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Crosswinds Ahead

The Turbulent Tariff Toll on Washingtonians



WASHINGTON STATE

Office of Financial Management
Forecasting and Research Division
Economics Unit

WASHINGTON STATE

OFM
Office of Financial Management

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OFM provides vital information, fiscal services, and policy support that the Governor, Legislature, and state agencies need to serve the people of Washington. The Forecasting and Research Division is uniquely positioned as a source for data, research, and statistical analyses and is home to in-house analytical research and databases ranging from health care, education, demographic characteristics, criminal justice, traffic safety, and economic trends.

As data custodians, we value privacy, security, and access. We are committed to promoting diverse and inclusive research communities, reliable data sources, rigorous program evaluations, and accessible information. The Forecasting and Research Division houses the Economics Unit, Public Safety Policy and Research Center (PSPRC), Population Unit, Forecasting Systems Unit, Health Care Research Center (HCRC), and Education Research and Data Center (ERDC).

About the Economics Unit

The Economics Unit of the Forecasting and Research Division is crucial in shaping policy through its detailed economic analyses. We manage tasks like updating the Washington State Input-Output model, analyzing median household income, forecasting long-term employment and income, and refining the state's net migration model for population projections. Additionally, we provide regular economic updates, highlighting recent economic events to support informed policymaking at OFM, state agencies, and the Governor's Office. Our unit also tackles special research projects that influence policy, assist communities, and inform budgetary decisions, using data-driven evidence and rigorous methods to enhance Washington state's economic resilience and growth.

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Preamble

What the Analysis Includes

To provide timely and actionable insights, this analysis adopts several simplifying assumptions:

- **A focus on the short-term, four-year horizon:** The four-year time horizon reflects a focus on short-term risks and budget planning needs, recognizing that long-term structural shifts are highly uncertain during this period.
- **Estimates of the direction and scale of likely impacts:** Estimates are directional and scaled to reflect *likely* impacts rather than *precise* forecasts, acknowledging limitations in tariff timing, enforcement variability, and global market responses.
- **Substitution patterns related to import and export price:** Substitution patterns and trade elasticities are central to the analysis, as price changes from tariffs influence the composition and volume of imports and exports.
- **Capturing the interrelated nature of economic sectors:** The use of Washington's input-output model allows the analysis to capture spillover effects across industries, a critical feature in a highly interconnected state economy.
- **Forecast isolating all non-tariff factors:** Finally, to isolate the fiscal consequences directly attributable to tariffs, the revenue forecast is limited to tariff-induced changes and does *not* include broader macroeconomic variables (e.g., interest rates, fiscal policy).

What the Analysis Does Not Include

This analysis intentionally excludes several elements due to data limitations, uncertainty, and the need to produce timely results.

- **Precise estimates of impacts from specific tariffs:** The report does not provide precise estimates of the impacts of each specific tariff, as the scope, enforcement, and timing of individual measures are evolving and vary widely across sectors and trading partners.
- **All behavioral responses to tariffs:** This analysis does *not* capture all behavioral responses—such as potential declines in international travel to the U.S.—as these effects are difficult to quantify reliably.
- **Comprehensive revenue forecast:** The report does not present a comprehensive revenue forecast because the goal is to isolate tariff-induced changes in economic activity. It is not intended to account for broader fiscal or macroeconomic shifts that may also affect state revenues.

Executive summary

The federal government has proposed a variety of substantial tariff increases in 2025. If the “Liberation Day” tariffs are enacted, Washington state residents and businesses could experience significant economic impacts across prices, growth, state revenues, and employment. As a trade-intensive state, Washington is particularly exposed to both the direct effects of U.S. tariffs and the likely retaliatory responses from key trading partners.

Key Impact: Higher Prices

Consumer prices are expected to rise if tariffs are passed on to buyers. We developed a statistical model to project price impacts. Model projections suggest that essential goods—including automobiles, clothing, furniture, food, natural gas and electricity—could see **cumulative price increases over multiple quarters, with some categories such as used cars reaching up to 25% over two years**. These increases would put pressure on household spending, particularly for low- and middle-income families, whose budgets are more sensitive to price changes in basic goods.

Key Impact: Lost Jobs

Employment losses could be considerable if retaliatory tariffs reduce foreign demand for Washington products. In the Liberation Day scenario, **over 30,000 jobs are projected to be at risk, particularly in crop production, aircraft manufacturing, and related industries**. These job losses may spill over into the broader economy, affecting support services like transportation, education, and health care.

Key Impact: Declining State and Local Resources

State revenues would also likely decline in response to reduced economic activity. Forecasts estimate cumulative **general fund revenue losses of \$2.2 billion by 2029** under current tariff assumptions, with even greater losses possible under more aggressive foreign retaliation. Trade-dependent communities could be especially vulnerable.

Key Impact: Slower Growth

Washington’s economic growth may also slow as a result of reduced trade activity and rising production costs. Simulations indicate that quarterly **state GDP growth could decline by 1.2% to 1.8% between 2025 and 2029** under a baseline tariff scenario, with more severe impacts in sectors heavily dependent on exports, such as aerospace, agriculture, and food manufacturing.

Overall, while the tariffs have not yet been fully implemented, the potential impacts on Washington state are wide-ranging and significant. The policy could lead to higher consumer prices, slower economic growth, job losses in key sectors, and fiscal pressure on both state and local governments. The magnitude of these effects will depend on the final structure of the tariffs, the scale of retaliation, and how households and firms respond to changing trade conditions.

1. Why This Report Matters

Assessing the Economic Impact of Recent U.S. Trade Policy Changes on Washington State

U.S. trade policy has shifted dramatically in 2025, marking a historic departure from recent norms. In 2024, the United States maintained a relatively open trade stance, with an average effective tariff rate of just 2% on imports. However, beginning in early 2025, the U.S. introduced a sweeping series of tariffs driven by economic, national security, and geopolitical considerations. As of April 9, 2025, the average tariff has risen to approximately 27%—about 13 times higher than last year and the highest level since before World War II. **If currently paused tariffs take effect, the average rate could climb to nearly 39%** (Reddy, 2025; Trade Compliance Resource Hub, 2025).

The 2025 tariff rollout was broad, aggressive, and escalated rapidly over several months. It began with a 25% tariff on imports from Mexico and Canada and a 10% tariff on Chinese imports, purportedly tied to efforts to curb fentanyl and, in some cases, migration. In March, the U.S. imposed 25% tariffs on non-USMCA-compliant goods from Canada and Mexico, alongside new 25% tariffs on steel and aluminum products—later doubled to 50% in June. In April, tariffs expanded to include a 25% duty on imports from countries buying Venezuelan oil, a 25% tariff on autos, and another 25% on beer and aluminum cans. A universal 10% tariff on nearly all imports from non-exempt countries took effect on April 5. Additional measures followed in May, including the revocation of the de minimis exemption for China and Hong Kong and a 25% tariff on auto parts. Many tariffs are currently paused and under negotiation, making it difficult to accurately predict the degree of retaliation and their future impact on the economy (Budget Lab, 2025; Federal Reserve Bank of Richmond, 2025). In fact, countries such as China retaliated with a 125% increase on U.S. exports (currently on pause), whereas countries such as Vietnam have adjusted their tariffs down by 5%, underscoring the uncertainty in the response adopted by countries (N’Guyen, 2025; Budget Lab, 2025).

Washington state's heavy reliance on international trade makes it especially vulnerable to new tariffs and countermeasures. In 2024, the state ranked 9th in exports (\$58 billion) and 15th in imports (\$62 billion) among all U.S. states (US Census Bureau, 2025). The total volume of trade—**more than four times the state's fiscal year 2024 revenue**—underscores the scale of Washington's exposure (ERFC, 2025). This high level of trade intensity amplifies the economic risks posed by the recent surge in U.S. tariffs and likely foreign retaliation.

Washington's key export sectors, particularly aerospace and agriculture, face immediate and severe risks from foreign retaliation. On April 15, 2025, China responded to new U.S. tariffs by instructing its airlines to halt all future deliveries of Boeing jets, delivering a direct blow to one of Washington's largest industries and employers (Reuters, 2025). At the same time, agricultural exports like apples, cherries, and wheat are among the first targets for retaliatory tariffs, making them less competitive in global markets and threatening the livelihoods of thousands of farmers (King 5, 2025).

The vulnerability of Washington’s agriculture sector was evident during the 2018–19 trade conflict, **when India imposed a 20% tariff on U.S. apples, causing a 99% drop in Washington apple exports to that market and resulting in hundreds of millions of dollars in lost sales.** U.S. tariffs on imports from Japan pose significant risk to Washington’s potato sector—its largest export market—by increasing the likelihood of Japanese retaliation and reduced market access for state growers (*KUOW, 2025*).

Tariffs create widespread economic disruption across Washington’s trade-dependent economy.

While agriculture and aerospace are among the most visibly affected sectors, tariff-induced slowdowns ripple far beyond them—disrupting port operations in Seattle and Tacoma, reducing jobs in logistics and warehousing, and increasing input costs for manufacturers tied to global supply chains. **In a state so deeply embedded in international trade, these disruptions lead to cascading consequences, from job losses to declining revenues in both rural and urban communities.** The 2018 tariffs had similarly lasting impacts, prompting strong concern from the Washington State Department of Commerce, which reported disruptions across key sectors such as retail, shipping, aerospace, and technology. **With two out of every five jobs connected to global trade,** tariffs threaten not only specific industries but also the broader employment and economic stability of the entire state (*Duffy, J. 2025*).

Tariffs significantly raise consumer prices, effectively acting as a tax on Washington households and businesses. Furthermore, the revenue from these tariffs is directly collected by the U.S. Treasury, not Washington state. **Multiple studies show that over 90% of tariff costs are passed through to U.S. consumers, leading to broad-based inflation.** Research by Amiti, Redding, and Weinstein (2019) found that the 2018 tariffs were almost entirely reflected in higher domestic prices, reducing real income by about \$1.4 billion per month for U.S. households. More recent evidence from 2025 shows that prices for China-made goods on Amazon—especially electronics and home goods—have risen faster than overall inflation (*Reuters, 2025*). Business surveys conducted by the Federal Reserve Banks of New York and Cleveland confirm that most firms are passing tariff-related costs to consumers (*Cavallo et al. 2021*). Model-based estimates from the Budget Lab project that the cumulative effect of current tariffs could raise average prices by over 2%, costing the typical household thousands of dollars annually (*Budget Lab, 2025*). These findings underscore the inflationary burden tariffs impose on everyday goods, with real consequences for Washingtonians’ cost of living.

Given the potential impact of tariffs on the Washington state economy, the OFM Economics Unit conducted an analysis to:

- Identify the top WA exports/imports affected by tariffs.
- Estimate the likely impact of announced tariffs on both services and goods in terms of changes in sales, employment, and labor income.
- Project the likely impact of tariffs on forecasted Washington state revenue.
- Estimate the likely impact of announced tariffs on the prices of goods vital to Washingtonians.
- Present the short-term risks to the economy.

This analysis uses a trade elasticity model to assess the economic impact of tariffs. This framework enables the state to estimate how changes in trade prices impact the monetary value of imports and exports, while accounting for the substitution choices made by Washington consumers and businesses. The approach is consistent with leading academic studies—such as those by Amiti et al. (2019), and Feenstra et al. (2018)—which emphasize the importance of elasticity estimates in capturing trade responses. To enhance the analysis, the report also incorporates Washington’s input-output model, which tracks how shocks in one sector ripple through others (*WA OFM, 2022*). This combined methodology enables the state to understand not only the direct effects of tariffs but also the way that tariffs ripple throughout Washington’s economy, affecting businesses and people who will be indirectly harmed by the economic shock.

Input-output (I-O) modeling is a widely accepted method for analyzing the broader economic impact of tariffs. Its strength lies in capturing inter-industry linkages and the ripple effects that occur when one sector is disrupted. For example, Fajgelbaum et al. (2020) used an I-O-based general equilibrium model to analyze the 2018–19 U.S. tariffs and found that most of the costs were borne by consumers and downstream industries. Similarly, Caliendo, Dvorkin, and Parro (2019) incorporated an I-O structure into their computable general equilibrium model to assess the effects of U.S.-China trade tensions, showing how shocks in one sector spread through supply chains. These studies highlight the importance of I-O models in capturing both direct and indirect economic consequences of tariffs, especially in economies with complex sectoral interdependencies. A description of the I-O and trade elasticities model can be found in the Appendix (*WA OFM, 2022*).

Key Stakeholders Consulted

To inform this analysis, we consulted with key agencies and interest holders across Washington state’s economic and trade landscape. These included staff from the Department of Revenue (DOR), Employment Security Department (ESD), Utilities and Transportation Commission (UTC), Economic and Revenue Forecast Council (ERFC), Department of Commerce, Department of Agriculture, the Washington Public Ports Association, and representatives of ports from around the state. These conversations provided critical insights into how tariffs are impacting tax collections, employment trends, sector-specific vulnerabilities, supply chain disruptions, and port activity. The feedback from these agencies helped shape the scope and focus of this report, ensuring that it reflects real-time concerns and the practical challenges faced by both government and industry leaders across Washington.

Data and Assumptions Used

Assumptions

Throughout this report, we considered a **baseline scenario** (the so-called “Liberation Day” scenario), in which:

- The U.S. average tariffs used as reference in this report are the Liberation Day tariffs, announced on **April 9, 2025**. On average, those tariffs are equivalent to 27%, according to the Federal Reserve (2025). The latest U.S. average tariff rate can be consulted live on the Trade War Tracker website¹ developed by William Waugh (2025). A snapshot of U.S. average tariffs from January 1, 2025, to August 7, 2025, is available in the Appendix.
- Washington's expected export and import levels **without new tariffs** are based on **S&P's November 2024 forecast** for the years 2025 through 2029.
- According to the Federal Reserve (2025), the Average U.S. Effective Tariff Rate (AETR) in 2024 was 2.2%. According to the White House (Budget Lab, 2025), the AETR imposed by foreign countries on the U.S. is 27%. Therefore, we calibrate the model such that if U.S. reciprocal AETR is 2.2% and foreign country AETR is 27%, the impact of tariffs on the Washington economy is null. That means employment, labor income, state revenue changes are null. The calculation of the AETR is discussed by William Waugh (2025) and the Federal Reserve (2025).
- In 2018–19, the average U.S. tariff rose from 1.58% to 13.78% (Bahr, 2025), and foreign tariffs on U.S. exported goods increased from 8% to 20.8%—a 12 percentage point rise (Dunipoulous et al., 2024). Given that the U.S. average tariff rose from 2% to 27% on April 9, we assume full retaliation (if tariffs were not paused) would be **at least 10%** on average over the next four years. This is a conservative estimate, as the April 9 U.S. tariff increase is roughly double what occurred in 2018–19.
- In addition to the baseline scenario, we developed **alternative scenarios** involving different levels of U.S. and foreign retaliatory tariffs to capture uncertainty in current trade policy (Section 5, Alternative Scenarios).

We also incorporated the following into our analysis:

- **Industry linkages** using the input-output model, recognizing that tariffs in one sector can create a “**ripple effect**” across other industries. Details on the mechanism and limitations of the I-O model can be found in the Office of Financial Management’s study of the model.²

¹ <https://www.tradewartracker.com/>

² https://ofm.wa.gov/sites/default/files/public/dataresearch/economy/IO_2012_report.pdf

- **Substitution behavior** by importers and exporters in response to tariff changes, using elasticity estimates of monetary value traded relative to import and export price changes (Figures 4 and 7).
- A **declining effective tariff rate** over time, reflecting how consumers and producers adjust in the short term by finding alternative sources or changing their behavior to offset the impact of tariffs. According to Russ et. al (2025), the effective tariff rate is generally lower than an average of statutory tariff rates or the true economic burden of tariffs because buyers tend to substitute away from goods when tariffs raise the price too much relative to other options.

Data

To assess the economic impact of tariffs on Washington state, we use several key data sources, each selected for their ability to capture critical dimensions of trade activity and consumer behavior:

- **U.S. Census Bureau Trade Data (2025):** This dataset provides detailed information on the **value and composition of imports and exports** by state. We use it to establish **baseline trade volumes** specific to Washington in 2024, which are essential for estimating the direct exposure of the state's economy to international trade and the potential impact of new tariffs.
- **Bureau of Transportation Statistics Freight Data (2024):** This data is used to **adjust for passthrough trade flows**. Many goods imported into or exported from Washington actually **originate in or are destined for other states**. By using freight data, we remove these passthrough values to isolate the **true monetary value of trade attributable to Washington's economy**. This ensures we are not overstating the state's direct trade exposure.
- **Import and Export Price Elasticities from William Hauk Jr. (2011):** We apply elasticity estimates from this article to evaluate how changes in tariffs and prices influence trade volumes. Hauk uses **panel data methods** over a 30-year period (1978–2001) to create import and export price indices and control for endogeneity in price movements. This long-run approach captures **consumer and producer behavior over multiple economic cycles**, offering robust elasticity estimates. As Hauk notes, these elasticities are valuable for evaluating the **welfare effects of trade policy** and are broadly applicable in empirical studies of international trade.

2. How Tariffs Work

Tariffs are not economic tools whose effects simply begin and end. Instead, they have a dynamic impact on the economy, which changes over time as governments, consumers, and businesses respond. The following sections discuss how retaliatory tariffs and elastic/inelastic demand can change the intended effects of U.S. tariffs placed on imported goods.

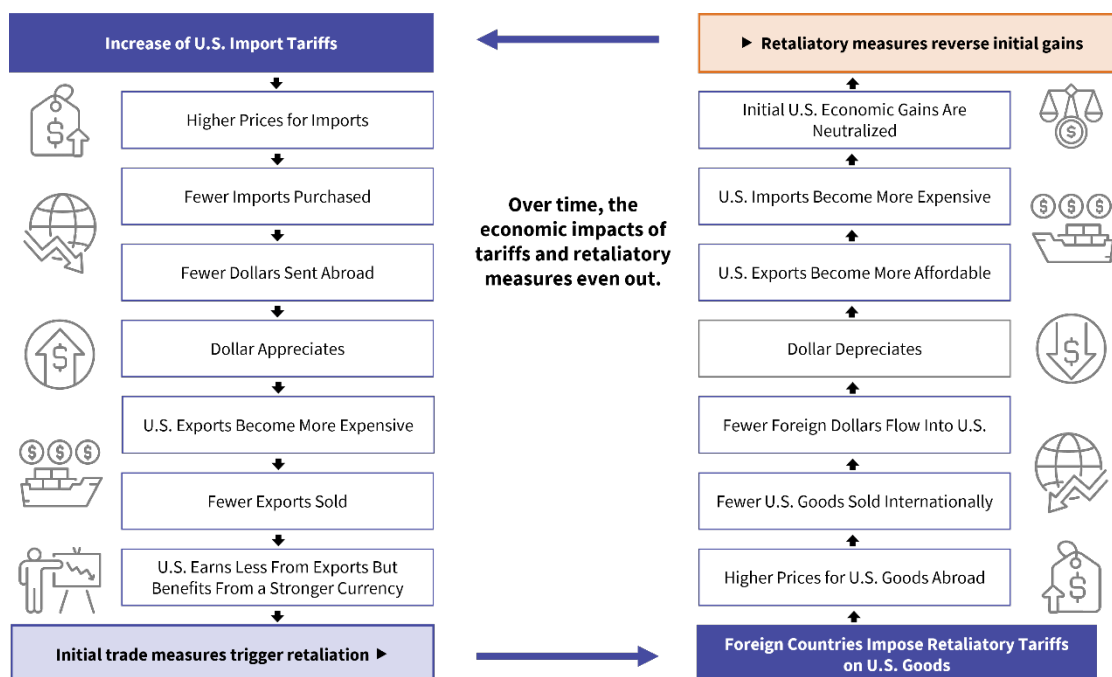
Before Retaliation: U.S. Reciprocal Tariffs Solely in Place

Reciprocal tariffs increase the cost of imported goods for U.S. businesses and consumers, as they are paid by domestic importers and often result in higher prices. These tariffs are imposed by the United States to match or counter the duties that other countries place on American goods, aiming to create balanced trade relationships and pressure foreign governments to lower their trade barriers. The revenues from these tariffs are directly collected by the U.S. Treasury, not Washington state.

