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Crosswinds Ahead

The Turbulent Tariff Toll on Washingtonians

PNREC - session 5A -Tariffs

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Study Background & Scope

- As of April 2025, the average U.S. tariff on goods went from 2% (in 2024) to 27%
- In 2024, Washington State was the 9th highest U.S. exporting state with a total of $57.8B of exports, and 15th in terms of imports of $62.1B
- Given the importance of international trade in the Washington economy, our tariff analysis:
  - Identifies the **top WA imports/exports** affected by tariffs
  - Estimates the likely impact of tariffs on both services and goods industries in terms of **change in sales, employment, and labor income**
  - Estimates the potential impact of tariffs on the Washington **state revenue** and growth
  - Estimates the likely impact of tariffs on the **prices** of goods vital to Washingtonians

Study Background & Scope

What the analysis includes

- A focus on the short-term, four-year horizon
- Estimates of the direction and scale of potential impacts
- Substitution patterns related to import and export prices
- Capturing the interrelated nature of economic sectors
- Limited revenue forecast – does not take into account non-tariff factors

What the analysis does not include

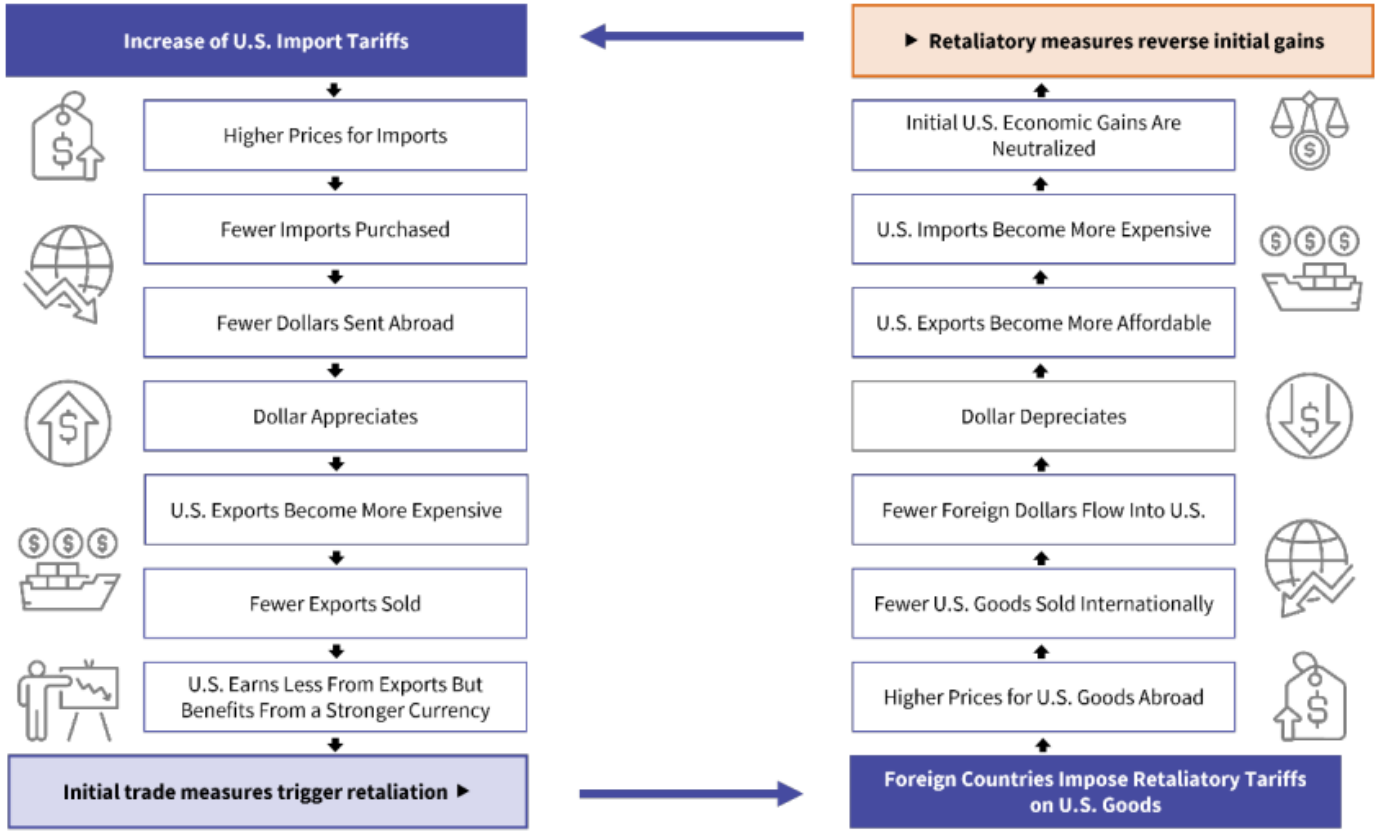
- Precise estimates of impacts from specific tariffs
- All behavioral responses (e.g., less travel to the U.S. from other countries)
- Comprehensive revenue forecast

How Tariffs Work

- Act as a tax on Washington households and businesses: ~90% of tariff costs are passed on to consumers
- The federal, not state, government collects tariff revenues
- U.S.-imposed tariffs increase price of goods imported
- Foreign retaliatory tariffs reduce demand for Washington exports
- Variably: there are different responses for different types of goods
- Dynamically: impacts change over time as governments, consumers, and businesses respond

