clients ranging from major corporations to government agencies and has been peer reviewed on multiple occasions. The im-

port system uses a variety of data (from surveys, industry information, and other sources) to describe the various goods and services (known as resources or inputs) required to produce another good/service.

Total economic effects are quantified for key measures of business activity:

Total expenditures (or total spending) measure the dollars changing hands as a result of the economic stimulus.

Gross product (or output) is production of goods and services that will come about in each area as a result of the activity. 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 Texas; the vast majority of this aggregate derives from the earnings of employees, but payments such as interest and rents are also included.

Job losses are expressed as overall permanent jobs.

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M. RAY PERRYMAN, PH.D.

Dr. Ray Perryman is President and CEO of The Perryman Group, an economic research and analysis firm based in Waco, Texas. His firm has served the needs of more than 2,500 clients, including two-thirds of the Global 25, over half of the Fortune 100, the 12 largest technology firms in the world, 10 US Cabinet Departments, the 9 largest firms in the US, the 6 largest energy companies operating in the US, and the 5 largest US banking institutions.

Dr. Perryman was named Outstanding Young Person of the World for Business and Economic Innovation in 1987, was designated Texan of the Year by the Texas Legislative Conference in 2012, received the Baylor University Distinguished Service Medal in 2013, was inducted into the

Texas Leadership Hall of Fame in 2014, and received the Cesar E. Chavez Conscience Builders Award in 2016 for his humanitarian efforts. He dedicates a significant portion of his time to pro bono work aimed at

helping to solve pressing social problems such as hunger, indigent healthcare, poverty, and child maltreatment.



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