Before retaliation occurs, tariffs primarily function as a tax on imports that disrupts the flow and pricing of goods across borders. When the U.S. imposes a tariff on imported goods, the immediate effect is an increase in the domestic price of those goods, since U.S. importers typically pass the tariff cost to consumers (Amiti et al., 2019). As prices rise, the quantity of goods imported declines, especially for goods that have close domestic substitutes or are price sensitive. The degree of decline depends on the price elasticity of demand for the imported products—more elastic goods see sharper drops in quantity (Figure 1).

Figure 1. Impact of U.S. Tariffs on Washington's Trade Values:

Higher Import Tariffs Will Mean Less Imports and Exports for Washington.



At the same time, U.S. import tariffs lead indirectly to the appreciation of the U.S. dollar. This happens because fewer dollars are being used to buy foreign goods (lower import demand), which can reduce the supply of dollars in foreign exchange markets. A stronger dollar makes U.S. exports more expensive for foreign buyers and foreign imports cheaper for U.S. consumers, partially offsetting the protective effect of the tariff. Consequently, while tariffs may initially reduce imports, dollar appreciation can reduce export competitiveness and mute the reduction in imports by lowering the price of foreign goods. **Overall, before retaliation, the effects of tariffs are felt through higher prices, reduced import quantities, and currency shifts**—all of which alter trade flows even before any foreign countermeasures are introduced.

After Retaliation: U.S. Reciprocal and Retaliatory Tariffs in Place

Retaliatory tariffs, on the other hand, are imposed by foreign countries in response to U.S. trade actions (reciprocal tariffs). These tariffs are designed to target key American exports—such as agricultural products, machinery, or aircraft—to inflict economic and political pressure on the United States. In this case, the foreign importer of U.S. goods pays the tariff to their own government at the time of importation. While the U.S. does not directly bear this cost, **retaliatory tariffs reduce the competitiveness of U.S. exports abroad**, often leading to a decline in sales and revenue for American producers. The funds from retaliatory tariffs are collected by the foreign government's customs authority (Figure 1).

Retaliatory tariffs affect U.S. exports directly and imports indirectly. When foreign countries respond to U.S. tariffs by imposing retaliatory tariffs on American exports, the immediate effect is to raise the price of U.S. goods in foreign markets. This makes American products less competitive abroad, leading to a decline in the quantity of goods exported, particularly in sectors like agriculture and manufacturing that are highly price sensitive. The magnitude of this decline depends on the price elasticity of demand in the importing country—exports fall more sharply when foreign buyers can easily switch to other suppliers.

The indirect effect of retaliation is the depreciation of the U.S. dollar. As U.S. exports decline, so does foreign demand for U.S. dollars (since fewer American goods are being purchased), which can lead to depreciation of the dollar. A weaker dollar makes imports more expensive in the United States and can further suppress import quantities, reinforcing the original effect of the tariffs. However, a depreciated dollar can also partially offset export losses by making U.S. goods cheaper globally, depending on how persistent and broad the retaliation is. **Overall, after retaliation, tariffs lead to reduced exports, shifting currency values, and further contractions in imports**, intensifying the economic disruption initially triggered by unilateral trade barriers.

In our analysis, we assume the effect of exchange rates is muted after retaliation. U.S. reciprocal tariffs lead to dollar appreciation, lowering import prices and raising export prices—partially offsetting the tariffs’ intended impact. Retaliatory tariffs reverse this by causing dollar depreciation, canceling out prior exchange rate effects. Therefore, we focus on the direct changes in the monetary value of imports and exports driven by passing the tariff to the price paid by consumers.

In this report, the monetary values of goods imported and exported serve as the key indicators of trade response and economic exposure.

Monetary Value Imported and its Impact on the Washington Economy

When a tariff is imposed on imported goods, it increases their price. However, the change in the monetary value of imports (import price $\times$ quantity) depends on how much the quantity demanded responds to the price increase—this is determined by the price elasticity of import demand.

Consumers are most sensitive to price changes in elastic goods, which include brand-name products or items with easily accessible substitutes like TVs from Asia, clothing and footwear. Inelastic goods, on the other hand, are often household necessities or otherwise unique products such as medications like insulin, semiconductors and chips, or specialized automobile parts.

If demand is elastic, a small increase in price due to the tariff causes a large drop in quantity demanded. For example, suppose Washington imports TVs at \$1,000 each and initially buys 1,000 units, totaling \$1,000,000 in imports. After a 10% tariff, the price rises to \$1,100. If demand is elastic and purchases fall to 700 units, the new import value becomes \$770,000. In this case, the monetary value of imports decreases because the quantity dropped sharply. **For goods with an elastic demand, a decline in the monetary value of imports directly impacts the sales and revenue of industries that depend on imported goods as input or inventory.** Over time, what begins as a shift in the monetary value of imports cascades through the economy—lowering industry revenue, shrinking the labor market, and reducing the state’s fiscal capacity to fund essential services. This chain reaction highlights the deep link between trade activity and local economic stability.

On the other hand, if demand is inelastic, the same price increase leads to only a small reduction in quantity. Using the previous example again, if imports fall slightly to 950 units, the new import value becomes \$1,045,000. Here, the monetary value of imports increases despite the tariff, because buyers continue purchasing nearly the same quantity. When tariffs are imposed on inelastic imported goods, the monetary value of imports often increases because consumers continue buying nearly the same quantity despite higher prices. **Since demand is inelastic, the tariff cost is largely passed on to consumers without a significant drop in volume.** As a result, the total monetary value imported (import price $\times$ quantity) rises—not because more goods are imported, but because the price per unit has increased.

For inelastic goods, tariffs may raise the monetary value of imports, which in turn leads to higher output sales, more hiring, and increased tax revenues. However, it's important to note that while this may appear positive in the short term, the long-term effect on consumer welfare and real purchasing power can still be negative.

Monetary Value Exported and its Impact on the Washington Economy

Retaliatory tariffs imposed by foreign countries affect the monetary value of Washington exports through the quantity of goods demanded abroad. Whether the exported good is elastic or inelastic, the United States almost always experiences a loss in export revenue. The impact depends on how sensitive foreign buyers are to the price increase caused by the retaliatory tariff.

If the exported goods are elastic in the foreign market, meaning foreign buyers are highly sensitive to price changes, even a small increase in price due to the retaliatory tariff can lead to a significant drop in quantity demanded. For example, if a Washington exporter sells apples at \$1.00 per pound and a foreign country imposes a 20% tariff, buyers now pay \$1.20. If the demand is elastic, foreign buyers may sharply reduce their purchases—say from 1,000,000 to 600,000 pounds. As a result, the monetary value exported drops from \$1,000,000 to \$600,000. The U.S. exporter loses both revenue and market share.

On the other hand, if the exported good is inelastic, meaning foreign buyers cannot easily switch to alternatives, the quantity exported may decline only slightly. In this case, the exporter might ship 950,000 pounds instead of 1,000,000. While the total amount paid by foreign buyers increases due to the tariff, the U.S. exporter still receives only the pre-tariff price, and the difference goes to the foreign government. Thus, even with inelastic demand, the monetary value exported either decreases or stagnates. **The U.S. exporter earns less revenue, despite high buyer demand.**

In both cases, retaliatory tariffs lead to a decline in the monetary value exported from the U.S. because the exporter either sells fewer goods or earns less per unit. The exporter does not benefit from the price increase—the foreign government does. Over time, this harms the competitiveness of Washington goods and reduces their presence in foreign markets.

This decline in export volume translates into lower revenue for the affected industry. With shrinking profits, companies may reduce production, delay investments, or lay off workers. This directly impacts employment and labor income, as fewer jobs are available and wages may stagnate or decline. The ripple effect reaches beyond the industry itself, weakening household purchasing power and reducing overall economic activity.

Overall, the impact of U.S. reciprocal tariffs and foreign countries retaliatory tariffs on Washington's economy depends primarily on the composition of the goods imported and exported by Washington state, as well as the price sensitivity of consumers in Washington and the foreign markets.

3. What History Tells Us About Tariffs in Washington

The 2018–19 tariffs marked a significant escalation in U.S. trade policy, particularly targeting China. The U.S. imposed tariffs on over \$360 billion of Chinese imports under Section 301, citing intellectual property theft and unfair trade practices, with rates reaching up to 25% on goods such as electronics, machinery, and consumer products. Additional tariffs under Section 232 imposed 25% duties on steel and 10% on aluminum from multiple countries, including allies. In response, China and other trading partners, including Mexico, Canada, and the EU, enacted retaliatory tariffs on key U.S. exports such as agricultural products, automobiles, and industrial goods—impacting more than \$110 billion in U.S. trade. **These measures disrupted global supply chains, raised production costs, reduced export demand, and ultimately imposed higher costs on American consumers and businesses** (*Hamond and Kitamura, 2025*).

Retaliatory tariffs during the trade war targeted many of Washington’s top exports, particularly in agriculture. The state’s cherry exports to China fell by 50% in 2018 following a 25% Chinese tariff, resulting in losses exceeding \$86 million (Berton H, 2018). Wheat exports, which account for up to 90% of Washington wheat production, also plummeted from 2017 to 2019, heavily impacting Eastern Washington grain producers (Washington Grain Commission, 2025; US Census Bureau, 2025). Similarly, a 20% Mexican tariff on apples and potatoes caused exports to drop by 29% and 21%, respectively. India’s 2018 retaliatory tariff on apples led to a near-complete collapse in shipments to the country, falling by 99% and costing growers hundreds of millions of dollars (*KUOW, 2025*).

The aerospace sector, led by Boeing, also faced pressure, with tariffs increasing the cost of imported inputs and disrupting global supply chains. China, a key Boeing customer, delayed aircraft purchases during the dispute, reducing output and affecting employment in related industries such as parts manufacturing, logistics, and engineering (*Bown and Wang, 2023*).

Tariffs also hit Washington’s ports, leading the Ports of Seattle and Tacoma to experience a sharp decline in activity during the trade war. In 2019, the Northwest Seaport Alliance reported a 14% drop in exports year over year, primarily due to reduced trade with China and other retaliating countries. The Washington State Department of Transportation reported that the total value of trade with China dropped by over 32% during the 2018–19 period, impacting revenue for port operations and surrounding logistics businesses (Northwest Seaport Alliance, 2020).

Consumers also bore the burden of these policies. The Washington Council on International Trade (WCIT) estimated that the **2018–19 tariffs cost the average U.S. household over \$2,600 annually, disproportionately affecting lower-income families.** Tariffs function like taxes on imported goods, and their costs are typically passed on to consumers. In Washington, tariffs on items like clothing and shoes cost residents more than \$1 billion in 2017 alone (*Heritage Foundation, 2018*). Local manufacturers that depend on imported materials, such as steel and aluminum, also faced higher production costs, driving up prices for Washington-made products.

Although tariffs are often defended as tools to protect American jobs, the evidence in Washington tells a different story. A joint analysis from MIT Economics found that **retaliatory tariffs, especially from China, caused clear negative employment effects—particularly in agriculture.** With 40% of Washington jobs tied to international trade, the employment impact is broad (*WCIT, 2019*). The Association of Washington Business (AWB) noted that uncertainty around tariffs caused businesses to delay hiring, freeze capital investments, and even plan layoffs (*AWB, 2019*). According to the Governor’s Office, these measures increased costs for businesses and consumers alike and complicated the state’s efforts to maintain economic stability (*Office of the Governor, WA State, 2019*).

The ripple effects extended beyond prices and jobs. Small- and medium-sized enterprises, in particular, struggled to plan under such volatility. The Washington State Department of Commerce emphasized the importance of resilience and the need for government support to help businesses navigate this shifting policy environment (*WA State Department of Commerce, 2019*).

The cumulative impact of these trade tensions was substantial: declining exports, reduced business revenues, job losses, and lower labor income across both rural and urban communities. While the federal Market Facilitation Program (MFP) offered some relief to affected producers, it did not fully compensate for the economic disruption many Washingtonians endured (*WA Association of Wheat Growers, 2019*).

4. What the Newly Announced Tariffs Mean for Washington

One of the goals of this report is to identify which industries, goods, and services will be most impacted by the newly proposed and enacted federal tariffs, as well as potential retaliatory tariffs by foreign trade partners. This section covers the imported and exported goods most likely to be impacted, as well as the effects on associated industries and services. In the following sections, we present information using the North American Industry Classification System (NAICS) categories while omitting passthrough imported and exported goods to focus on *direct* impacts to Washington industries. The methodology we used to exclude passthrough goods can be found in the Appendix.

Top Impacted Imports

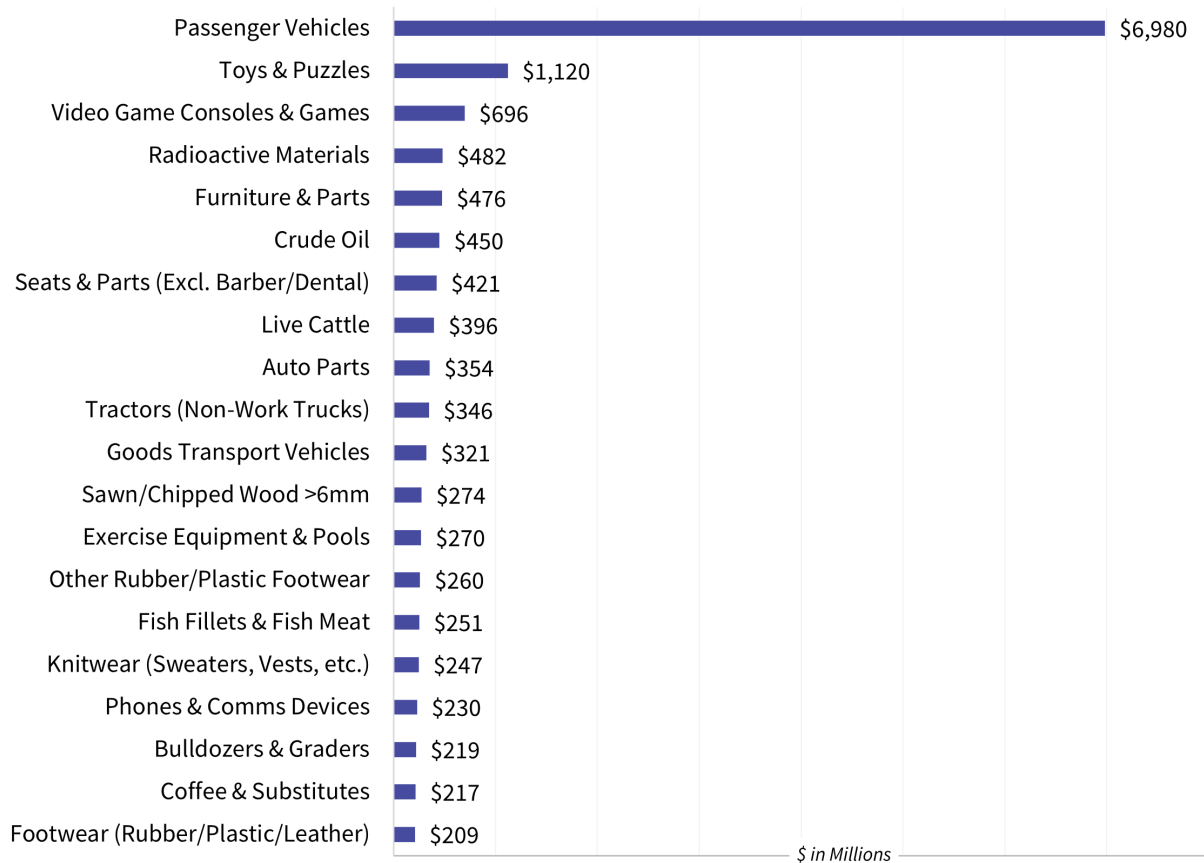
Figure 2 highlights 2024’s top 20 goods imported into Washington state by monetary value, excluding passthrough trade, offering insight into the state’s exposure to international markets. Motor cars and vehicles for transporting people dominate imports, with a value of \$6.98 billion, far exceeding the next-highest import, toys and scale models at \$1.12 billion. Other major imports include video game consoles (\$696 million), radioactive chemical elements (\$482 million), and crude oil (\$450 million). The chart underscores Washington’s reliance on high-value consumer goods,

industrial machinery, and automotive components, making the state particularly vulnerable to trade disruptions. A rise in tariffs or global supply chain shocks would significantly affect these import categories, likely leading to price increases, reduced availability, and downstream economic consequences for consumers and businesses. See the link to the full list of top 100 goods imported into Washington state excluding passthrough in the Appendix.

Figure 2. Top 20 Imports to Washington (in \$ Millions, Excluding Passthrough Trade):

Passenger Vehicles, Toys, and Video Games Dominate Washington's Imports.

Source: U.S. Census Trade Data (2024), Bureau of Transportation Freight Data (2024)



To understand the impact of tariffs on goods imported, we quantify how each of the imported goods react to import price increase. This is estimated through the elasticity of the monetary value imported with respect to import prices. Below is the elasticity of the top 20 goods imported into Washington (excluding passthrough).