How Tariffs Work

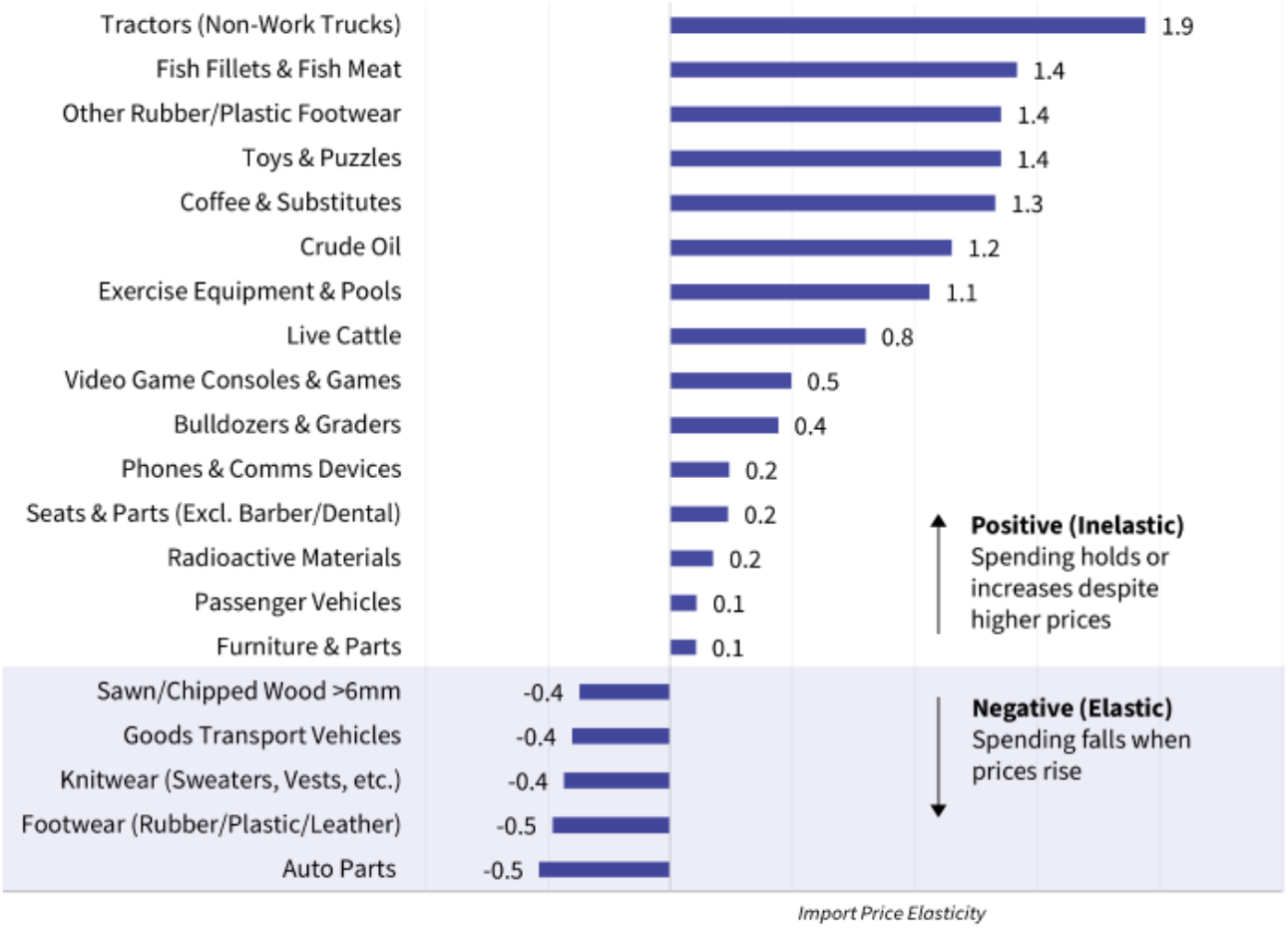
U.S tariffs induce retaliation, so initial U.S gains vanish as other countries respond



Key Findings

Top 20 Imports Affected by Tariffs

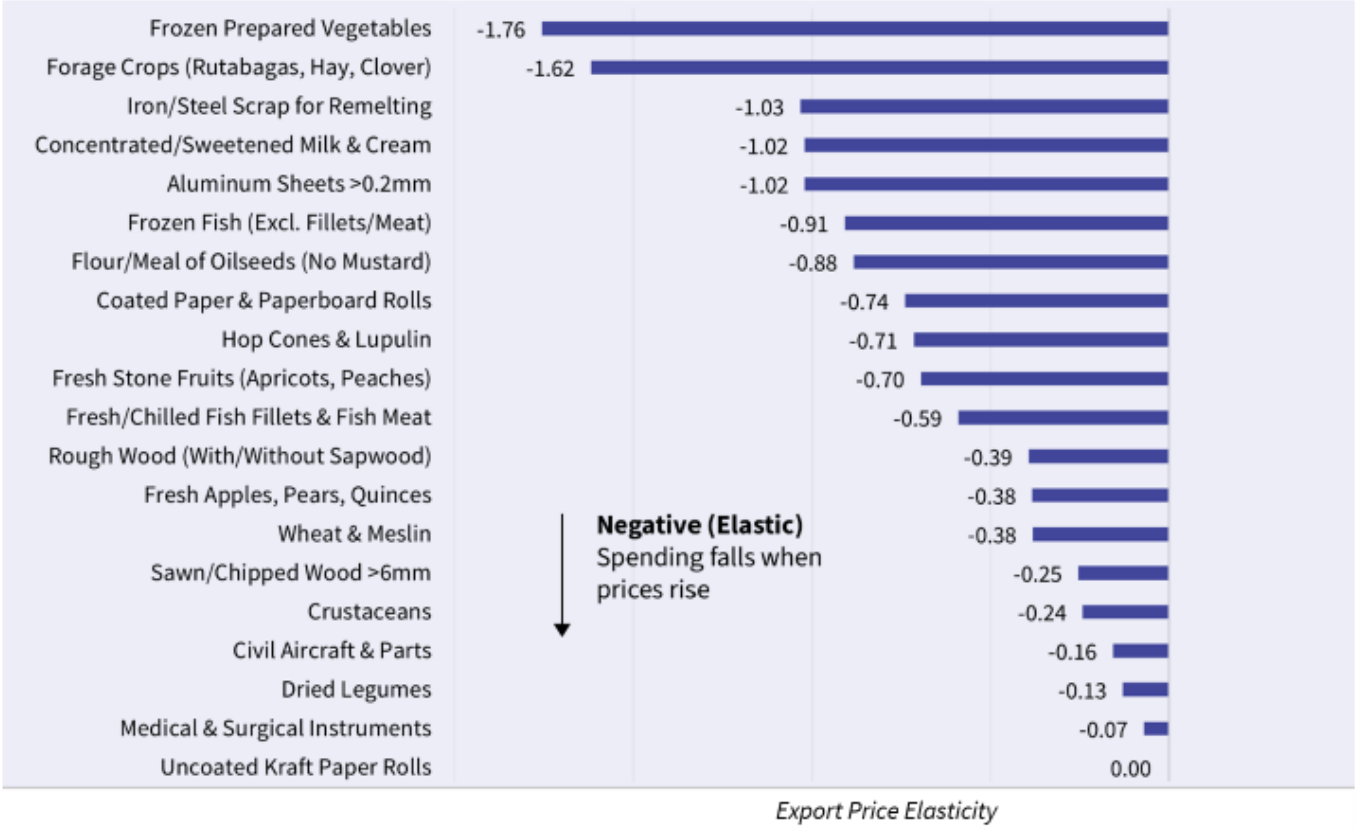
Figure 3. Price Sensitivity of the Dollar Value of Washington's Top 20 Imports:
Tractors and Fish Fillets Are Least Price-Sensitive (Most Inelastic). Auto Parts, Wood, and Clothing Are Most Price-Sensitive (Most Elastic).
Source: William Hauk (2011)



Key Findings

Top 20 Exports Affected by Tariffs

Figure 6. Price Sensitivity of the Dollar Value for Washington's Top 20 Exports:
Frozen Vegetables and Forage Crops Are the Most Price-Sensitive Exports. Civil Aircraft and Medical Instruments Are Among the Least Price-Sensitive.
Source: William Hauk (2011)



Key Findings: 4-Year Cumulative Net Losses

Category	Baseline scenario April 2025 "Liberation Day" (27% tariff)	Alternative scenario Proposed tariffs as of August 7, 2025 (18% tariff)
Output Sales	-$8.1 Billion	-$4-5 Billion
Employment	-31,930 jobs	-20,000-25,000 jobs
Labor income	-$1.3 Billion	-$500 Million-$1.0 Billion
State revenue	-$2.2 Billion	-$1.5-$2 Billion

Industries projected to weather the greatest impacts:

- Aircraft & parts manufacturing
- Food, beverage, & tobacco manufacturing
- Crop production