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)

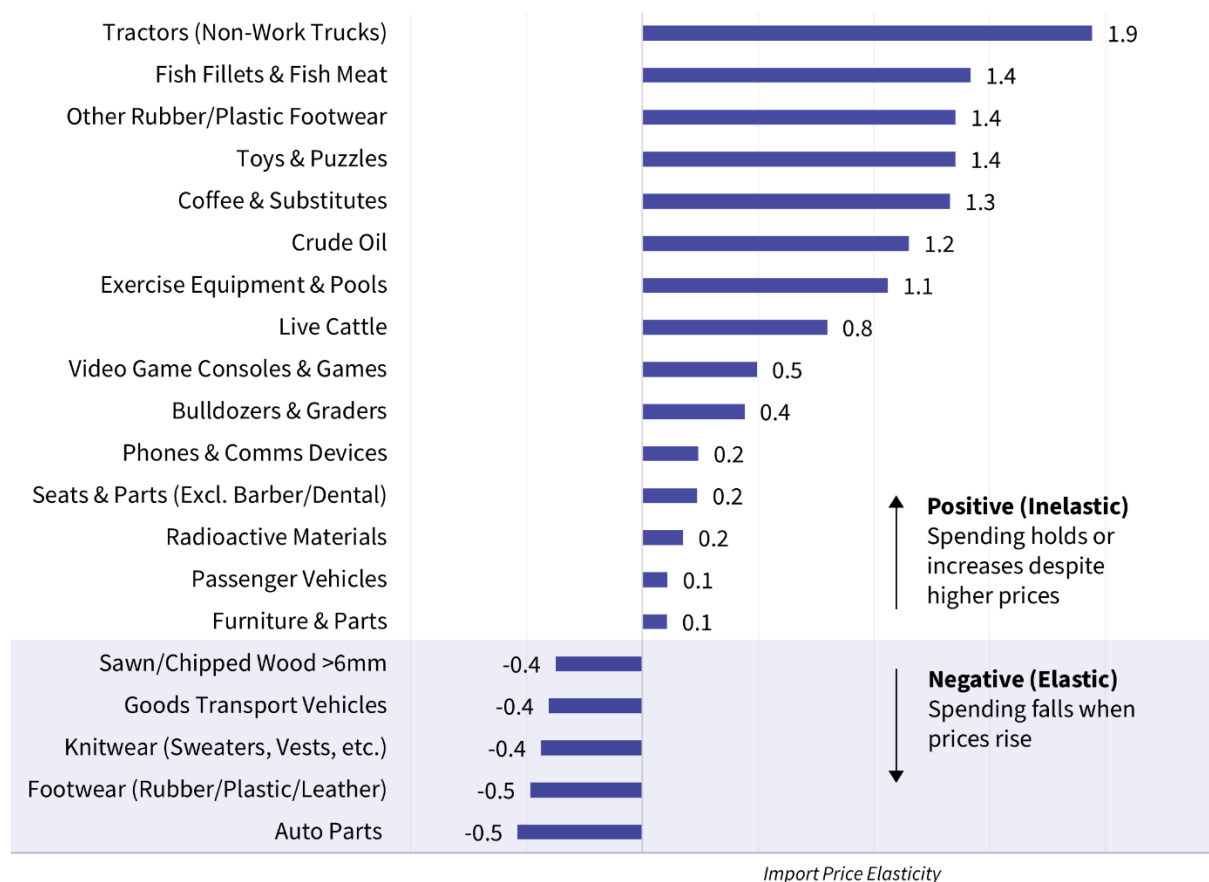


Figure 3 shows the import price elasticity for the top 20 goods imported into Washington, with elasticity defined as the percentage change in the monetary value imported for a 1% change in import price. A positive figure indicates that a good is price inelastic, meaning higher prices lead to higher spending. A negative figure implies that a good is price elastic, meaning demand and spending fall when prices for that good rise.

The most inelastic goods include tractors (1.94), fish fillets (1.42), and toys (1.35), suggesting Washington importers tend to maintain or increase spending on these goods even when prices rise—possibly due to lack of substitutes or necessity. On the other hand, goods such as motor vehicle parts (-0.54), apparel (-0.49), and wood products (-0.38) are price elastic, with higher prices significantly reducing their dollar import value. See the link to full list of elasticities for the top 100 goods imported in Washington state (excluding passthrough) in the [supplemental files](#).

The identification of the top 100 imported goods, as well as their elasticity allows us to find the top industries that are directly impacted by the U.S. reciprocal tariffs, as well as their average elasticities of monetary value imported relative to import price. This is done by aggregating the goods by the industry to which they belong to. In this report, the industries are classified under 52 sectors, following the classification used to build the Washington State Input-Output Model.

Figure 4. Washington’s Leading Import Industries (Top 100 Goods, in \$ Millions):

Top Washington Import Industries Have Positive Elasticities. This Means Washingtonians Will Bear the Burden of the Tariff as Industries are Highly Dependent on Imports.

Source: U.S. Census Trade Data, Bureau of Transportation Freight Data, William Hauk Trade Elasticities (2011)

Industries	Monetary Value Imported (in \$ Millions) 2024 WA Excluding Passthrough	Average Elasticity of Monetary Value Relative to Import Price
Transportation Equipment Manufacturing	7,956	0.22
Other Manufacturing	3,515	0.36
Machinery Manufacturing	1,286	0.14
Textiles & Apparel Mills	1,280	0.14
Computer & Electronic Product Manufacturing	1,239	0.15
Electrical Equipment Manufacturing	1,031	0.02
Mining	683	1.12
Chemical Manufacturing	603	0.42
Furniture Product Manufacturing	564	-0.02
Food, Beverage & Tobacco Manufacturing	485	-0.46
Fabricated Metals Manufacturing	421	0.35
Fishing, Hunting & Trapping	421	0.85
Primary Metal Manufacturing	419	-0.40
Animal Production	396	0.80
Aircraft & Parts Manufacturing	377	0.19
Wood Product Manufacturing	318	-0.13
Nonmetallic Mineral Products Manufacturing	296	1.45
Agriculture – Crop Production	217	1.33
Wood Product Manufacturing	156	-0.89
Ship & Boat Building	42	0.46
Electric Utilities	22	0.04
Petroleum & Coal Products Manufacturing	21	-0.04

Figure 4 shows the monetary value and average import price elasticity of the top imported goods into Washington state by industry, excluding passthrough trade. The largest import sectors include transportation equipment manufacturing (\$7.96 billion) and other manufacturing ³ (\$3.52 billion), both of which are relatively inelastic (elasticities of 0.22 and 0.36, respectively), indicating stable import demand despite price fluctuations. In contrast, several industries show negative

³ Other Manufacturing: Leather & Allied Product Manufacturing, Plastics & Rubber Products Manufacturing

elasticity, meaning they are highly price sensitive: furniture (-0.02); chemical manufacturing (-0.42); food, beverage, and tobacco (-0.46); and, in particular, wood products (-0.89 to -1.12). **These sectors are more likely to reduce import volumes when prices rise.**

Top Impacted Exports

Figure 5. Top 20 Exports From Washington (in \$ Millions, Excluding Passthrough Trade):

Civil Aircraft, Fresh Apples, and Frozen Prepared Vegetables Dominate Washington's Exports

Source: U.S. Census Trade Data (2024), Bureau of Transportation Freight Data (2024)

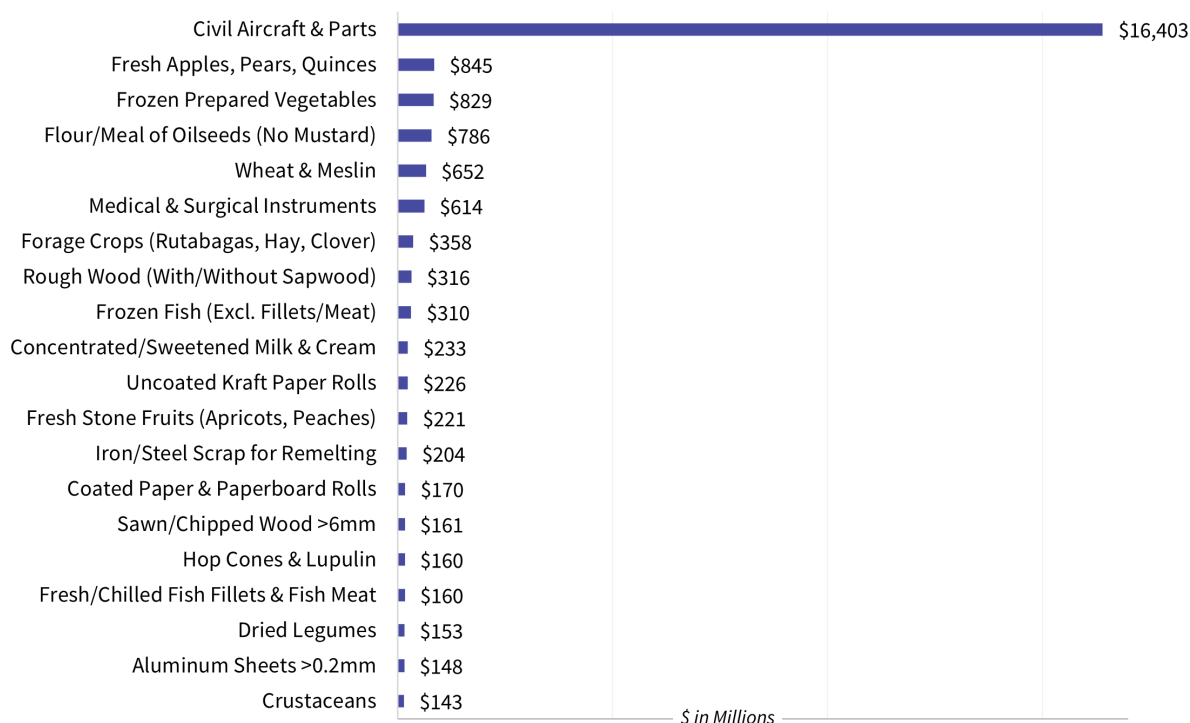


Figure 5 shows the top 20 goods exported from Washington state by value, revealing the state's strong dependence on civilian aircraft, engines, and parts, which account for a staggering \$16.4 billion—far exceeding all other categories. Other major exports include fresh apples and pears (\$845 million), prepared vegetables (\$829 million), flour and oilseed meal (\$786 million), and wheat (\$652 million), highlighting Washington's competitive edge in both aerospace manufacturing and agricultural production. This export composition demonstrates Washington's reliance on both high-tech and natural resource-based sectors, making the state particularly sensitive to global trade conditions, regulatory changes, and foreign demand fluctuations. See the full list of top 100 goods imported into Washington state excluding passthrough in the [supplemental files](#).

To understand the impact of tariffs on exported goods, we measure how much foreign demand falls when Washington export prices rise . This quantification is done through the elasticity of the monetary value exported with respect to export prices. Below is the elasticity of the top 20 goods exported from Washington (excluding passthrough).

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)

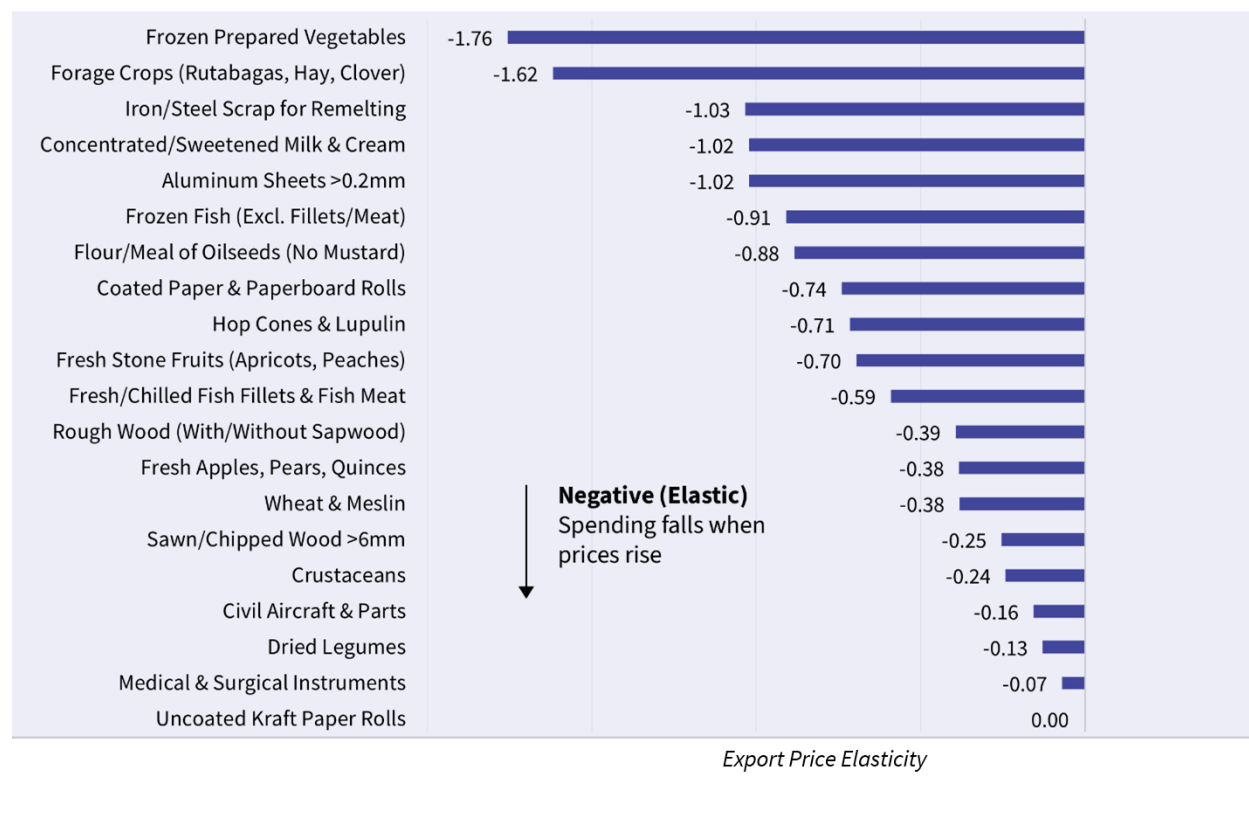


Figure 6 presents the export price elasticity of the monetary value exported for the top 20 exports from Washington, where elasticity measures the percentage change in the monetary value exported in response to a change in export price. All values are negative, indicating that the monetary value exported declines when prices rise, driven by reduced international demand. The most price-sensitive exports include prepared or preserved vegetables (1.76), forage products like hay and clover (1.62), and ferrous scrap metal (1.03)—goods for which foreign buyers quickly reduce orders when prices increase. In contrast, high-value goods like civilian aircraft (0.16) and medical instruments (0.07) are much less elastic, meaning their export values are relatively stable even with rising prices. See the full list of elasticities of the top 100 goods exported from Washington state (excluding passthrough) in the [supplemental files](#).

The identification of the top 100 exported goods, as well as their elasticities, allows us to identify the top industries that are directly impacted by potential retaliatory tariffs from foreign countries, as well as their average elasticities. This is done by aggregating the goods by the industry to which they belong to.

Figure 7. Washington's Leading Export Industries (Top 100 Goods, in \$ Millions):

Aircraft & Parts Manufacturing Is One of the Least Price-Sensitive Export Industries, While Crop Production and Food and Beverage Manufacturing Are Highly Price-Sensitive.

Source: U.S. Census Trade Data, Bureau of Transportation Freight Data, William Hauk Trade Elasticities (2011)

Industries	Monetary Value Exported (\$ Millions) 2024 WA excluding Passthrough	Average Elasticity of Monetary Value relative to Export Price
Aircraft & Parts Manufacturing	16515	-0.12
Food, Beverage & Tobacco Manufacturing	2950	-0.99
Crop Production	2282	-0.93
Computer & Electronic Product Manufacturing	1244	-0.68
Paper Manufacturing	797	-0.75
Fishing, Hunting & Trapping	731	-0.60
Machinery Manufacturing	606	-0.60
Wood Product Manufacturing	556	-0.36
Primary Metal Manufacturing	430	-0.60
Other Manufacturing	289	-0.93
Electrical Equipment Manufacturing	287	-0.28
Fabricated Metals Manufacturing	205	-0.32
Chemical Manufacturing	131	-0.61
Other Transportation Equipment Manufacturing	103	-0.40
Forestry & Logging	87	-0.12
Chemical Manufacturing	83	-0.19
Furniture Product Manufacturing	34	-0.06
Nonmetallic Mineral Products Manufacturing	13	-0.37
Mining	11	-0.96
Petroleum & Coal Products Manufacturing	0.21	-0.60
Electric Utilities	0.04	-0.11

Figure 7 presents the average price elasticity of monetary value exported across Washington's top industries, showing how sensitive export revenue is to changes in export prices. Industries such as crop production (-0.96), food, beverage & tobacco manufacturing (-0.99), and animal production (-0.93) are highly elastic, meaning their export revenues decline sharply when prices rise, exposing them to volatility from tariffs. In contrast, major sectors like aircraft & parts manufacturing

(-0.12) and forestry & logging (-0.12) are more inelastic, suggesting that demand for their exports remains relatively stable even if prices increase. These sectors are more resilient and form the backbone of Washington's export economy.

Service Industries Directly Impacted: The Cargo and Logistics Industry

While most service industries are only indirectly impacted by changes in trade policy, the cargo service industry is an exception because it operates at the core of international goods movement. Cargo services, including freight transportation, warehousing, logistics coordination, and port operations—are directly involved in the import and export of goods. When tariffs are imposed, they often result in a reduction in traded goods due to higher costs and retaliatory measures. This directly reduces the demand for cargo handling services, leading to immediate impacts on industry revenue, employment, and infrastructure usage.

In contrast, other service sectors such as finance, legal, or consulting may experience secondary effects over time, but they are not directly dependent on trade volumes and are not involved in the tariffed transactions themselves. Therefore, cargo services represent the only service industry with a direct, first-order link to tariff changes.

The cargo and logistics industry in Washington is directly hit by both U.S. reciprocal tariffs and foreign retaliatory tariffs, shrinking trade volumes and revenues—and with cascading effects on employment, labor income, and state tax revenue, especially as 40% of Washington jobs are tied to international trade (WCIT, 2019).

Figure 8. Washington Trade Volume in 2018 vs 2019, U.S. Census Trade Data 2018–19:

Washington Trade Volume Dropped in 2019 After the 2018 Enacted Tariffs.

Source: U.S. Census Trade Data

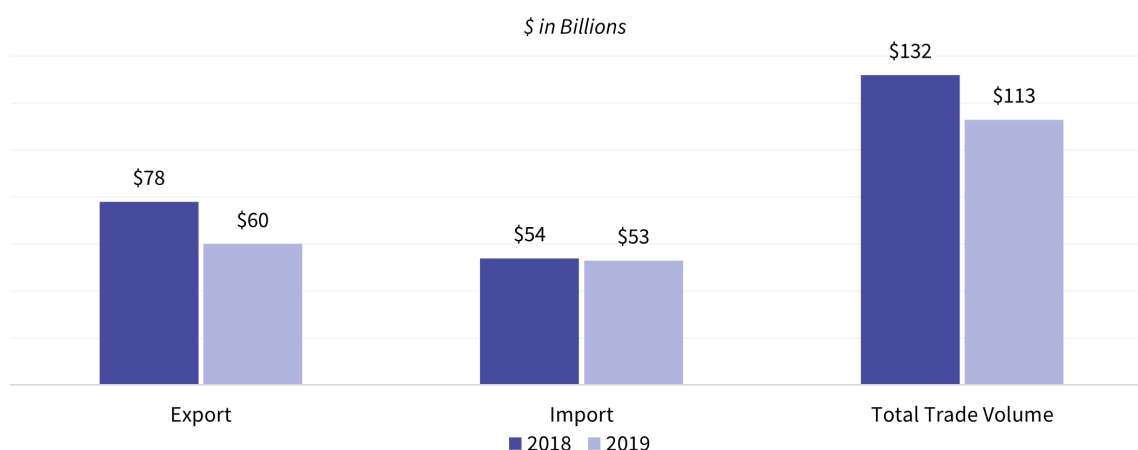


Figure 8 shows that between 2018 and 2019, Washington state experienced a \$19 billion decline in international trade volume. According to the Department of Revenue, the cargo industry typically

generates revenue equivalent to about 1.5% of total trade volume. Based on this estimate, the trade loss translated into approximately \$285 million in lost revenue for Washington's logistics and service industry.