Key Findings

Impacts on Output Sales

Grand total:
4-Year Cumulative Net loss of $8.1 Billion

Figure 9. Change in Output Sales of Impacted Industries Under Tariff War (in $ Millions, Baseline Scenario of 27% U.S. Reciprocal Tariff and 37% Foreign Retaliatory Tariff):
The Economy Is Projected to Suffer a Net Loss in Output Sales, Indicating the Tariff Increases Will Do More Harm than Good to the State's Economy. ***The Net Loss in Output Sales for the State Will Be $8.1 Billion.***
Source: Washington I-O Model

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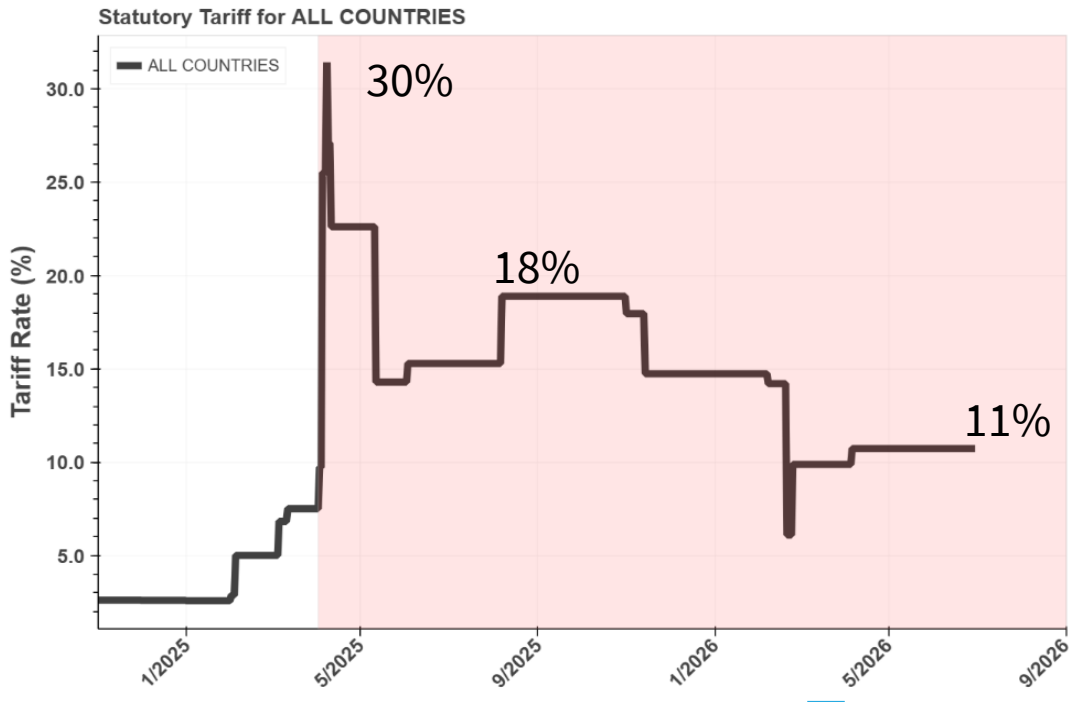
Key Findings: Impact Depends on Retaliation

- Tariffs have been changing abruptly over the last year causing different levels of retaliation from countries



Key Findings: Impact Depends on Retaliation

Example: Output Sales

- Cumulative impact grows increasingly negative as retaliatory tariffs become larger

May 2026: $-3.6 B

April 2025: $-8.1 B

Figure 13. Cumulative Impact over the Next Four Years on Output Sales (in $ billions) for Different Sets of U.S. Tariffs and Retaliatory Tariffs by Other Countries:

U.S. Tariffs May Boost Output in a Non-retaliatory Environment, but Foreign Countermeasures Significantly Reduce or Reverse Those Gains.

Source: Washington I-O Model

U.S. Reciprocal Tariffs \ Foreign Country Retaliatory Tariffs	1%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	100%
1%	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-3	-8	-14	-15	-19	-22	-25	-27	-30	-32	-35	-37	-39	-42
5%	1	1	1	1	1	1	-2	-6	-13	-14	-18	-21	-24	-26	-29	-31	-33	-36	-38	-41
10%	2	2	2	2	2	2	0	-5	-12	-13	-16	-19	-22	-25	-27	-30	-32	-34	-36	-40
15%	4	4	4	4	4	4	1	-3	-11	-12	-14	-17	-20	-23	-26	-28	-30	-32	-34	-38
20%	5	5	5	5	5	5	3	-2	-10	-11	-13	-16	-19	-21	-24	-26	-29	-31	-33	-36
25%	7	7	7	7	7	7	4	0	-9	-9	-11	-14	-17	-20	-22	-25	-27	-29	-31	-35
30%	9	9	9	9	9	9	6	2	-5	-6	-9	-13	-15	-18	-21	-23	-25	-27	-29	-33
35%	10	10	10	10	10	10	8	3	-1	-4	-8	-11	-14	-16	-19	-21	-24	-26	-28	-31
40%	12	12	12	12	12	12	9	5	1	-3	-6	-9	-12	-15	-17	-20	-22	-24	-26	-30
45%	14	14	14	14	14	14	11	7	3	-1	-4	-7	-10	-13	-16	-18	-20	-22	-24	-28
50%	16	16	16	16	16	16	13	9	4	1	-3	-6	-9	-11	-14	-16	-18	-21	-23	-26
55%	17	17	17	17	17	17	15	10	6	3	-1	-4	-7	-10	-12	-14	-17	-19	-21	-25
60%	19	19	19	19	19	19	16	12	8	4	1	-2	-5	-8	-10	-13	-15	-17	-19	-23
65%	21	21	21	21	21	21	18	14	10	6	3	0	-3	-6	-9	-11	-13	-15	-17	-21
70%	23	23	23	23	23	23	20	16	12	8	5	1	-1	-4	-7	-9	-11	-13	-16	-19
75%	25	25	25	25	25	25	22	17	13	10	6	3	0	-2	-5	-7	-10	-12	-14	-17
80%	26	26	26	26	26	26	24	19	15	12	8	5	2	-1	-3	-5	-8	-10	-12	-16
85%	28	28	28	28	28	28	25	21	17	13	10	7	4	1	-1	-4	-6	-8	-10	-14
90%	30	30	30	30	30	30	27	23	19	15	12	9	6	3	1	-2	-4	-6	-8	-12
95%	32	32	32	32	32	32	29	25	21	17	14	11	8	5	2	0	-2	-4	-6	-10
100%	34	34	34	34	34	34	31	27	23	19	16	13	10	7	4	2	0	-2	-4	-8

Key Findings: Overall Inflation

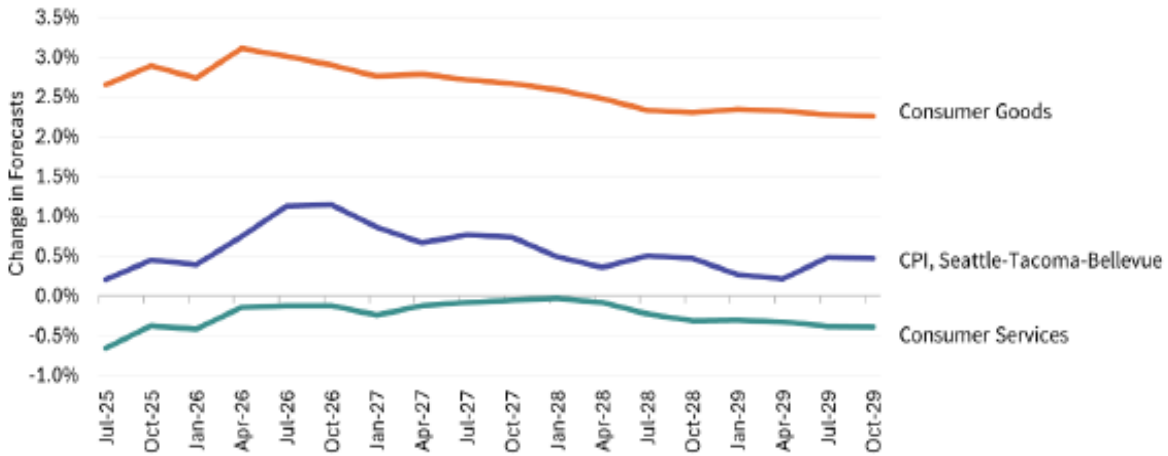
Tariffs will increase inflation

To illustrate the anticipated impact, consider a household currently spending $10,000 annually on consumer goods. **With a projected 3% quarterly increase (compounded) over eight quarters, prices would rise by roughly 26.7%, bringing the annual cost of the same goods to approximately $12,670, an expected increase of $2,670 over two years,** assuming no behavioral change or policy mitigation.

This is tariff-induced inflation, on top of what would normally be expected without the change in trade policy

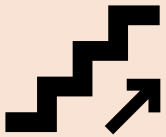
Figure 17. Expected Impact of Tariffs on Washington's Prices of Goods and Services (May 2025 vs November 2024 S&P Forecast):

Households Will Shift Spending Away from Services to Offset Anticipated Increases in Prices of Goods.



Key Findings: Price Increases Under Liberation Day Tariffs

Price up Price down

	Average Tariff induced Price Change 2025-2029	Income Implications: Examples
Net impact: Overall Inflation 	**+2.6%** - on goods **-0.6%** - on services	A $10,000 annual expenditure on consumer goods could increase by $2,670 over two years
Cars 	**+7%** - New Cars **+21%** - Used Cars	A used car, at $15,000, could cost an extra $3,450
Food 	**+1.2%** - Food and Beverages **+0.4%** - Food Services	Household could expect to pay approximately $1,320 more over two years
Medical Equipment 	**+1.3%** - Pharmaceuticals	Medication expenses could rise to $220 per quarter by mid-2026.

Price Increases Under Liberation Day Tariffs

Price up Price down

	Average Tariff induced Price Change 2025-2029	Income Implications: Examples
Fuel, lubricants 	**-7.3%** - Fuel Oil **-6.2%** - Gasoline **-1.5%** - Lubricants	A household spending $2,200 could see their bills reduced by $700-$800 over two years.
Utilities 	**+4.8%** - Natural Gas **+3.0%** - Electricity	Supposed electricity bill is $120, it could climb by 8.9% in early 2026, adding $10.68.
Clothing and footwear 	**+1.4%** - clothing and footwear	A household spending $500 could see their bills increased by $560 over the next two years
Housing 	**-1.9%** - Single Family **-1.0%** - Multi Family	A house costing $400,000, could see its price down by $7,600 on average

Risks Ahead

- Washington state's economy is entering a period of heightened risk due to the sharp escalation in U.S. tariffs in 2025
- The sharp rise in input prices is undermining productivity and competitiveness in core industries like aerospace, electronics, and agriculture
- The revenue implications of these economic shifts are significant
- Rising costs for public infrastructure represent another concern
- Tariff-related inflation disproportionately affects low-income families and small businesses

Appendix

Key Findings

Impacts on Output Sales

Grand total:
4-Year Cumulative Net loss of $8.1 Billion

Figure 9. Change in Output Sales of Impacted Industries Under Tariff War (in $ Millions, Baseline Scenario of 27% U.S. Reciprocal Tariff and 37% Foreign Retaliatory Tariff):
The Economy Is Projected to Suffer a Net Loss in Output Sales, Indicating the Tariff Increases Will Do More Harm than Good to the State's Economy. ***The Net Loss in Output Sales for the State Will Be $8.1 Billion.***
Source: Washington I-O Model

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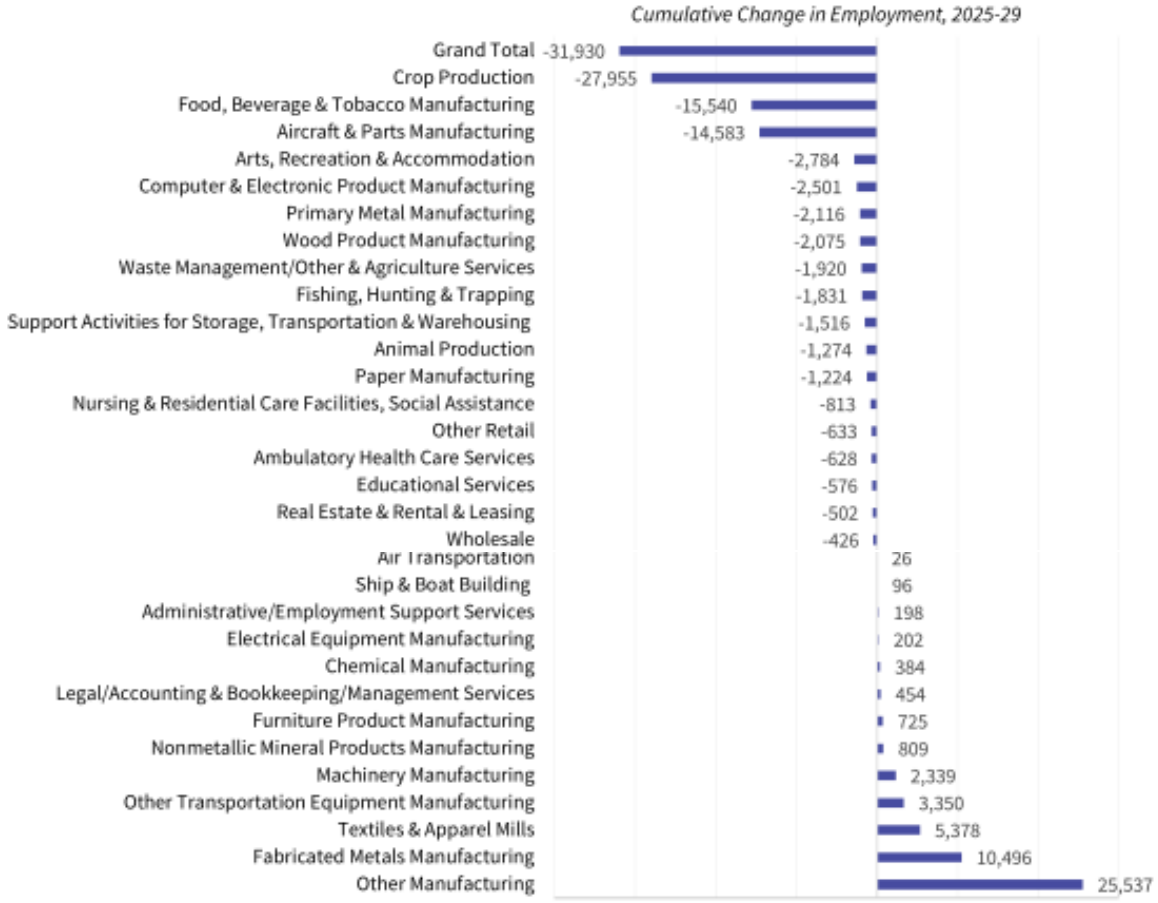
Key Findings