During the 2018–19 U.S.–China tariff war, Washington state's cargo and logistics industry experienced significant revenue losses due to both U.S. reciprocal tariffs and foreign retaliatory measures. Approximately \$621 million worth of Washington exports were targeted by retaliatory tariffs, including \$413 million in goods affected by China's response. This led to sharp declines in exports of apples, potatoes, wheat, and dairy—totaling at least \$140 million in agricultural losses. These trade disruptions reduced the volume of goods passing through Washington's ports, particularly in the Seattle–Tacoma corridor, which saw substantial drops in container activity. With lower volumes, port-related revenues and operations such as trucking, warehousing, and rail freight were severely impacted, translating into fewer shifts, lower labor income, and job losses throughout the supply chain (WA Department of Commerce, 2019).

More recently, the 2025 U.S. “reciprocal tariffs” (10%–145%) on Chinese imports and retaliations (China matching with up to 125%) triggered a 25%–40% collapse in container volumes at West Coast ports like Seattle and Tacoma, slashing longshoremen shifts, trucking jobs, warehousing, and triggering layoffs in localized economies. Port of Seattle Commissioner Ryan Calkins warned customers that cargo volumes could drop 40%, jeopardizing work for longshoremen, truckers, and warehouse staff. With companies in the state already paying \$2 billion in tariffs in 2024 and facing up to \$21 billion in additional costs due to 2025 tariffs, the cumulative effect is reduced revenues for cargo and logistic firms—and that translates into lower employment, diminished labor income, and declining state and local tax receipts. Major container lines canceled six weekly transpacific shipping routes, removing over 1.3 million Twenty-foot Equivalent Units (TEUs) in capacity and further slashing logistics throughput. These tariff-driven declines pose serious threats to employment, wage earnings, and state tax revenues (Peck, 2025; Goldstein-Street, 2025).

5. Impact on Industries, Employment, and State Revenue

Baseline Results (The Liberation Day Scenario)

Using the baseline assumptions (page 6) of **27% U.S. tariffs** and **37% foreign retaliatory tariffs**, we estimate changes in output, employment, labor income, and state revenue by running Washington's Input-Output (I-O) model for each year from 2025 to 2029 under defined tariff scenarios (see the Appendix for details). The industries directly affected by U.S. reciprocal tariffs are shown in Figure 4, while those impacted by foreign retaliatory tariffs are shown in Figure 7. These industries were selected based on their connection to Washington's top imported and exported goods, excluding passthrough trade. The estimated changes in these sectors are used to "shock" the I-O model, allowing us to assess how these disruptions ripple through the broader state economy. In the I-O model, the Washington economy is divided into 52 industries (Figure 9, 10, 11, 12). A detailed explanation of the I-O modeling methodology is provided in the Appendix.

Change in output sales under a tariff war

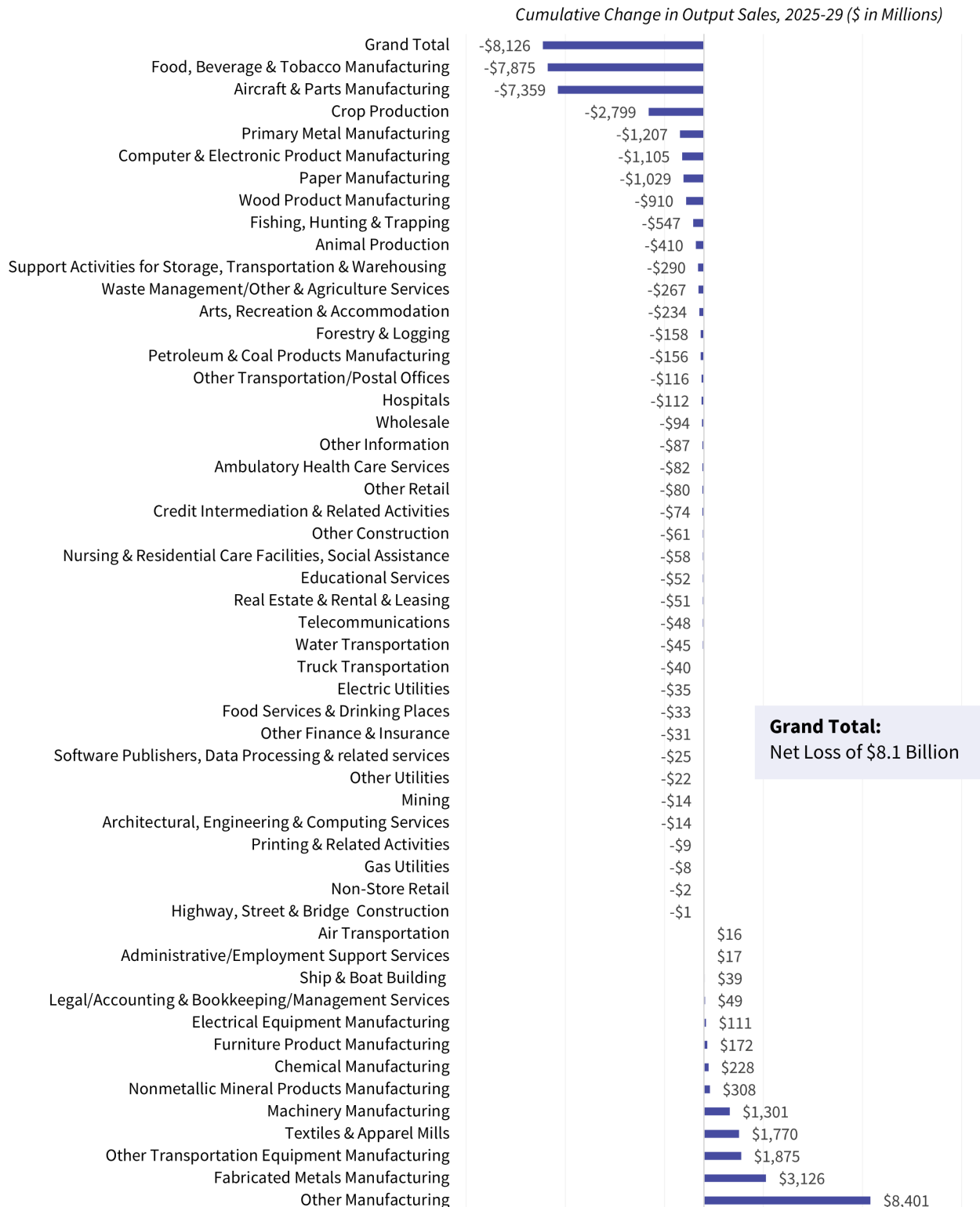
Figure 9 highlights how industries will be impacted by the tariff war under the baseline scenario showing cumulative output sales losses from 2025 to 2029. The most severely affected sectors include Food, Beverage & Tobacco Manufacturing, and Aircraft & Parts Manufacturing, each experiencing losses exceeding \$7 billion, followed by Crop Production with a loss of \$2.8 billion. Several other manufacturing industries—such as Primary Metal, Electronic Products, Paper, and Wood Products—also suffer substantial declines, reflecting their sensitivity to global trade disruptions and export exposure. The chart emphasizes that the economic damage from a tariff war is highly concentrated in trade-exposed sectors, particularly those reliant on international supply chains and foreign markets.

Despite the overall negative impact of the tariff war, a few industries in Washington are projected to see gains in output sales between 2025 and 2029, notably including Fabricated Metals Manufacturing, Transportation Equipment Manufacturing, and Textiles & Apparel Mills. These gains suggest some reshoring of production or domestic substitution may occur in response to higher import prices. **In total, however, the economy is projected to suffer a net loss of \$8.1 billion in output sales, indicating that the tariff increases will do more harm than good to the state's economy.**

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



Job losses or gains

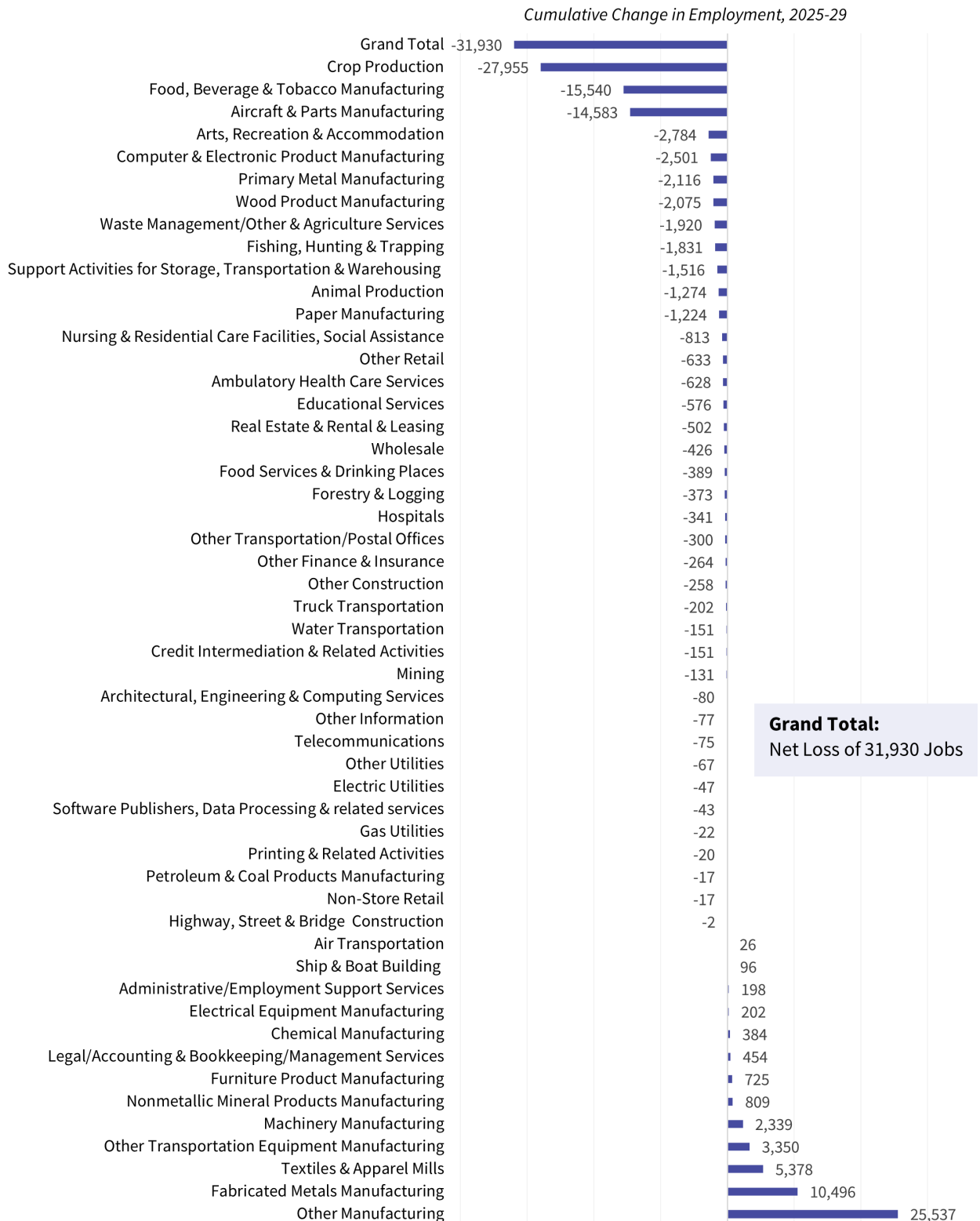
Figure 10 displays industries that will incur the most significant cumulative employment losses from 2025 to 2029 under a tariff war scenario featuring a 27% U.S. reciprocal tariff and 37% foreign retaliatory tariff. The total job loss across all industries (52 sectors) is projected to reach 31,930 positions, with the most severe reductions in Crop Production (-27,955 jobs), Food, Beverage & Tobacco Manufacturing (-15,540 jobs), and Aircraft & Parts Manufacturing (-14,583 jobs). These job losses reflect the heavy reliance of these sectors on global trade and the disruptions caused by retaliatory tariffs. In addition to these core trade-intensive industries, several service sectors are indirectly affected, including Arts, Recreation & Accommodation (-2,784 jobs), Nursing & Residential Care Facilities (-813 jobs), Ambulatory Health Care Services (-628 jobs), Educational Services (-576 jobs), and Real Estate & Rental & Leasing (-502 jobs). These losses suggest spillover effects from reduced household income, weakened consumer spending, and a contracting business environment. The chart highlights that tariff wars have broad labor market implications, with even non-tradable service industries absorbing indirect economic shocks.

Despite the overall negative impact of the tariff war on employment, a few industries are projected to experience job gains between 2025 and 2029, including Fabricated Metals Manufacturing, Textiles & Apparel Mills, and Transportation Equipment Manufacturing. These increases suggest a potential shift toward domestic production in response to higher import costs. **Overall, however, the state is projected to lose more jobs than it gains, signaling that the broader economic and labor market effects of the tariff war will be harmful.**

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



Impact on workers' income

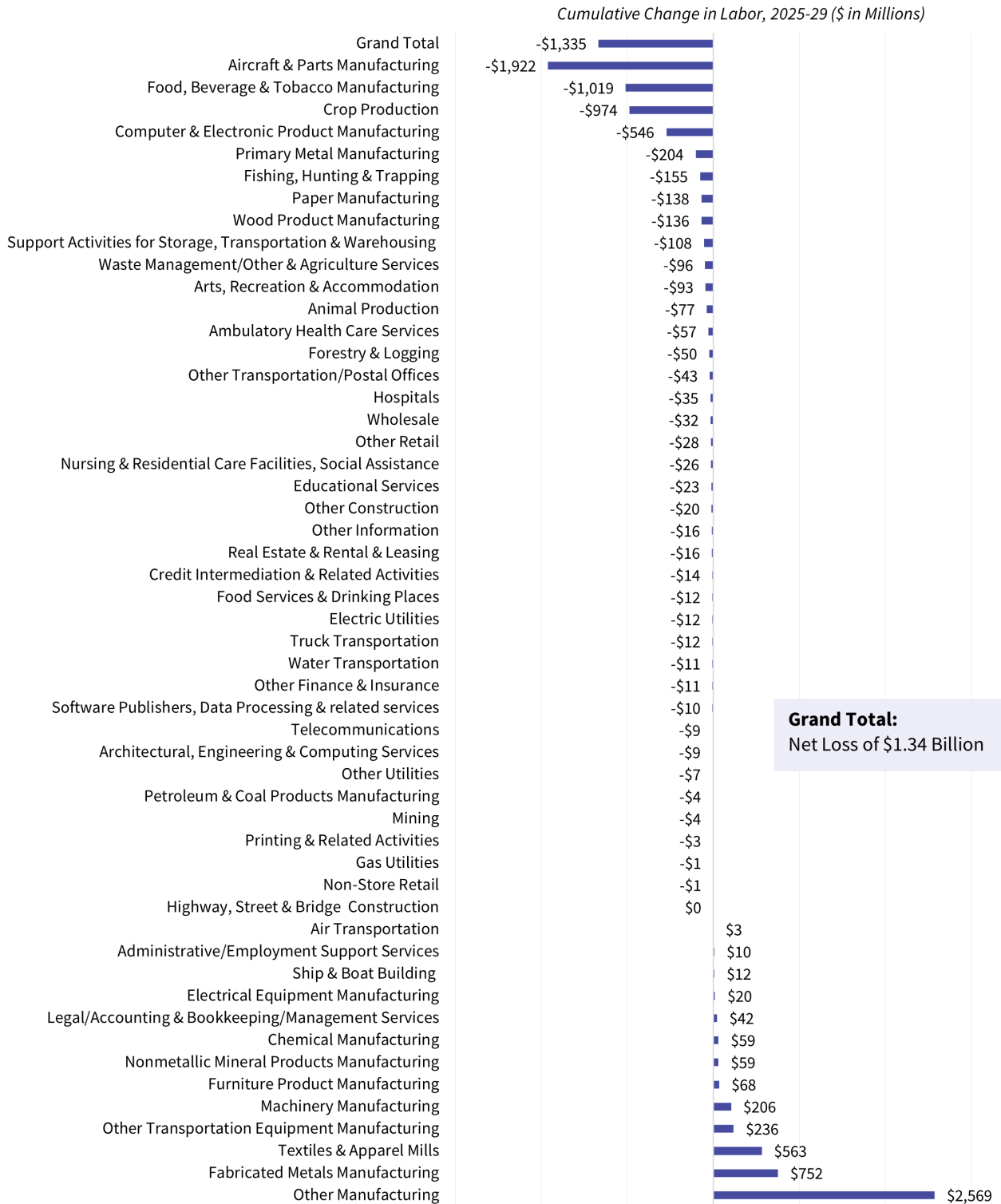
Figure 11 shows industries with the largest cumulative declines in labor income from 2025 to 2029 under a tariff war scenario with a 27% U.S. reciprocal tariff and 37% foreign retaliatory tariff. The total projected labor income loss is \$1.34 billion (52 sectors), led by Aircraft & Parts Manufacturing (-\$1.92 billion); Food, Beverage & Tobacco Manufacturing (-\$1.02 billion); and Crop Production (-\$974 million). These sectors are heavily trade-exposed and suffer both direct export revenue losses and domestic demand contraction. Importantly, several service industries are also indirectly affected, including Ambulatory Health Care Services (-\$57 million); Arts, Recreation & Accommodation (-\$93 million); Educational Services (-\$23 million); and Hospitals (-\$35 million). **These reductions suggest that declining activity and income in primary industries cascade into services through reduced household consumption, fewer employment opportunities, and lower local spending.** This illustrates how a tariff war, while initially targeting traded goods, has far-reaching effects across the broader economy, including sectors traditionally considered insulated from global trade.