Impacts on Employment

Grand total:
4 Year Cumulative Net loss of 31,930 jobs

Figure 10. Change in Employment on Impacted Industries Under Tariff War (Baseline Scenario of 27% U.S. Reciprocal Tariff and 37% Foreign Retaliatory Tariff):
The State Is Projected to Lose More Jobs than It Gains, Signaling the Broader Economic and Labor Market Effects of the Tariff War Will Be Harmful. ***The Net Loss of Jobs in the State Will Total 31,930.***
Source: Washington I-O Model



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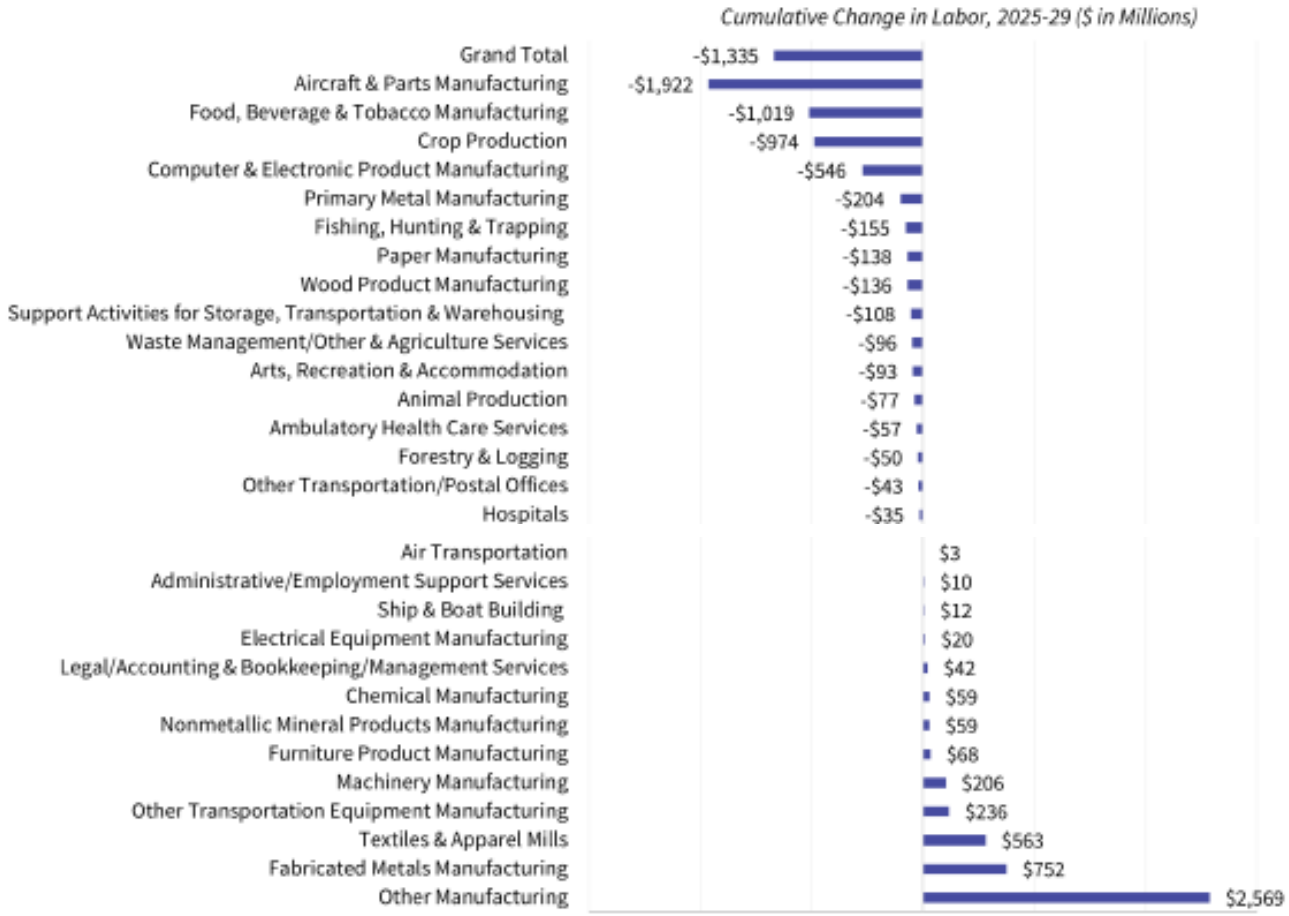
Key Findings

Impacts on Labor Income

Grand total:
4-Year Cumulative Net loss of $1.3 Billion

Figure 11. Change in Labor Income on Impacted Industries Under Tariff War (in $ Millions, Baseline Scenario of 27% U.S. Reciprocal Tariff and 37% Foreign Retaliatory Tariff):
Declining activity and income in primary industries cascade into services through reduced household consumption, fewer employment opportunities, and lower local spending. ***The Net Loss of Labor Income Will Be $1.34 Billion.***
Source: Washington I-O Model



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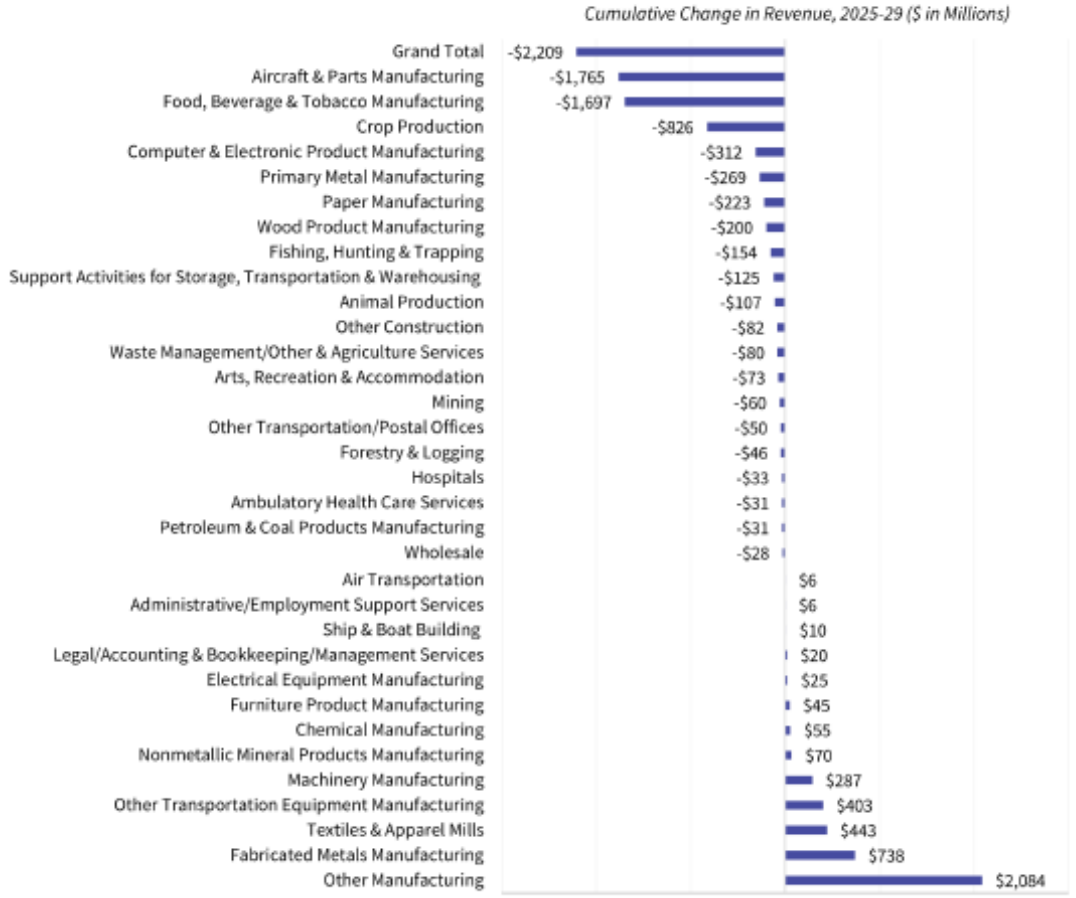
Key Findings

Impacts on State Revenue

Grand total:
4-Year Cumulative Net loss of $2.2 Billion

Figure 12. Change in State Revenue of Top 20 Most Impacted Industries Under Tariff War (in $ Millions, Baseline Scenario of 27% U.S. Reciprocal Tariff and 37% Foreign Retaliatory Tariff):
Tariff Wars Not Only Harm Globally Integrated Industries but Also Cause Cascading Revenue Shortfalls Across Service Industries. ***The Net Loss in State Revenue Will Be $2.2 Billion.***
Source: Washington I-O Model



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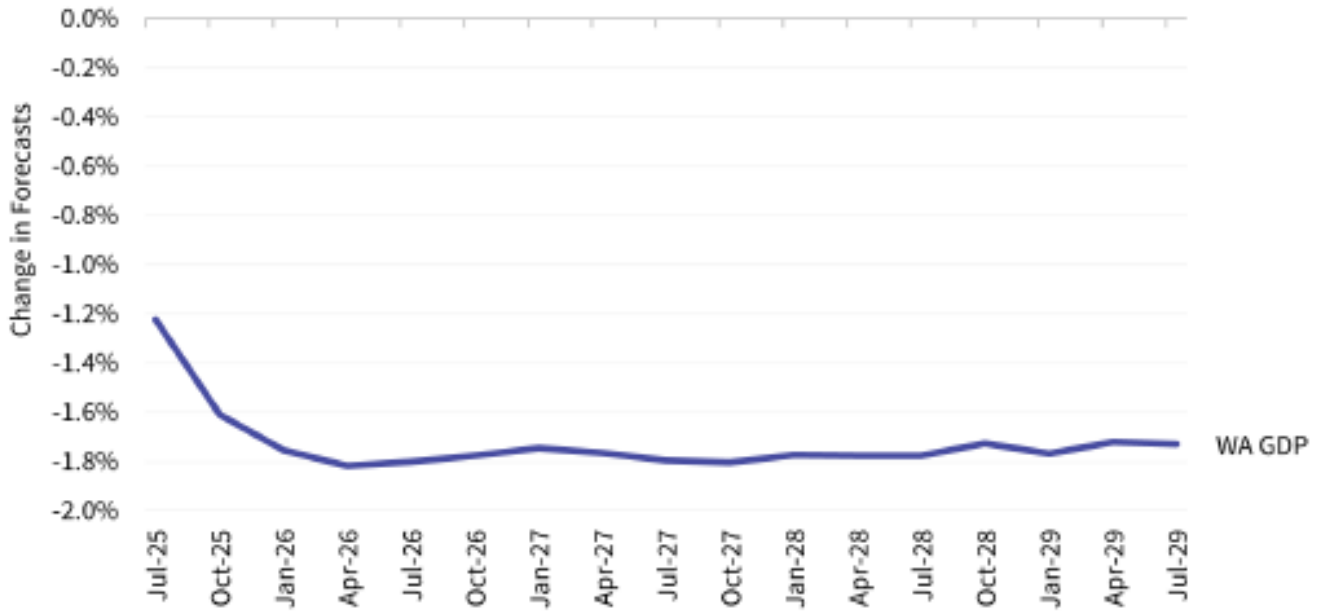
Key Findings: State GDP

Forecasted to decline by 1.2-1.8% quarterly

Figure 25. Expected Impact of Tariffs on Washington's GDP (May 2025 vs November 2024 S&P Forecast):

Tariffs Will Trigger a Broad Economic Slowdown in Washington.

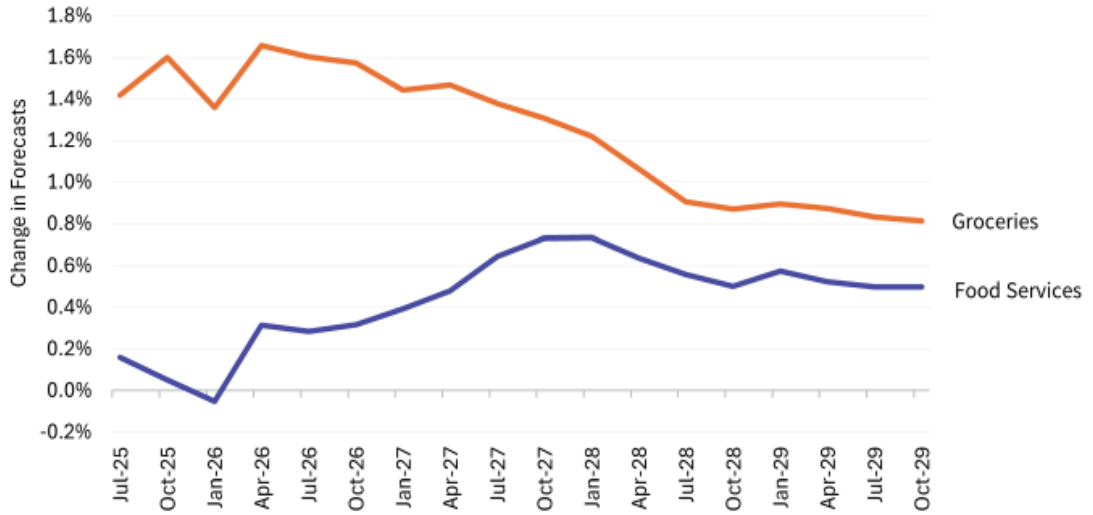


Key Findings: Food

To illustrate, consider a household that currently spends $6,000 annually on groceries and $4,000 on dining out (a total of $10,000 on food-related expenses). If the projected price increases were to occur between Q3 2025 and Q2 2027, grocery prices could rise by a cumulative 16.6%, and food service prices by approximately 8.1%. Under this scenario, grocery spending would increase to about $6,996 and dining out expenses to around $4,324. **In total, the household could expect to pay approximately $1,320 more over two years, raising their annual food budget from $10,000 to $11,320.**

Figure 18. Expected Impact of Tariffs on Washington's Price of Food (May 2025 vs November 2024 S&P Forecast):

Tariffs Will Have an Immediate and Sustained Impact on Grocery Prices.