Despite the tariff war, some industries are expected to see gains in labor income between 2025 and 2029, notably including Fabricated Metals Manufacturing, Textiles & Apparel Mills, and Transportation Equipment Manufacturing. These gains suggest that select domestic industries may benefit from reduced competition with imports, prompting expansion and higher wages. **However, the overall impact on labor income is negative.**

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



Impact on state revenues

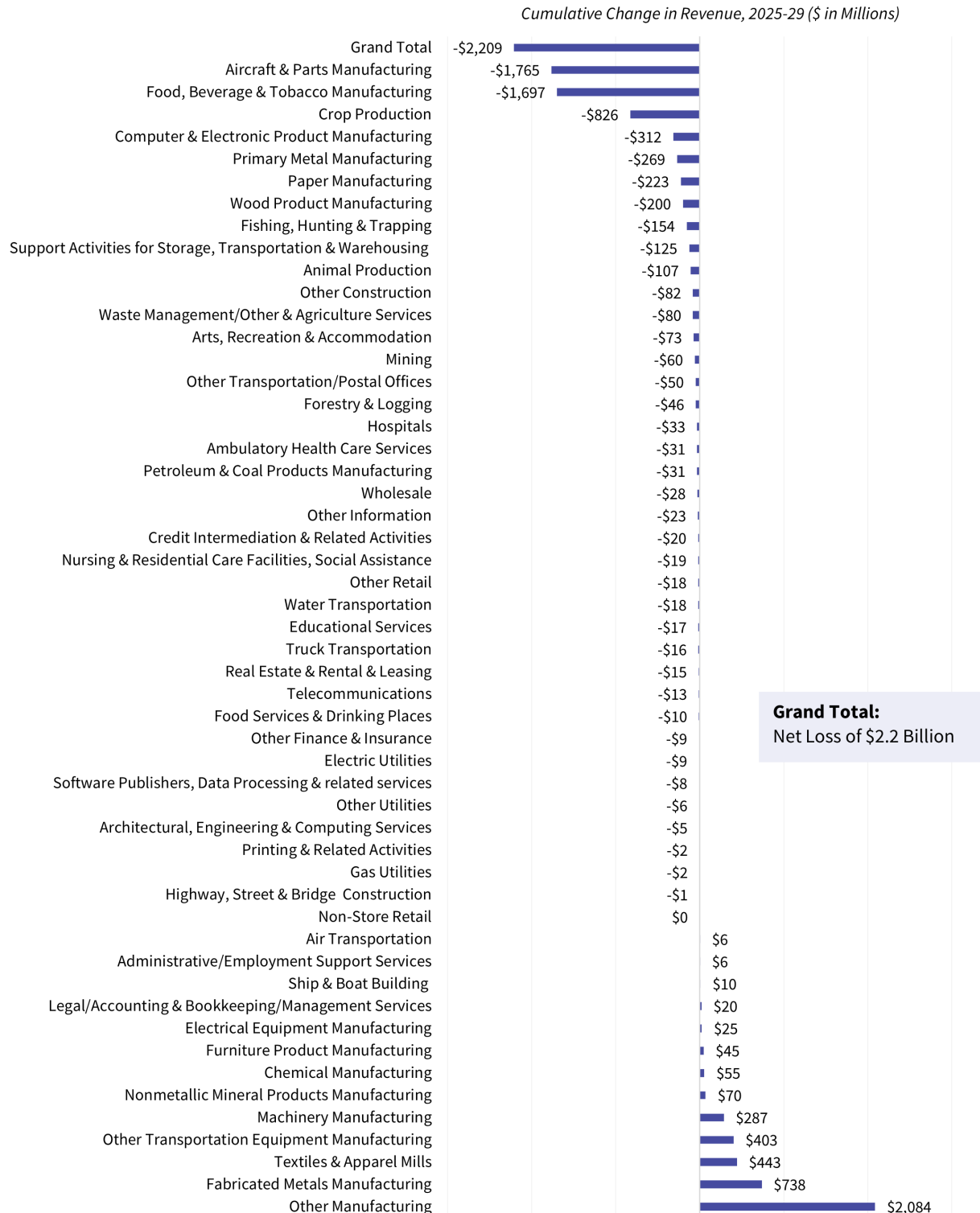
State revenue losses are calculated by combining two sources: the decline in sales tax and business occupation tax from reduced industry output sales (Figure 9) and the decline in sales tax revenue from decreased consumer spending due to lower employee labor income (Figure 11). These losses are then multiplied by the average tax rates provided by the Washington State Department of Revenue (DOR). To capture the broader economic impact, the resulting figures are adjusted using industry multipliers (Washington State Office of the Insurance Commissioner, 2024).

Figure 12 illustrates the top 20 industries with the largest cumulative losses in state revenue from 2025 to 2029 under a tariff war scenario involving 27% U.S. reciprocal tariffs and 37% foreign retaliatory tariffs. The total projected loss in state tax revenue is \$2.2 billion (across all 52 sectors), with the most significant contributors being Aircraft & Parts Manufacturing (\$1.77 billion); Food, Beverage & Tobacco Manufacturing (\$1.70 billion); and Crop Production (\$826 million). These industries are highly exposed to international markets, and their output contractions directly reduce taxable activity. Notably, several service sectors are indirectly affected, including Support Activities for Transportation (\$125 million); Arts, Recreation & Accommodation (\$73 million); Hospitals (\$33 million); and Ambulatory Health Care Services (\$31 million). These losses reflect second-order effects as weakened demand in trade-intensive sectors reduces business activity, employment, and consumer spending in local economies, ultimately shrinking the state's tax base. **The data emphasizes that tariff wars not only harm globally integrated industries but also cause cascading revenue shortfalls across service industries that rely on broader economic stability.**

Despite the overall decline in state revenue under the tariff war scenario, several industries are expected to contribute positively to Washington's tax base between 2025 and 2029, such as Fabricated Metals Manufacturing, Textiles & Apparel Mills, and Transportation Equipment Manufacturing. These gains suggest that a select group of domestic industries could benefit from reshoring and import substitution, leading to higher taxable activity. **However, these increases are not enough to offset losses in heavily trade-exposed sectors.**

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



Alternative Scenarios

The baseline assumptions of U.S. and foreign retaliatory tariffs are just one scenario in how a trade war could proceed. It is also possible to simulate the effects of different levels of reciprocal and retaliatory tariffs on output sales, employment, labor income, and state revenue.

Output Sales

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

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

Figure 13 illustrates our projections of the cumulative impact of U.S. reciprocal and foreign retaliatory tariffs on Washington state's output sales over the next four years, measured in billions of dollars, at different tariff levels. It reveals a clear relationship between the level of U.S. tariffs, the extent of foreign retaliation, and the resulting changes in output sales.

At low levels of U.S. tariffs (1%–10%), the impact on output sales is minimal and only turns negative when foreign countries impose retaliatory tariffs above 25%–30%. For example, with a U.S. tariff of 10% and foreign retaliation of 40%, output sales fall by \$5 billion. This highlights the vulnerability of the domestic economy to external tariff retaliation, even when U.S. tariff actions are limited.

As U.S. tariffs rise to 25%–50%, output sales initially improve, reaching gains of \$9–14 billion when foreign retaliation remains under 30%. However, the benefits diminish rapidly when foreign tariffs exceed 35%–40%, and the impact on output sales becomes increasingly negative. This pattern demonstrates that while protective tariffs may temporarily stimulate domestic output by reducing imports, the gains are not sustainable in the face of significant retaliation, which depresses export demand and disrupts global supply chains.

At high levels of U.S. tariffs (60%–100%), the chart shows substantial gains in output sales—up to \$34 billion—if foreign countries refrain from strong retaliation. However, once foreign retaliatory tariffs rise above 40%, the benefits of high U.S. tariffs start to erode. By the time retaliation reaches 80%–100%, even the highest U.S. tariffs result in negative cumulative effects on output sales. For instance, a 100% U.S. tariff combined with a 100% foreign retaliation leads to a net loss of \$8 billion. This reflects the self-defeating nature of trade wars when escalation occurs on both sides.

As of August 7, 2025, the average U.S. import tariff stands at approximately 18.2%, marking a 16% increase from 2024. By comparison, from 2018–19, the average U.S. tariff rose by 12.2%, which is lower than the current increase. In that same 2018–19 period, foreign tariffs on U.S. exports rose by 12%. Based on this historical relationship, it is reasonable to project a four-year average additional retaliatory tariff of around 10% if the U.S. import tariff remains at 18.2%. This represents a cumulative loss of \$4 billion to \$5 billion in output sales from 2025–29.

Overall, the model emphasizes that while U.S. tariffs may boost output in a non-retaliatory environment, foreign countermeasures significantly reduce or reverse those gains.

Employment

Figure 14. Cumulative Impact over the Next Four Years on Employment (in thousands) for Different Sets of U.S. Tariffs and Retaliatory Tariffs by Other Countries:

Changes in Employment from U.S. Tariffs Are Highly Dependent on the Extent of Foreign Retaliation.

Source: Washington I-O Model

		Foreign Country Retaliatory Tariffs																			
		1%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	100%
U.S. Reciprocal Tariffs	1%	-2	-2	-2	-2	-2	-2	-13	-31	-47	-62	-76	-89	-101	-112	-122	-132	-141	-150	-158	-174
	5%	3	3	3	3	3	3	-8	-26	-43	-58	-71	-84	-96	-107	-118	-127	-137	-145	-154	-169
	10%	9	9	9	9	9	9	-2	-20	-36	-51	-65	-78	-90	-101	-111	-121	-130	-139	-147	-162
	15%	16	16	16	16	16	16	5	-13	-30	-44	-58	-71	-83	-94	-104	-114	-124	-132	-141	-156
	20%	23	23	23	23	23	23	11	-6	-23	-38	-52	-64	-76	-87	-98	-108	-117	-126	-134	-149
	25%	29	29	29	29	29	29	18	0	-16	-31	-45	-58	-69	-81	-91	-101	-110	-119	-127	-142
	30%	36	36	36	36	36	36	25	7	-9	-24	-38	-51	-63	-74	-84	-94	-103	-112	-120	-136
	35%	43	43	43	43	43	43	32	14	-2	-17	-31	-44	-56	-67	-77	-87	-96	-105	-113	-129
	40%	50	50	50	50	50	50	39	21	5	-10	-24	-37	-49	-60	-70	-80	-89	-98	-106	-122
	45%	57	57	57	57	57	57	46	28	12	-3	-17	-30	-41	-53	-63	-73	-82	-91	-99	-114
	50%	65	65	65	65	65	65	53	35	19	4	-10	-22	-34	-45	-56	-66	-75	-84	-92	-107
	55%	72	72	72	72	72	72	61	43	26	11	-2	-15	-27	-38	-49	-58	-68	-76	-85	-100
	60%	79	79	79	79	79	79	68	50	34	19	5	-8	-20	-31	-41	-51	-60	-69	-77	-93
	65%	86	86	86	86	86	86	75	57	41	26	12	0	-12	-24	-34	-44	-53	-62	-70	-85
	70%	94	94	94	94	94	94	83	65	48	34	20	7	-5	-16	-26	-36	-46	-54	-63	-78
	75%	101	101	101	101	101	101	90	72	56	41	27	14	3	-9	-19	-29	-38	-47	-55	-70
	80%	109	109	109	109	109	109	98	80	64	49	35	22	10	-1	-11	-21	-30	-39	-47	-63
	85%	117	117	117	117	117	117	105	88	71	56	42	30	18	7	-4	-14	-23	-32	-40	-55
	90%	124	124	124	124	124	124	113	95	79	64	50	37	25	14	4	-6	-15	-24	-32	-47
	95%	132	132	132	132	132	132	121	103	87	72	58	45	33	22	12	2	-7	-16	-24	-40
	100%	140	140	140	140	140	140	129	111	94	79	66	53	41	30	19	10	0	-8	-17	-32

Figure 14 presents our projections of the cumulative impact of U.S. reciprocal tariffs and foreign retaliatory tariffs on Washington state's employment over the next four years, measured in thousands of jobs. It highlights the complex trade-offs associated with protectionist trade policies, demonstrating that employment gains from U.S. tariffs are highly dependent on the extent of foreign retaliation. When foreign retaliation is limited, U.S. tariffs can boost domestic employment significantly. We note that the model does not directly consider whether Washington actually has enough supply of workers with the right skills or training to fill the projected jobs. However, once retaliation increases, those gains are quickly reversed, leading to substantial job losses across the economy.

At lower levels of U.S. tariffs (1% to 10%), employment gains are minimal, with a maximum of 3,000 jobs created if foreign retaliation remains below 25%. As soon as retaliation exceeds 30%, these modest gains turn into job losses, reaching up to 174,000 jobs lost when retaliation hits 100%. This trend illustrates that without adequate protection from foreign countermeasures, low-level tariffs are ineffective at creating sustainable employment growth and may even be harmful in a retaliatory environment.

Medium U.S. tariff levels (25% to 50%) show more promising results when retaliation remains low. For example, a 50% U.S. tariff with up to 30% retaliation yields employment gains of 72,000 jobs. Yet, as retaliation climbs past 40%, job creation starts to slow, and losses emerge at retaliation levels above 60%. The model emphasizes the fragility of employment gains in a global economy where trading partners may respond with reciprocal measures that reduce U.S. exports and employment in export-oriented sectors.

High U.S. tariffs (75% to 100%) yield the most significant employment gains in the absence of retaliation, with a peak of 140,000 jobs created when foreign tariffs remain near 1%. However, even at these high levels, the employment benefit erodes rapidly when faced with substantial retaliation. For example, with 100% foreign retaliation, the net gain collapses to a loss of 32,000 jobs. This indicates that even aggressive protectionism cannot offset the damage caused by widespread retaliatory measures, particularly in globally integrated industries.

For example, as of August 7, 2025, the average U.S. import tariff stands at approximately 18.2%, marking a 16% increase from 2024 (see Appendix). By comparison, from 2018–19, the average U.S. tariff rose by 12.2%, which is lower than the current increase. In that same 2018–19 period, foreign tariffs on U.S. exports rose by 12%. Based on this historical relationship, it is reasonable to project a four-year average additional retaliatory tariff of around 10% if the U.S. import tariff remains at 18.2%. This represents a cumulative loss of 20,000 to 25,000 jobs from 2025–29.

In conclusion, the model reveals that employment benefits from U.S. tariffs are possible but highly conditional. The economy only experiences meaningful gains when foreign countries refrain from imposing equivalent tariffs. **As retaliation rises, job losses mount, particularly in export-driven sectors.**

Labor income

Figure 15. Cumulative Impact over the Next Four Years on Labor Income (in \$ billions) for Different Sets of U.S. Tariffs and Retaliatory Tariffs by Other Countries:

Labor Income Rises Under Low Retaliation and Falls Sharply When Foreign Countries Respond Aggressively.

Source: Washington I-O Model

		Foreign Country Retaliatory Tariffs																			
		1%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	100%
U.S. Reciprocal Tariffs	1%	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.9	-2.1	-3.2	-4.2	-5.2	-6.0	-6.8	-7.6	-8.3	-8.9	-9.6	-10.2	-10.7	-11.8
	5%	0.2	0.2	0.2	0.2	0.2	0.2	-0.5	-1.8	-2.9	-3.9	-4.8	-5.7	-6.5	-7.2	-7.9	-8.6	-9.2	-9.8	-10.4	-11.4
	10%	0.7	0.7	0.7	0.7	0.7	0.7	-0.1	-1.3	-2.4	-3.4	-4.3	-5.2	-6.0	-6.8	-7.5	-8.1	-8.7	-9.3	-9.9	-10.9
	15%	1.2	1.2	1.2	1.2	1.2	1.2	0.4	-0.8	-1.9	-2.9	-3.8	-4.7	-5.5	-6.3	-7.0	-7.6	-8.3	-8.8	-9.4	-10.4
	20%	1.7	1.7	1.7	1.7	1.7	1.7	0.9	-0.3	-1.4	-2.4	-3.4	-4.2	-5.0	-5.8	-6.5	-7.1	-7.8	-8.4	-8.9	-10.0
	25%	2.2	2.2	2.2	2.2	2.2	2.2	1.4	0.2	-0.9	-1.9	-2.9	-3.7	-4.5	-5.3	-6.0	-6.6	-7.3	-7.9	-8.4	-9.5
	30%	2.7	2.7	2.7	2.7	2.7	2.7	1.9	0.7	-0.4	-1.4	-2.4	-3.2	-4.0	-4.8	-5.5	-6.1	-6.8	-7.3	-7.9	-8.9
	35%	3.2	3.2	3.2	3.2	3.2	3.2	2.4	1.2	0.1	-0.9	-1.8	-2.7	-3.5	-4.3	-5.0	-5.6	-6.2	-6.8	-7.4	-8.4
	40%	3.7	3.7	3.7	3.7	3.7	3.7	2.9	1.7	0.6	-0.4	-1.3	-2.2	-3.0	-3.7	-4.4	-5.1	-5.7	-6.3	-6.9	-7.9
	45%	4.2	4.2	4.2	4.2	4.2	4.2	3.5	2.2	1.1	0.1	-0.8	-1.7	-2.5	-3.2	-3.9	-4.6	-5.2	-5.8	-6.4	-7.4
	50%	4.7	4.7	4.7	4.7	4.7	4.7	4.0	2.8	1.7	0.7	-0.3	-1.1	-1.9	-2.7	-3.4	-4.1	-4.7	-5.3	-5.8	-6.9
	55%	5.3	5.3	5.3	5.3	5.3	5.3	4.5	3.3	2.2	1.2	0.3	-0.6	-1.4	-2.2	-2.9	-3.5	-4.1	-4.7	-5.3	-6.3
	60%	5.8	5.8	5.8	5.8	5.8	5.8	5.1	3.8	2.7	1.7	0.8	-0.1	-0.9	-1.6	-2.3	-3.0	-3.6	-4.2	-4.8	-5.8
	65%	6.4	6.4	6.4	6.4	6.4	6.4	5.6	4.4	3.3	2.3	1.3	0.5	-0.3	-1.1	-1.8	-2.4	-3.1	-3.7	-4.2	-5.3
	70%	6.9	6.9	6.9	6.9	6.9	6.9	6.1	4.9	3.8	2.8	1.9	1.0	0.2	-0.5	-1.2	-1.9	-2.5	-3.1	-3.7	-4.7
	75%	7.5	7.5	7.5	7.5	7.5	7.5	6.7	5.5	4.4	3.4	2.4	1.6	0.8	0.0	-0.7	-1.3	-2.0	-2.6	-3.1	-4.2
	80%	8.0	8.0	8.0	8.0	8.0	8.0	7.3	6.0	4.9	3.9	3.0	2.1	1.3	0.6	-0.1	-0.8	-1.4	-2.0	-2.6	-3.6
	85%	8.6	8.6	8.6	8.6	8.6	8.6	7.8	6.6	5.5	4.5	3.6	2.7	1.9	1.1	0.4	-0.2	-0.9	-1.4	-2.0	-3.0
	90%	9.1	9.1	9.1	9.1	9.1	9.1	8.4	7.2	6.1	5.1	4.1	3.3	2.5	1.7	1.0	0.3	-0.3	-0.9	-1.4	-2.5
	95%	9.7	9.7	9.7	9.7	9.7	9.7	9.0	7.7	6.6	5.6	4.7	3.8	3.0	2.3	1.6	0.9	0.3	-0.3	-0.9	-1.9
	100%	10.3	10.3	10.3	10.3	10.3	10.3	9.5	8.3	7.2	6.2	5.3	4.4	3.6	2.8	2.1	1.5	0.9	0.3	-0.3	-1.3

Figure 15 illustrates our estimates of the cumulative impact of U.S. tariffs and foreign retaliatory tariffs on Washingtonians' labor income over the next four years, expressed in billions of dollars. It highlights the critical relationship between trade policy and worker earnings, showing how labor income evolves under various tariff scenarios. The overall pattern mirrors trends seen in output sales and employment, with labor income rising under low retaliation and falling sharply when foreign countries respond aggressively.