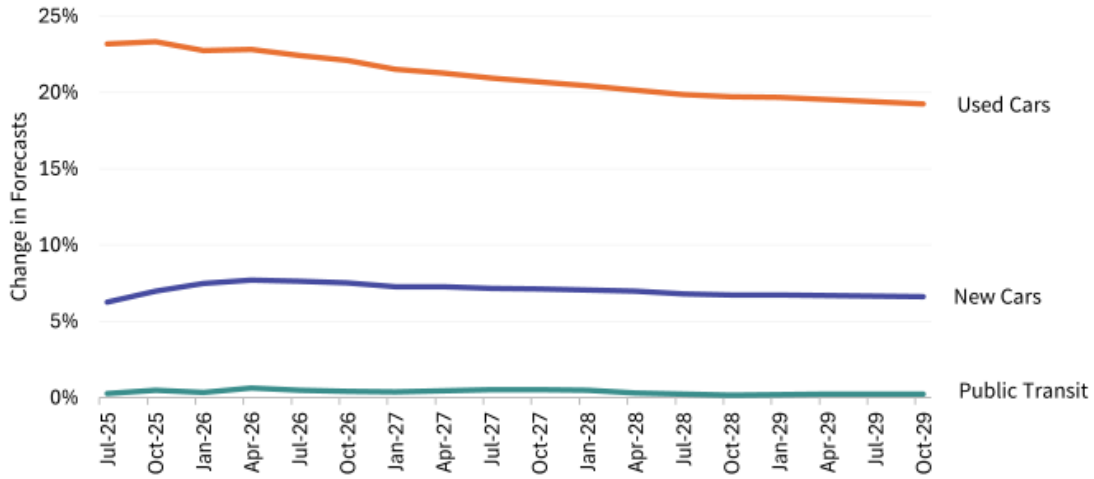


Key Findings: Cars and Transit

If tariffs on imported cars and parts are implemented, they would act like an extra tax on vehicles. A new car that costs $30,000 today could jump by 6%–8%, adding $1,800 to $2,400 to the price. A more affordable used car, at $15,000, could surge by 23%, an extra $3,450. As families skip buying cars to save money, many could crowd onto buses and trains for transportation, driving up demand for public transit. A $2.50 bus fare might rise by 0.2%–0.6%, adding a few cents per trip (for instance, $0.05 to $0.15), which would add up over weeks of commuting. Suddenly, Washingtonians baskets will feel heavier: Higher transportation costs mean household will be spending an extra $20–$50 a month, squeezing their budgets like an unexpected bill.

Figure 19. Expected Impact of Tariffs on Washington's Price of Transportation Equipment and Services (May 2025 vs November 2024 S&P Forecast):

Tariffs Over the Following Four Years Will Be Most Pronounced in the Sharp Inflation in Vehicle Prices.

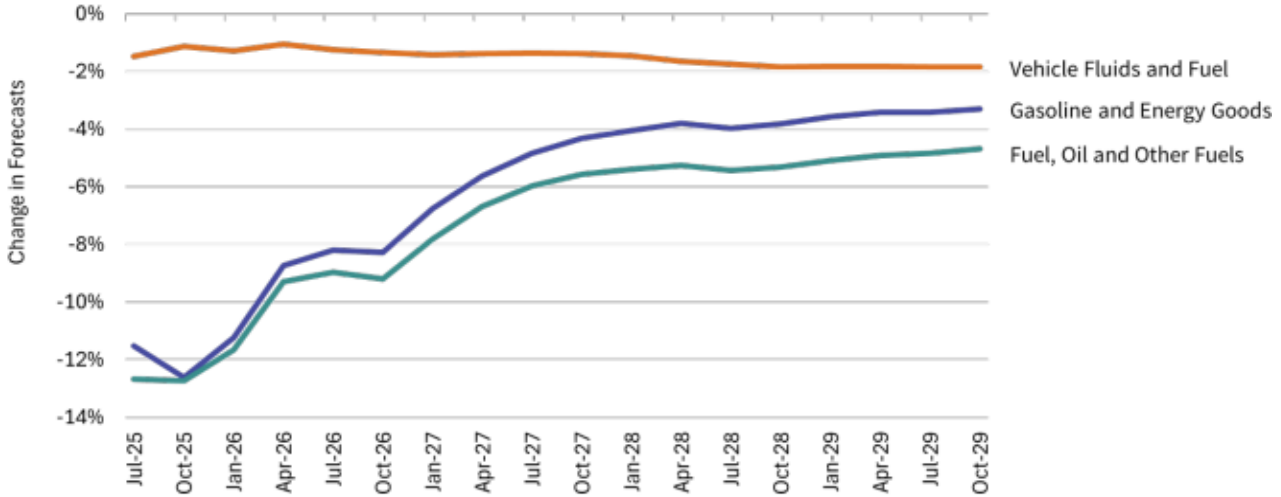


Key Findings: Transportation Equipment

To illustrate, consider a household that typically spends $2,200 per year on fuel, oil, and lubricants for their vehicle. Based on the sustained declines in fuel-related indices—particularly the 12%–15% drop in gasoline prices over the first year and continuing modest deflation—this household could see a cumulative cost reduction of 15%–18% over two years. That equates to a savings of roughly $330 to $400 annually, or about $700–$800 over two years.

Figure 20. Expected Impact of Tariffs on Washington's Price of Transportation Equipment and Services (May 2025 vs November 2024 S&P Forecast):

Fuel Indices Are Expected to Deflate in Response to Constrained Affordability in the Transportation Sector.