At low U.S. tariff levels (1% to 10%), the effect on labor income is limited and highly vulnerable to foreign retaliation. Gains are modest—reaching at most \$1 billion—and turn negative when foreign retaliatory tariffs exceed 25% to 30%. At the extreme, with 1% U.S. tariffs and 100% foreign retaliation, labor income is projected to drop by \$12 billion. This indicates that minimal tariff protection is not sufficient to protect domestic wages in the face of harsh foreign countermeasures.

Moderate U.S. tariff levels (25% to 50%) show more consistent labor income gains, especially when foreign retaliation remains below 30%. For example, with a 40% U.S. tariff and less than 30% foreign retaliation, labor income increases by \$4–5 billion. However, as retaliation increases beyond 40%, the benefits gradually disappear. At retaliation levels of 60% or more, labor income gains fall to near zero or become negative. This demonstrates the fragile nature of wage gains when foreign trade partners escalate the tariff conflict.

High U.S. tariffs (60% to 100%) offer the greatest potential for labor income growth, with cumulative gains reaching \$10 billion in the absence of strong retaliation. Even at these higher levels, however, the labor income gains plateau and eventually decline as retaliation intensifies. By the time foreign tariffs reach 90% or 100%, gains are erased or reversed. At 100% U.S. and 100% foreign tariffs, the net change in labor income falls to -\$1 billion, suggesting that high tariffs cannot sustain wage growth if retaliation is widespread.

For example, as of August 7, 2025, the average U.S. import tariff stands at approximately 18.2%, marking a 16% increase from 2024 (see Appendix). By comparison, during 2018–19, the average U.S. tariff rose by 12.2%, which is lower than the current increase. In that same 2018–19 period, foreign tariffs on U.S. exports rose by 12%. Based on this historical relationship, it is reasonable to project a 4-year average additional retaliatory tariff of around 10% if the U.S. import tariff remains at 18.2%. This represents a cumulative loss of \$500 million to \$1 billion in labor income from 2025–29.

In summary, the evolution of labor income under various tariff scenarios highlights a clear trade-off. While U.S. tariffs can stimulate wage gains by shifting production domestically, these gains are highly sensitive to international responses. **Foreign retaliatory tariffs quickly erode the benefits, leading to losses in labor income and overall economic harm.**

State Revenue

Figure 16. Cumulative Impact over the Next Four Years on State Revenue (in \$ billions) for Different Sets of U.S. Tariffs and Retaliatory Tariffs by Other Countries:

State Revenue Increases with Higher U.S. tariffs in a Low-Retaliation Environment, but Declines Sharply as Foreign Retaliation Escalates.

Source: Washington I-O Model

		Foreign Country Retaliatory Tariffs																			
U.S. Reciprocal Tariffs		1%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	100%
	1%	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.9	-2.2	-3.4	-4.4	-5.4	-6.3	-7.2	-8.0	-8.7	-9.4	-10.0	-10.7	-11.2	-12.3
	5%	0.2	0.2	0.2	0.2	0.2	0.2	-0.6	-1.9	-3.0	-4.1	-5.1	-6.0	-6.8	-7.6	-8.4	-9.0	-9.7	-10.3	-10.9	-12.0
	10%	0.7	0.7	0.7	0.7	0.7	0.7	-0.1	-1.4	-2.6	-3.6	-4.6	-5.5	-6.4	-7.2	-7.9	-8.6	-9.2	-9.9	-10.4	-11.5
	15%	1.1	1.1	1.1	1.1	1.1	1.1	0.3	-0.9	-2.1	-3.2	-4.2	-5.1	-5.9	-6.7	-7.4	-8.1	-8.8	-9.4	-10.0	-11.0
	20%	1.6	1.6	1.6	1.6	1.6	1.6	0.8	-0.5	-1.6	-2.7	-3.7	-4.6	-5.4	-6.2	-6.9	-7.6	-8.3	-8.9	-9.5	-10.6
	25%	2.1	2.1	2.1	2.1	2.1	2.1	1.3	0.0	-1.1	-2.2	-3.2	-4.1	-4.9	-5.7	-6.5	-7.2	-7.8	-8.4	-9.0	-10.1
	30%	2.6	2.6	2.6	2.6	2.6	2.6	1.8	0.5	-0.7	-1.7	-2.7	-3.6	-4.4	-5.2	-6.0	-6.7	-7.3	-7.9	-8.5	-9.6
	35%	3.1	3.1	3.1	3.1	3.1	3.1	2.3	1.0	-0.2	-1.2	-2.2	-3.1	-4.0	-4.7	-5.5	-6.2	-6.8	-7.4	-8.0	-9.1
	40%	3.6	3.6	3.6	3.6	3.6	3.6	2.8	1.5	0.3	-0.7	-1.7	-2.6	-3.5	-4.2	-5.0	-5.7	-6.3	-6.9	-7.5	-8.6
	45%	4.1	4.1	4.1	4.1	4.1	4.1	3.3	2.0	0.8	-0.2	-1.2	-2.1	-2.9	-3.7	-4.5	-5.2	-5.8	-6.4	-7.0	-8.1
	50%	4.6	4.6	4.6	4.6	4.6	4.6	3.8	2.5	1.4	0.3	-0.7	-1.6	-2.4	-3.2	-4.0	-4.6	-5.3	-5.9	-6.5	-7.6
	55%	5.1	5.1	5.1	5.1	5.1	5.1	4.3	3.0	1.9	0.8	-0.2	-1.1	-1.9	-2.7	-3.4	-4.1	-4.8	-5.4	-6.0	-7.1
	60%	5.6	5.6	5.6	5.6	5.6	5.6	4.8	3.6	2.4	1.3	0.4	-0.6	-1.4	-2.2	-2.9	-3.6	-4.3	-4.9	-5.5	-6.5
	65%	6.2	6.2	6.2	6.2	6.2	6.2	5.4	4.1	2.9	1.9	0.9	0.0	-0.9	-1.7	-2.4	-3.1	-3.7	-4.4	-4.9	-6.0
	70%	6.7	6.7	6.7	6.7	6.7	6.7	5.9	4.6	3.5	2.4	1.4	0.5	-0.3	-1.1	-1.9	-2.6	-3.2	-3.8	-4.4	-5.5
	75%	7.2	7.2	7.2	7.2	7.2	7.2	6.4	5.2	4.0	2.9	1.9	1.0	0.2	-0.6	-1.3	-2.0	-2.7	-3.3	-3.9	-5.0
	80%	7.8	7.8	7.8	7.8	7.8	7.8	7.0	5.7	4.5	3.5	2.5	1.6	0.7	-0.1	-0.8	-1.5	-2.1	-2.7	-3.3	-4.4
	85%	8.3	8.3	8.3	8.3	8.3	8.3	7.5	6.2	5.1	4.0	3.0	2.1	1.3	0.5	-0.2	-0.9	-1.6	-2.2	-2.8	-3.9
	90%	8.9	8.9	8.9	8.9	8.9	8.9	8.1	6.8	5.6	4.6	3.6	2.7	1.8	1.0	0.3	-0.4	-1.0	-1.7	-2.2	-3.3
	95%	9.4	9.4	9.4	9.4	9.4	9.4	8.6	7.3	6.2	5.1	4.1	3.2	2.4	1.6	0.9	0.2	-0.5	-1.1	-1.7	-2.8
	100%	10.0	10.0	10.0	10.0	10.0	10.0	9.2	7.9	6.7	5.7	4.7	3.8	2.9	2.2	1.4	0.7	0.1	-0.5	-1.1	-2.2

Figure 16 presents the cumulative impact of U.S. tariffs and foreign retaliatory tariffs on state revenue over four years, measured in billions of dollars. It reveals a clear pattern: state revenue increases with higher U.S. tariffs in a low-retaliation environment, but declines sharply as foreign retaliation escalates. The model underscores the fiscal risks associated with escalating trade conflicts and highlights the vulnerability of state finances to international trade dynamics.

At low U.S. tariff levels (1% to 10%), state revenue gains are minimal and highly susceptible to losses when foreign retaliation exceeds 30%. For instance, with 10% U.S. tariffs and 40% retaliation, state revenue drops by \$2.6 billion. This suggests that small tariff measures, without strong domestic support or strategic coordination, are ineffective and can lead to significant fiscal losses if trading partners respond aggressively.

At moderate U.S. tariff levels (25% to 50%), state revenue can improve meaningfully—reaching up to \$4.6 billion when foreign retaliation is kept below 30%. However, this fiscal benefit quickly erodes with higher retaliation. Beyond a 40% retaliation threshold, state revenue turns negative, declining to losses between \$2 billion to \$9 billion, depending on the retaliation level. This reinforces the importance of maintaining stable international trade relations to preserve state-level fiscal health.

High U.S. tariffs (60% to 100%) yield the largest gains in state revenue—but only when retaliation is low. With no or limited foreign response, revenue increases reach \$10 billion over four years. Yet as foreign countries match U.S. tariffs with aggressive retaliation (above 50%), these gains diminish. At 100% retaliation, the revenue advantage is fully wiped out, turning into a loss of \$2.2 billion. Even with maximum tariff protection, the state faces net revenue declines if reciprocal tariffs disrupt trade flows and economic activity.

For example, as of August 7, 2025, the average U.S. import tariff stands at approximately 18.2%, marking a 16% increase from 2024 (see Appendix). By comparison, during 2018–19, the average U.S. tariff rose by 12.2%, which is lower than the current increase. In that same 2018–19 period, foreign tariffs on U.S. exports rose by 12%. Based on this historical relationship, it is reasonable to project a four-year average additional retaliatory tariff of around 10% if the U.S. reciprocal tariff remains at 18.2%. This represents a cumulative loss of \$1.5 billion to \$2 billion in state revenue from 2025–29.

In summary, the evolution of state revenue across tariff scenarios reveals a fragile balance. While U.S. tariffs can offer short-term fiscal benefits through increased domestic production and sales tax revenue, those benefits are contingent on the absence of foreign retaliation. **High levels of retaliation undermine tax bases, reduce economic output, and ultimately shrink state revenue.**

6. How Tariffs May Affect Prices in Washington and Economic Growth

To estimate the potential impact of the tariffs announced April 9, 2025, on the state's economic indicators, we adopt a difference-in-differences approach using forecast data from S&P.

We use S&P indicators in our tariff report because they provide independent and credible forecasts of Washington's economic data, which are essential for understanding the broader economic impact of tariffs. These indicators are trusted by key state agencies, including the Economic and Revenue Forecast Council (ERFC), the Washington State Department of Transportation (WSDOT), and the Office of Financial Management (OFM), which rely on S&P's forecasts for their own planning and decision-making.

For our analysis, we treated the November 2024 forecast as the pre-treatment baseline, representing the expected trajectory of economic indicators in the absence of the tariff announcement. The May 2025 forecast, issued after the April 9 tariff announcement, incorporates the anticipated effects of the new tariffs and serves as an initial post-treatment observation.

The key assumption of this approach is that the primary exogenous event affecting forecast revisions between November 2024 and May 2025 is the April 9 tariff announcement. Other macroeconomic conditions during this period remained relatively stable, allowing us to isolate the effect of the tariff policy.

By comparing the change in forecasts between these two periods across various economic indicators—such as consumer prices, and GDP—we estimate the differential effect attributed to the tariff announcement. This methodology enables us to assess the causal impact of tariffs by controlling for the underlying economic trajectory reflected in pre-announcement forecasts. **The tariff-induced inflation comes on top of any regular inflation that would have existed if the tariffs were not in place.**

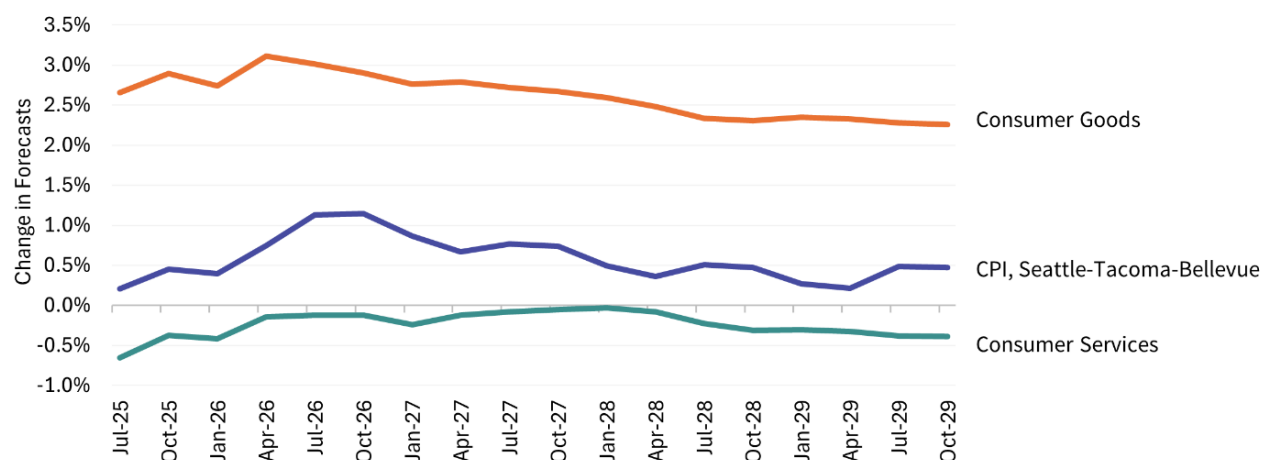
We note that the price indices forecasted by S&P are provided at the national level. To better reflect regional economic conditions, we adjust these forecasts for Washington state using the Seattle-Tacoma-Bellevue regional price index. This adjustment allows us to align national projections with local inflation trends and improve the relevance of the estimates for Washington's economy.

Overall Tariff-Induced Inflation

Figure 17 shows the potential impact of the tariffs announced April 9, 2025, on the projected Washington state price index for consumer goods and consumer services, as well as the consumer price index (CPI) in the Seattle-Tacoma-Bellevue area. Tariffs typically raise import costs, which can increase prices for consumer goods that rely on those imports. The effects observed in the forecasted data support this pattern, particularly for goods.

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.



If the tariffs are implemented, the price of consumer goods is expected to rise by 3% each quarter from the third quarter (Q3) of 2025 through the first quarter (Q1) of 2028. From Q2 2028 onward, the projected quarterly increase moderates to 2%, potentially signaling expected supply chain adjustments, increased reliance on domestic production, or changes in consumer behavior once the tariffs are enacted. As stated before, these tariff-induced inflationary effects are *in addition to* the expected rate of inflation had the tariffs not been implemented.

In contrast, the price of consumer services is forecasted to decline slightly if the tariffs are enacted, with projected decreases ranging from 0.1% to 0.7% per quarter through Q4 2029. **This downward trend may reflect expectations that households will shift spending away from services to offset anticipated increases in goods prices.** Since services are less exposed to international trade, they are not directly impacted by tariffs, but the broader effect on consumer budgets could suppress demand.

Meanwhile, the Seattle-Tacoma-Bellevue Consumer Price Index (CPI) is projected to rise modestly, from 0.2% in Q3 2025 to a peak of 1.1% by late 2026, before stabilizing near 0.5% in subsequent years. This suggests that overall inflation is expected to be driven primarily by rising goods prices, partially mitigated by deflationary pressure in the service sector.



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.

Tariff-Induced Food Inflation

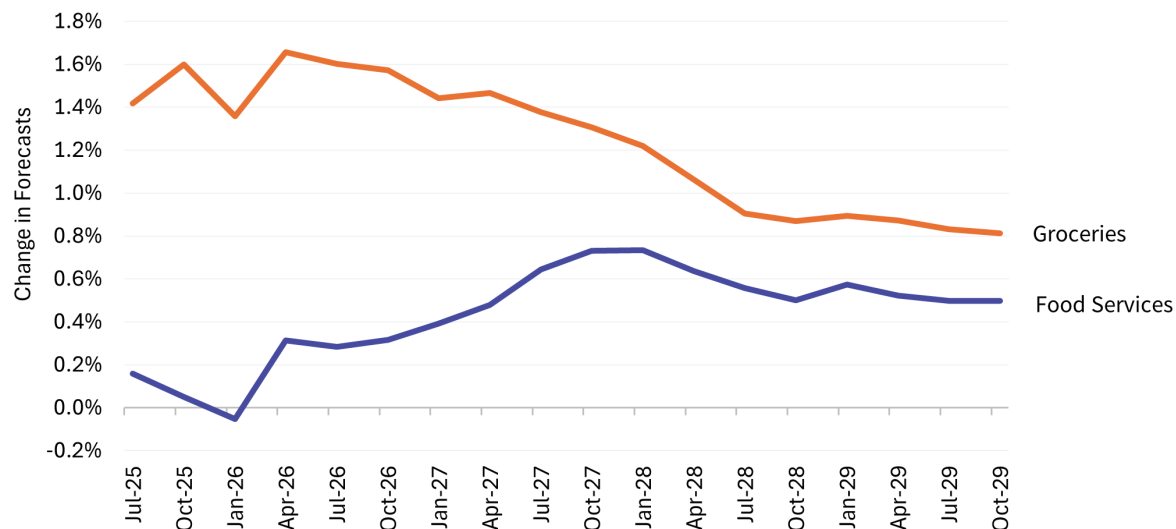
Figure 18 illustrates the potential effects of the tariffs announced April 9, 2025, announced tariffs on two specific categories: consumer food and beverages purchased for off-premises consumption (e.g., groceries) and consumer food services (e.g., restaurants). If the tariffs are implemented, the forecast data suggests moderate but consistent inflation in these categories, particularly in grocery-related spending.

From Q3 2025 to Q4 2026, the price index for food and beverages purchased off-premises are projected to increase at an elevated quarterly rate of 1% to 2%, with 2% increases occurring every other quarter. **This suggests that the tariffs will have an immediate and sustained impact on grocery prices**, likely due to expected increases in import costs for food products or packaging materials. However, starting in Q1 2027, the quarterly increases would likely stabilize at a steady 1% per quarter, indicating that supply chains or market pricing could gradually adjust to the new trade environment.

In contrast, consumer food services are expected to experience a more gradual price increase. Initially, quarterly changes would be projected to remain small or even negative, just 0.2% in Q3 2025 and 0.0% to -0.1% in Q4 2025 and Q1 2026, respectively. But beginning in Q2 2026, prices will likely climb more steadily, peaking at 0.7% per quarter by Q4 2027 and Q1 2028, and then leveling off at around 0.5%–0.6% per quarter through the remainder of the four-year outlook. This trend suggests that food service providers will be slower to pass on increased input costs to consumers but will eventually adjust pricing to reflect higher grocery and operational costs.

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.





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.

Tariff-Induced Transportation Inflation (Personal Vehicles and Public Transportation)

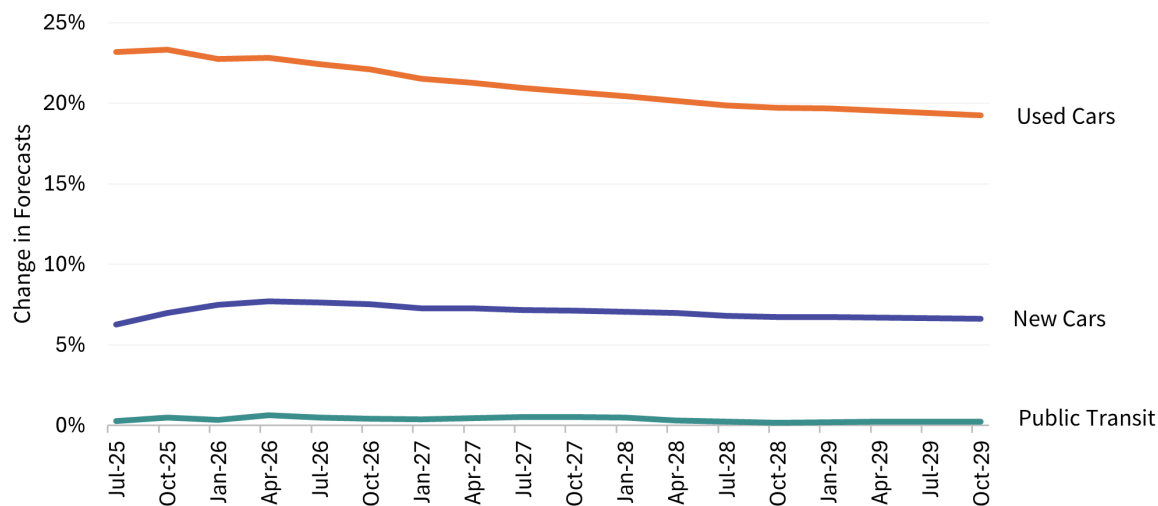
Figure 19 shows the potential impact of implementing the tariffs announced April 9, 2025, on three key transportation-related consumer price indices in Washington: new autos, used autos, and public transportation. **The effect of the tariffs over the following four years will be most pronounced in the sharp inflation in vehicle prices, especially used autos**, while public transportation costs are expected to increase modestly as an indirect consequence of high prices in the auto market.

Projections show that the potential implementation of tariffs announced on April 9 could lead to significant upward adjustments in consumer price indices for new and used automobiles, with secondary effects on public transportation costs. Starting from July 2025, the chained price index for new autos (2017=100) is projected to rise by 6%, peaking at 8% by mid-2026 before stabilizing around 7% through 2029, reflecting increased costs from imported components and vehicles. Used autos face steeper increases, with the index jumping 23% through early 2026, gradually declining to 19% by late 2029 as market adjustments temper the rise, though prices will remain elevated due to reduced supply and higher replacement costs.

Public transportation indices show modest increases, ranging from 0.3% to 0.6% initially and settling at 0.2% thereafter, driven by demand pressures from consumers priced out of the auto market and higher operational costs for public transit authorities needing to increase their fleets and personnel to meet demand. **These projections suggest a multi-year inflationary impact across the transportation sector if the tariffs are enacted, potentially contributing to broader consumer price pressures.**

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.



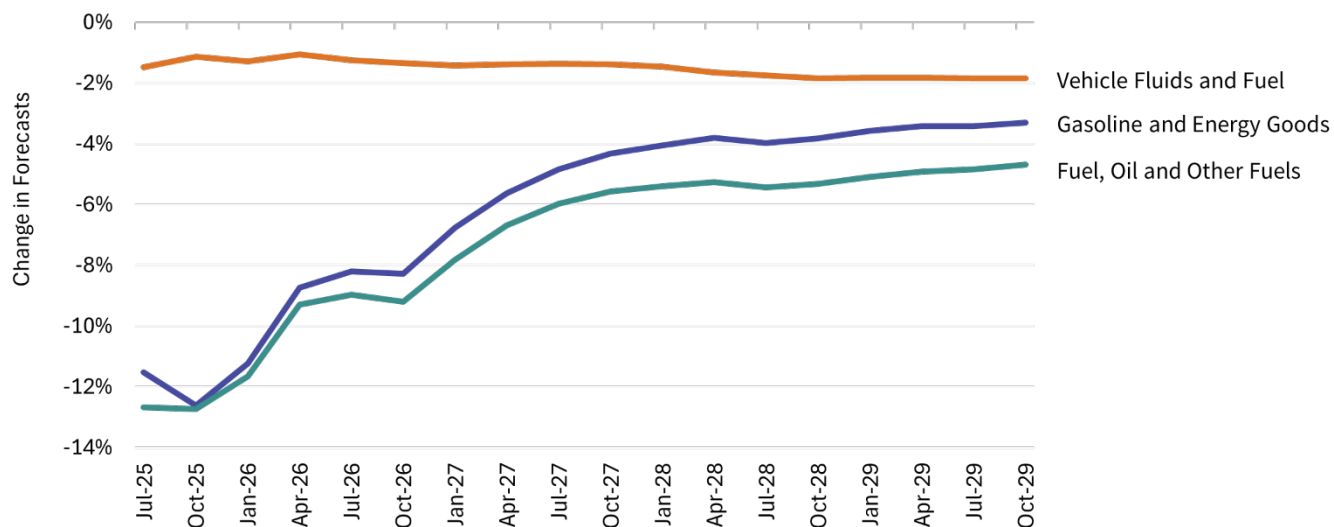
If tariffs on imported cars and parts are implemented, they would act like an extra tax on vehicles. A new car that costs \$30,000 today could jump by 6%–8%, adding \$1,800 to \$2,400 to the price. A more affordable used car, at \$15,000, could surge by 23%, an extra \$3,450. As families skip buying 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.

Tariff-Induced Motor Vehicle Fuels, Consumer Gasoline, and Fuel Oil Inflation

If the announced tariffs are implemented, fuel-related price indices in Washington state are expected to experience a sustained and significant decline over the next four years as shown by Figure 20. These trends are not a direct result of tariffs applied to the fuel sector—fuel, gasoline, and energy goods were explicitly exempted from the tariff measures—but rather an indirect consequence of decreased demand driven by tariffs on new and used automobiles. As auto prices surge due to the tariffs, consumer behavior will shift: people may postpone vehicle purchases, drive less, or rely more heavily on alternative transportation, leading to reduced consumption of fuel-related products.

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.



The consumer motor vehicle fuels, lubricants, and fluids index is expected to decline consistently at -1% per quarter through the end of 2027, then more sharply at -2% per quarter throughout 2028 and 2029. Meanwhile, the gasoline and other energy goods index is expected to drop steeply immediately under tariff implementation, with quarterly deflation of 11.5% to 12.6% in late 2025, before moderating to around -3.3% by late 2029. The consumer fuel oil and other fuels index, though declining more gradually, is likely to mirror this trend, falling incrementally by 5% quarterly from early 2028 to late 2029.

These declines are best explained by a sharp drop in demand. As new and used car prices rise dramatically due to tariffs—some quarters seeing 6% to 8% increases—households will begin driving less or postpone replacing vehicles. That reduced vehicle activity, in turn, will lead to less consumption of gasoline, oil, and lubricants, all of which remain free from tariffs but are affected by this indirect demand shock. **Therefore, the decline in these fuel indices reflects an economic response to constrained affordability in the transportation sector.**



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.

However, these savings are likely offset by other costs triggered by the tariffs. If the household was planning to purchase a new car, for instance, they would face a 25–30% higher price over two years due to tariff-driven inflation. **As a result, many households may choose to keep their existing vehicles longer, drive less, or transition to public transportation.** These behavioral changes further reinforce the lower demand for fuel, perpetuating the downward trend in fuel and lubricant prices even though the products themselves were not subject to the tariffs.

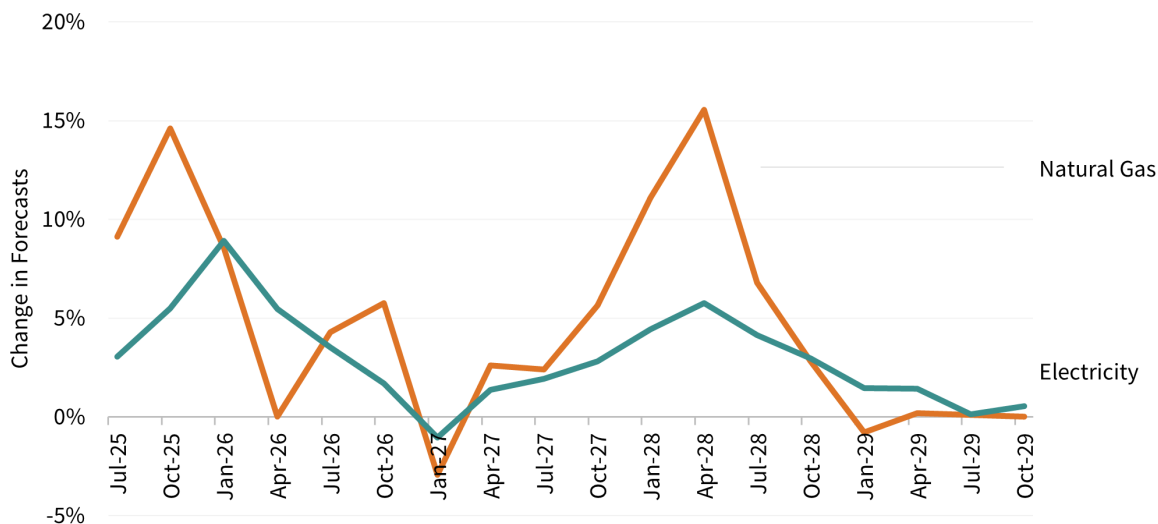
Tariff-Induced Utilities Inflation (Natural Gas and Electricity)

Figure 21 forecasts the quarterly changes in the consumer price indices for natural gas and electricity in Washington state under the Liberation Day Scenario, which introduced a potential 10% tariff on Canadian natural gas. This policy will have a significant impact on natural gas prices and electricity prices. In the near term, natural gas electricity generation, while a small percentage of Washington’s overall generation, often sets the marginal prices of wholesale electricity and is often needed to maintain electric reliability. Consistent with state law, Washington is transitioning to fossil-free generation, which is expected to reduce natural gas usage, but the impacts of this transition are outside of this study’s scope and timeframe.

The proposed 10% tariffs on Canadian natural gas imports could significantly elevate consumer price indices for natural gas and electricity in Washington. The chained price index for natural gas (2017=100) is expected to peak at 14.6% in October 2025, driven by the tariff-induced cost increase on imports, before declining to -2.9% by January 2027 and stabilizing by 2029 as markets adjust to supply shifts or alternative sources.

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.



Electricity prices are closely tied to natural gas as natural gas plants often set marginal costs in wholesale electricity markets. Electricity prices are projected to peak at 8.9% in January 2026 and settle to 0.2-0.5% by 2029. If implemented, these tariffs could introduce significant near-term energy price volatility, with broader implications for consumer budgets and industrial competitiveness in Washington.



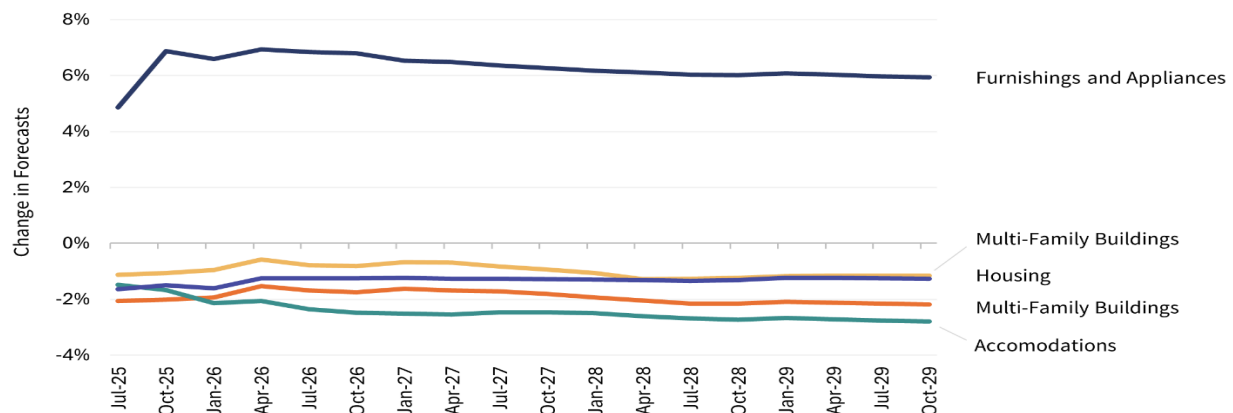
To illustrate, the 10% tariff on Canadian natural gas, which Washington depends on, is like adding a fee to household utility bills. Say a Washingtonian natural gas bill for heating is \$100 a month; a 14.6% jump in October 2025 could add \$14.60, making the home pricier to keep warm. The electricity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

Tariff-Induced Housing and Furniture Inflation

The forecast shows how key housing-related consumer price indices in Washington state would change over four years if the tariffs announced April 9, 2025, are implemented. This policy may trigger broader inflationary trends in consumer goods while coinciding with declining price trends in construction and accommodation-related services. The result is a mixed economic picture for households—higher costs for goods like furniture and home equipment, but declining prices for construction, accommodations, and housing.

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.



The forecasts for the price indices for both single-family and multi-family residential housing show consistent quarterly declines from mid-2025 through the end of 2029. For single-family houses, prices

are expected to drop by -1.5% to -2.2% per quarter, and multi-family buildings may decline more modestly, typically -0.6% to -1.3% per quarter. **These downward trends suggest that the residential construction market will cool over time, likely due to reduced housing demand, and tighter household budgets in the wake of inflationary pressure from tariffs and global supply challenges.**

Although tariffs often raise costs, the expected continued decline in housing prices points to demand-side weakness dominating over supply-side inflation. Fewer new housing starts, workforce slowdowns, and lower land development activity would help explain these consistent price drops, making housing projects somewhat more affordable—but likely slower to deliver.

Unlike construction, the index for consumer furnishings and durable household equipment are expected to steadily and sharply climb over the four-year period. Forecasted quarterly changes range from +4.9% in Q3 2025 to as high as 6.9%, and even in late 2029 may remain around +5.9%. **This reflects a strong inflationary impact from tariffs, which will raise import costs for furniture, appliances, electronics, and other household goods—many of which are sourced globally.**

These increases will have direct implications for Washington households. Even if home construction is cheaper, furnishing or upgrading a home will become significantly more expensive. This inflation in goods prices will add financial strain, particularly for middle- and lower-income households trying to improve or maintain their living conditions during a period of broader cost-of-living increases.

Prices for consumer accommodations (such as hotels or short-term rentals) and housing services (like rent or maintenance) are expected to consistently decline. Accommodation prices may fall -1.5% to -2.8% per quarter, and general housing services are expected to drop by around -1.2% to -1.6%. These trends likely reflect reduced mobility, slower relocation, and less travel, as households adjust to the economic effects of the tariffs and rising consumer goods prices.

In effect, as discretionary budgets tighten, many people are likely to delay moving, reduce travel, or opt for more affordable housing solutions, such as cohabitation. **The consistent price declines in these sectors suggest sustained demand suppression, even as some costs—like furniture—continue to rise.**



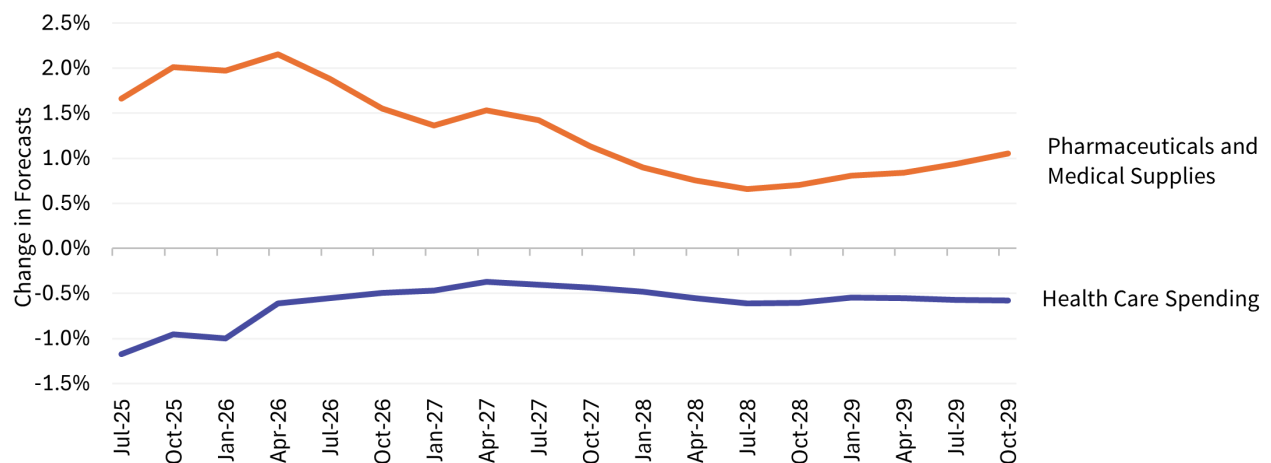
Consider a household planning to move into a new single-family home and furnish it in mid-2025. Thanks to falling construction prices, the cost of buying the house might drop by about 4% over two quarters, creating upfront savings. However, furnishing the home would be much more expensive. If the household 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.

Tariff-Induced Health Care Inflation

Figure 23 forecasts the quarterly change in Washington state's consumer price indices for pharmaceutical and medical products and general health consumption over four years if the tariffs announced April 9, 2025, are implemented. The trends suggest that while the cost of pharmaceutical products will rise steadily, overall health care consumption costs will decline, pointing to a divergence in how tariffs and economic pressures influence goods versus services in the health care sector.

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.



If tariffs are implemented, the price for pharmaceutical and other medical products will increase steadily. From Q3 2025 to Q4 2026, quarterly changes ranged between +1.6% to +2.2%, signaling consistent inflation in this category. These rising prices are likely tied to tariff-induced increases in import costs, as many pharmaceuticals and medical supplies depend on global supply chains.

Over time, the rate of increase is likely to slow. By 2028–29, quarterly growth is expected to drop to around 0.7% to 1.1%, suggesting that while upward pressure remains, it will gradually stabilize. Nonetheless, the cumulative effect over two years is still expected to significantly raise household pharmaceutical expenses.