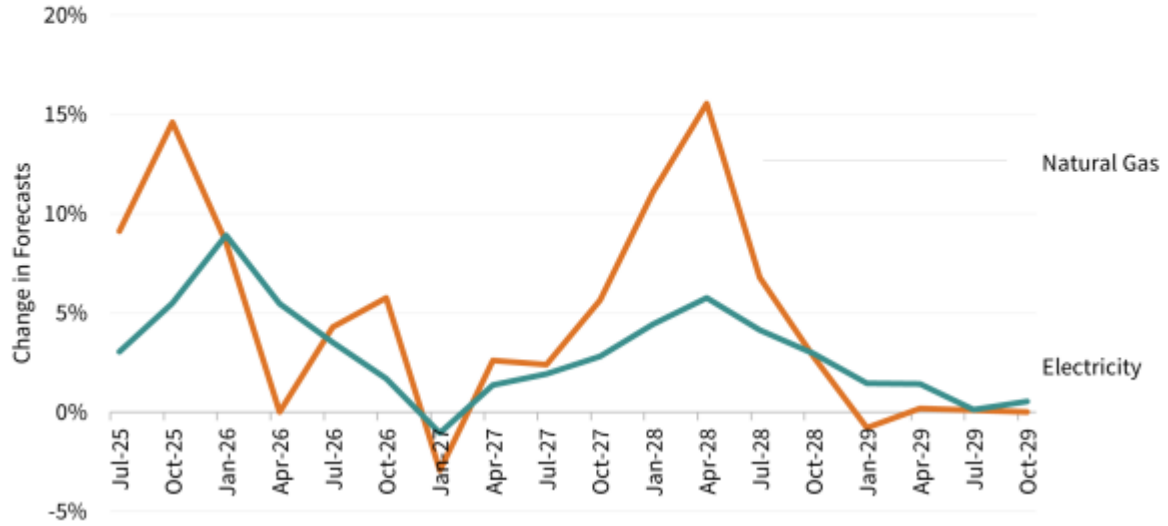


Key Findings: Utilities

To illustrate, the 10% tariff on Canadian natural gas, which Washington depends on, is like adding a fee to household utility bills. Say a Washingtonian natural gas bill for heating is $100 a month; a 14.6% jump in October 2025 could add $14.60, making the home pricier to keep warm. The electricity bill, supposed to be $120 for lights and appliances, could climb by 8.9% in early 2026, adding $10.68.

Figure 21. Expected Impact of Tariffs on Washington's Price of Natural Gas and Electricity (May 2025 vs November 2024 S&P Forecast):

Consumer Natural Gas in Washington Is Expected to Increase Rapidly if the Tariffs Are Enacted, Driving the Price of Electricity.

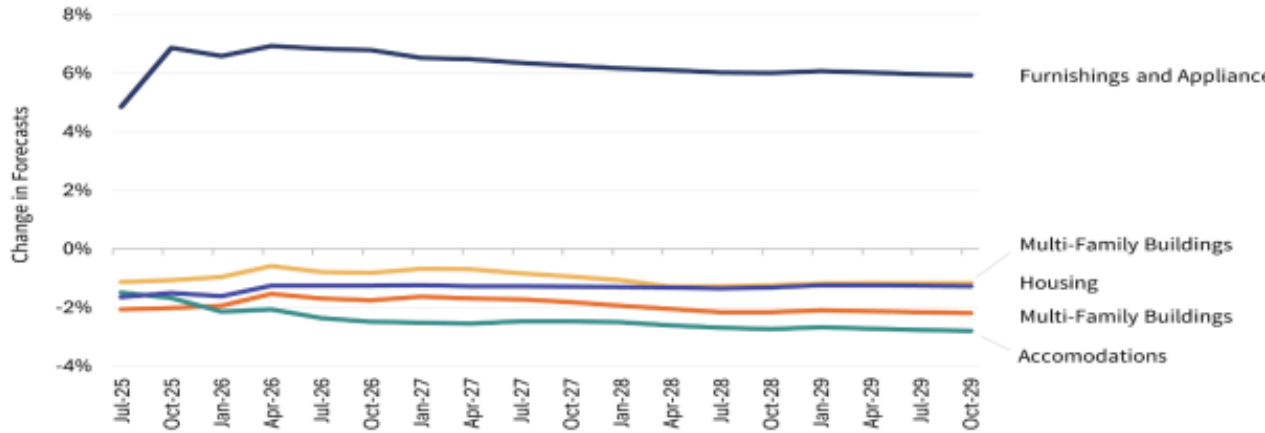


Key Findings: Housing and Furniture

Consider a household planning to move into a new single-family home and furnish it in mid-2025. Thanks to falling construction prices, the cost of buying the house might drop by about 4% over two quarters, creating upfront savings. However, furnishing the home would be much more expensive. If the household budgeted $5,000 for furnishings, price increases of around +6.9% and +6.6% in the first two quarters after the tariff would increase the cost to over $5,700—a 14% increase in less than six months.

Figure 22. Expected Impact of Tariffs on Washington's Price of Housing and Furniture (May 2025 vs November 2024 S&P Forecast):

The Residential Construction Market Will Cool Over Time, Likely Due to Reduced Housing Demand and Tighter Household Budgets. Furniture and Household Appliances Will Undergo Inflationary Pressures.

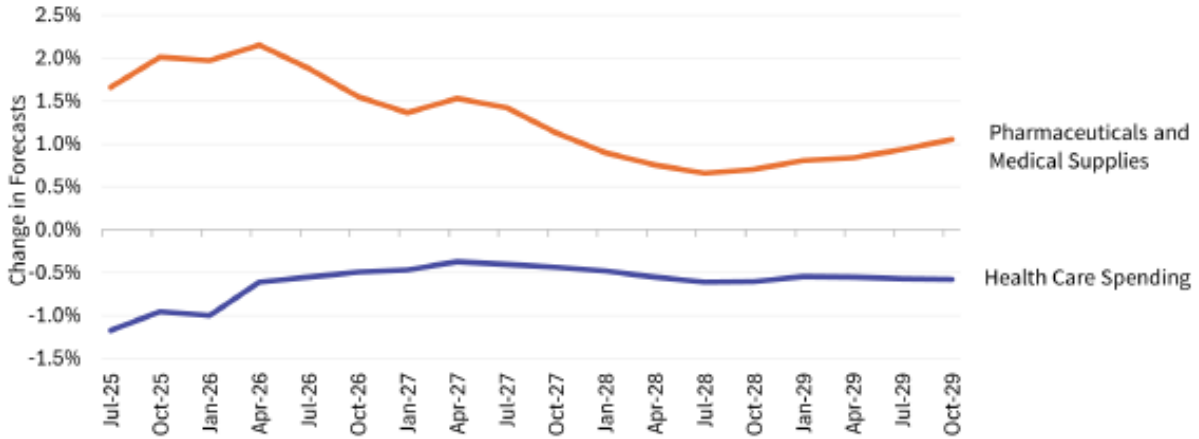


Key Findings: Health Care

Consider a household that spent $200 per quarter on pharmaceutical products and $1,000 per quarter on general health services before the tariff. With cumulative pharmaceutical inflation reaching roughly 10% over the first four quarters, their medication expenses could rise to $220 per quarter by mid-2026.

Figure 23. Expected Impact of Tariffs on Washington's Price of Consumer Health Care Products and Consumer Health Consumption (May 2025 vs November 2024 S&P Forecast):

The Price for Pharmaceuticals and Other Medical Products Will Increase Steadily. Consumers Will Spend Less on Non-Urgent Health Services.



Key Findings: Clothing and Footwear

Consider a household that typically spends $500 per year on clothing and footwear. With a cumulative increase of approximately 7.4% from Q3 2025 through Q2 2026, their annual spending could rise to around $537 by mid-2026. By the end of 2027, cumulative increases could push that number closer to $560, assuming continued inflation. While this rise may seem modest, it compounds across families and is part of a broader trend of price increases across various consumer goods due to tariffs.

Figure 24. Expected Impact of Tariffs on Washington's Price of Clothing and Footwear (May 2025 vs November 2024 S&P Forecast):

Despite Slowing Over Time, Inflation of Clothing and Footwear Prices Are Expected to Be Higher if Tariffs Are Implemented.