In contrast, the consumer health consumption index (which includes spending on health care services, insurance, and medical care) is forecasted to fall consistently throughout the same period. Quarterly declines are expected to range between -0.4% and -1.2%, with no quarter showing a positive change. **This persistent deflation reflects how households, constrained by broader inflation and higher prices in other sectors, will begin cutting back on non-urgent health services.**

Such a trend often arises when families reprioritize spending due to rising costs elsewhere—especially in goods like food, energy, or household furnishings. **The deflation in health consumption likely does not mean services will become cheaper; rather, fewer people will be able to afford them or they will be less willing to spend on them.**



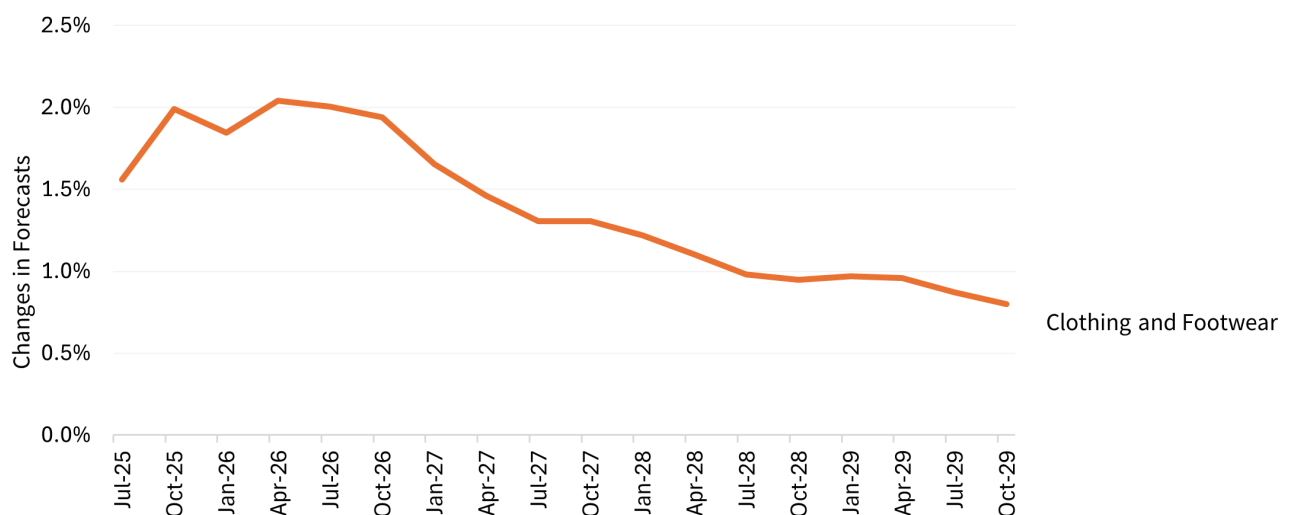
Consider a household that spent \$200 per quarter on pharmaceutical products and \$1,000 per quarter on general health services before the tariff. With cumulative pharmaceutical inflation reaching roughly 10% over the first four quarters, their medication expenses could rise to \$220 per quarter by mid-2026.

Tariff-Induced Clothing and Footwear Inflation

The forecast shows the quarterly changes in the consumer price index for clothing and footwear in Washington from July 2025 to October 2029. If the tariffs announced April 9, 2025, are enacted, price increases are expected to be steady and significant in the short term, likely reflecting higher import costs. Over the next four years, however, the pace of inflation will gradually ease, indicating a stabilization of supply chains or adjustments in consumer behavior.

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.



If tariffs are enacted, the clothing and footwear price index is expected to rise sharply: +1.6% in Q3 2025, followed by +2.0% in Q4, and will likely sustain increases of 1.8% to 2.0% throughout 2026. These increases reflect the fact that a large portion of U.S. clothing and footwear is imported, and tariffs will directly raise the cost of those goods. Retailers will likely pass these additional costs onto consumers, resulting in steady price growth across the category.

Starting in 2027, inflation in this category is expected to begin to decelerate, with quarterly increases dropping to 1.7%, then 1.5%, and eventually falling below 1.0% by 2028. By the end of 2029, the quarterly increase is expected to slow to just 0.8%. This suggests that the market will gradually adjust—through diversified sourcing, inventory management, or weakened consumer demand due to higher overall living costs. Despite slowing over time, clothing and footwear **prices are expected to be higher, meaning tariff-related inflation will have a lasting effect, even if its intensity diminishes over time.**



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.

Economic Growth

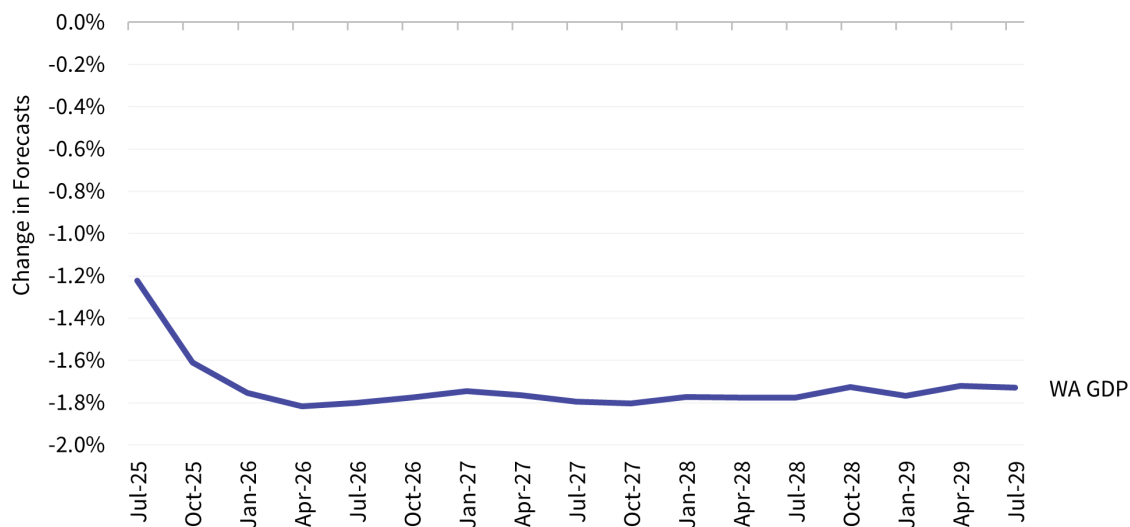
The state Gross Domestic Product (GDP) is the total value of all goods and services produced in the state within a given period. Its components include **consumption** (household spending), **investment** (business spending on capital goods), **government spending** (public sector expenditure), and **net exports** (exports minus imports). GDP is closely tied to economic activity, as it reflects the level of production and income in the economy. Tariffs, or taxes on imported goods, can impact GDP by raising the cost of imports, which may reduce consumption and investment. Higher tariffs can also affect net exports by making exported goods more expensive for foreign buyers, potentially lowering demand. These shifts can cause GDP to decline, especially in trade-dependent sectors.

The forecast shows the quarterly change in Washington state's GDP over the next four years if the tariffs announced April 9, 2025, are implemented. **Beginning in Q3 2025 and continuing through mid-2029, the state's GDP is expected to contract consistently by -1.2% to -1.8% per quarter, indicating a sustained and negative economic impact linked to the introduction of the tariffs.**

If the announced tariffs are implemented, Washington GDP is expected to fall by -1.2% in Q3 2025, worsen to -1.6% in Q4, and reach -1.8% by Q1 2026, a level it may maintain for much of the following years. **This trend suggests the tariffs will trigger a broad economic slowdown in Washington.** As a state heavily integrated into international trade and reliant on imported goods like natural gas, clothing, pharmaceuticals, and consumer electronics, the additional costs from tariffs will constrain business activity and household consumption.

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.



The consistent -1.8% quarterly difference forecasted through most of 2026 to 2028 reveals that the economic damage will not be short-lived. While the rate may slightly improve to -1.7% in some quarters of 2027–29, the state economy is not expected to fully recover to pre-tariff growth rates during this four-year span. **This indicates that the tariffs will create structural challenges that Washington’s economy will struggle to absorb—likely through reduced investment, higher costs of doing business, and weakened consumer spending.**

Imagine a middle-income household with a monthly budget of \$4,000 in 2025. After the tariffs, they face rising prices in key areas: furniture up 6%–7% quarterly, clothing up 2%, pharmaceuticals up 2%, and natural gas up over 13% in six months. Even if wages remain flat—or worse, decline in real terms due to slowing GDP—**this household might experience an effective reduction in purchasing power of several hundred dollars per month.**

For instance, if spending on essentials (utilities, medicine, clothing, furnishings) rises by even \$150 per month, that equals \$1,800 in additional annual expenses. To cope, the household may cut discretionary expenses like travel, dining, or health care services (as reflected in deflating health care consumption) or defer major purchases. This aligns with other data showing declining consumption in areas like accommodations and health care after the tariff's implementation.

The forecast clearly shows that the April 2025 tariffs will impose a lasting drag on Washington's economy, with state GDP shrinking by nearly 2% per quarter for most of the four years. While the shock will be most pronounced in 2025–26, the state is not expected to fully bounce back during our four-year outlook, signaling a prolonged slowdown in business activity and household demand. **For families, this means higher prices, tighter budgets, and reduced economic security, forcing difficult adjustments in spending behavior.** The case of Washington underscores how trade policy can ripple through local economies, especially those deeply tied to global supply chains.

7. Risks Ahead and Additional Considerations

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 average effective tariff rate rose from 2% in 2024 to 27% in 2025, with the potential to reach 39% if the now-paused measures are implemented. This abrupt shift is highly likely to cause significant disruptions to Washington's trade-exposed industries. Our input-output model estimates quarterly GDP losses ranging from -1.2% to -1.8%, with the most severe effects concentrated in sectors such as crop production (-27,955 jobs), food manufacturing (-15,540 jobs), and professional services (-9,747 jobs). The fallout from lost output and employment extends beyond these sectors, triggering a contraction in demand in household consumption and weakening business investment statewide.

Additionally, the sharp rise in input prices is undermining productivity and competitiveness in core industries like aerospace, electronics, and agriculture. Many Washington firms face higher costs for imported parts and machinery, which they cannot easily pass on to customers. As a result, businesses are scaling back hiring, delaying investment, and re-evaluating supply chains. If current tariff levels are maintained or expanded, Washington risks a long-term decline in industrial capacity and innovation—particularly in rural and trade-dependent regions.

Additional Considerations

The revenue implications of these economic shifts are significant. Under the baseline scenario, Washington state could lose \$2.2 billion in general fund revenue by 2029, largely due to the contraction in taxable sales and employment. However, if foreign countries retaliate more, the revenue losses could reach \$12 billion cumulatively over the next four years. Revenue losses are especially pronounced in local tax bases where trade-related activities anchor community economies. As a result, the state may face difficult budgetary tradeoffs that affect core services and long-term investments.

Rising costs for public infrastructure represent another concern. Tariffs on imported materials such as steel, aluminum, and machinery are driving up the costs of roads, utilities, and construction projects. These cost pressures could cause delays or downsizing of capital projects unless mitigated through updated procurement strategies and cost-containment planning. Monitoring material bottlenecks and adjusting project budgets will be key to maintaining infrastructure momentum.

There are also serious equity implications. Farmers, who already operate with thin profit margins and highly variable incomes, will be among the hardest hit. Many of them rely on exports for market access and imported agricultural inputs like fertilizers, seeds, or machinery. Tariffs raise the cost of these inputs while foreign retaliation reduces demand for their products abroad, placing them in a double bind. In rural areas where agriculture is the main employer, these dynamics risk compounding existing economic vulnerabilities, further widening disparities. Without targeted relief—such as input subsidies, market diversification assistance, or income support—many farming operations may become unsustainable under prolonged trade tensions.

Tariff-related inflation disproportionately affects low-income families and small businesses.

Households are seeing price increases in essential goods like food, energy, clothing, and health products. For example, the price of electricity is expected to rise by 3% on average per quarter from Q3 2025 to Q4 2029—a sign that families may be reducing usage due to affordability concerns. Without targeted assistance, vulnerable groups could bear the brunt of the tariff burden. State policymakers may wish to consider additional support measures—such as cost offsets for utilities, technical assistance for supply chain diversification, or capital access programs—to protect long-term economic inclusion.

8. Conclusion

Under the Liberation Day scenario, Washington state is likely to experience significant economic disruptions across prices, growth, employment, and revenue. Given Washington's deep integration into global trade—ranking among the top U.S. states for both imports and exports—the state's economy is particularly vulnerable to both U.S.-imposed tariffs and potential foreign retaliation.

Consumer prices in Washington are projected to rise, especially for goods such as automobiles, clothing, furniture, food products and electricity. Modeling suggests a cumulative increase of more than 25% in some categories over a two-year period, with essential goods bearing the brunt of the inflationary pressure. These price increases would likely strain household budgets, particularly for low- and middle-income families.

Washington's economic growth could slow measurably. Forecasts show a potential quarterly contraction in state GDP ranging from -1.2% to -1.8% over the next four years, driven by reduced trade volumes, higher input costs for businesses, and weakened consumer spending. Export-intensive industries such as aerospace, agriculture, and food manufacturing would be especially exposed to retaliatory tariffs, which could reduce foreign demand for Washington-made goods and result in output and employment declines.

Employment impacts could be widespread. Under the baseline scenario of 27% U.S. tariffs and 37% foreign retaliation, over 30,000 jobs could be lost by 2029, primarily in crop production, aircraft manufacturing, and food processing. These losses may also extend into service industries such as transportation, recreation, and health care, reflecting the cascading effects of weakened demand and reduced economic activity.

State revenue could decline substantially if tariffs proceed. The analysis estimates a cumulative loss of up to \$2.2 billion by 2029 in the baseline scenario, with higher losses possible under greater foreign retaliation. Declines in taxable sales, business activity, and employment would erode the state's fiscal capacity, potentially affecting funding for core services and long-term investments.

In summary, the proposed tariffs are expected to raise prices, reduce economic output, weaken employment, and diminish state revenues in Washington. The scale of these impacts would depend on the final structure of the tariffs, the degree of foreign retaliation, and how businesses and households adjust to changing trade and price dynamics.

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Appendix

1. The trade elasticities model

Purpose and Overview

To estimate the economic effects of trade policy changes—particularly U.S. reciprocal tariffs on imports and foreign retaliatory tariffs on exports—we use a trade elasticities framework applied to the monetary value of traded goods. The model translates price changes resulting from tariffs into estimated changes in dollar values of imports and exports, which are then used as final-demand shocks in the Washington State Input-Output (I-O) Model to assess impacts on output, employment, labor income, and tax revenues.

Impact of U.S. Tariffs on Import Values

Tariffs increase the effective price of foreign goods. This often reduces the dollar value of imports, estimated using:

$$\frac{\Delta M}{M} = \epsilon \cdot \frac{\Delta P}{P}$$

Where:

- M : initial dollar value of imports
- ΔM : change in import value
- ϵ : price elasticity of import value
- $\frac{\Delta P}{P}$: percent change in price due to the tariff

A decline in import value indicates reduced port activity, logistics services, and retail throughput. These reductions are entered into the I-O model as shocks to final demand in the corresponding sectors.

Impact of Retaliatory Tariffs on Export Values

Similarly, when foreign governments impose retaliatory tariffs on Washington-origin goods, the increased price abroad reduces demand and lowers export revenues:

$$\frac{\Delta X}{X} = \eta \cdot \frac{\Delta P}{P}$$

Where:

- X : initial dollar value of exports
- ΔX : change in export value
- η : price elasticity of export value
- $\frac{\Delta P}{P}$: percent price increase due to retaliatory tariffs

Losses in export value are applied to affected sectors such as agriculture, manufacturing, and technology, then modeled through the I-O system to estimate their broader economic impact.

2. The Input-Output model

The estimated changes in trade values are treated as changes in final demand in the Washington State I-O Model. This model captures:

- Direct effects on output in trade-affected industries
- Indirect effects through upstream suppliers
- Induced effects through reduced household income and spending

The model has the following characteristics:

- **Sectors:** 52 NAICS-based industries
- **Final Demand Components:** Consumption, Investment, Government, Exports (domestic/foreign)
- **Model Variants:**
 - *Type I:* captures direct + indirect effects
 - *Type II:* includes induced effects via labor income and household spending
 - *Complex:* user-defined external industry or project scenario
- **Multipliers:**
 - 2007 average: ~1.916 → 2012 average: ~1.938 (Correlation ≈ 0.89)
- **Main Data Sources:** 2012 Economic Census; BEA and BLS state-level data; technical structure adopted from 2007 survey-based model
- **Recommended Uses:** Evaluate impact of demand shocks; estimate employment, labor income, and value-added ripple effects across Washington sectors

More details on the Input-Output model can be found at the following link:

https://ofm.wa.gov/sites/default/files/public/dataresearch/economy/IO_2012_report.pdf

3. Passthrough Methodology

Freight Flow Data and Classification

We used data from the **Bureau of Transportation Statistics (BTS)** via the **Freight Analysis Framework (FAF)** (<https://www.bts.gov/faf>) to estimate freight shipments by **tonnage, value, and ton-miles**. The FAF data provides detailed shipment estimates categorized by:

- **Origin and destination regions** (state and foreign)
- **Commodity types**
- **Transportation modes**

Freight commodities are originally classified using the **Standard Classification of Transported Goods (SCTG)** codes. For consistency with trade datasets, we converted SCTG to **Harmonized System (HS)** codes using a concordance table. This allows alignment of freight shipments with international trade classifications.

Identification of Import and Export Passthrough Shipments

To isolate passthrough trade—freight that **passes through** Washington but **does not originate from or terminate in Washington**—we used the following FAF parameters:

Import Passthrough

We identified all freight shipments **originating from abroad** and **passing through Washington state to other U.S. states**:

- **Foreign Origination** (Column A) = *All*
- **Domestic Origination** (Column B) = 53 (Washington state)
- **Domestic Destination** (Column C) = *All*

Export Passthrough

We identified all freight shipments **originating elsewhere in the U.S.** and **exported abroad through Washington**:

- **Foreign Destination** (Column D) = *All*
- **Domestic Origination** (Column B) = *All*
- **Domestic Destination** (Column C) = 53 (Washington state)

Passthrough freight is excluded from state-level import/export totals to focus only on economic activity directly attributable to Washington-based producers and consumers.

Agricultural Product Clarification

While FAF data provides two-digit HS codes, these are **too broad for fine-grained agricultural analysis**. To improve accuracy in assessing agricultural exports from Washington, we supplemented FAF with:

- **USDA State Cash Receipts Data**, which reports **agricultural export values by commodity and by state (Source: USDA Agricultural Trade Data, 2024)**.

This allowed us to better disaggregate agricultural sectors such as apples, wheat, potatoes, and dairy for targeted impact analysis.

4. U.S. Average Import Tariff (January – August 2025)

Figure 25. Line chart of the U.S. average tariff rate from January to August 2025

