Memorandum

From: Rounds Consulting Group, Inc.

Date: June 6, 2019

Re: Arizona Impacts Related to Tariffs on Mexican Goods

We received a number of requests to opine on the extent a proposed 5% tariff (that rapidly increases to 25% in five months) on imported Mexican goods would impact the Arizona economy. Several higher-level studies have already been produced that provide context on the impact to the U.S. economy.

We estimate that a 5% tariff increment would cost each Arizona resident $60 on an average annual basis. The loss of state jobs would equal 6,000 for each increment. If fully implemented within five months, the cost to state residents would increase to approximately $300 per person with job losses totaling 30,000.

The term "approximate" is used since it is likely the economic impacts from each tariff increment will increase exponentially. These figures do not include estimates for reduced economic growth going forward. These figures can prove to be significant and may be subject to later review.

The Arizona economy continues to surge and the state is in a stronger position to withstand minor economic shocks. However, if this issue is not resolved relatively quickly, and well before the beginning of an economic downturn, the economic consequences will be both larger and longer lasting. The impact to each state will be dependent on its current economic health and trade position.

AZ Economic and Policy Context

As of last year, Arizona imported about $9B worth of goods from Mexico. The state imports everything from agricultural and food products to high value computer and electrical equipment. In the short term, the cost burdens from tariffs are passed on to consumers and importers. Over a longer period of time, consumers and businesses will shift their behavior in favor of more affordable goods from other countries and the economic impact is lessened. This will not happen when trade disputes occur with multiple countries at the same time.

Many data points must be considered. States import goods from Mexico. The values are higher for border states. However, some goods arrive and are consumed; some goods are inputs into other products and are either consumed or exported; and some goods simply pass through. Goods also enter other border states and are imported into Arizona.

To complete the calculation related to end-product taxation (and ultimately the impact on Arizona), assumptions were made related to each of these examples. Data was collected from the U.S. Census Bureau, the U.S. Department of Transportation, and from other reports related to tariff impacts.

Multiple scenarios were produced that assumed between 50% and 75% of the directly imported Mexican goods remain in the state for consumption. A smaller percentage range (25% to 33%) was utilized to capture the pass through of Mexican goods from other states into Arizona. Commodity flows were also analyzed and an economic model was reverse-engineered to convert the data into local tax and employment impacts.

Many of the analyses published thus far have not fully accounted for these complex interactions and likely overstate the economic consequences. However, even using a more conservative approach to the calculations, the economic impacts are sizeable.

This needs to be resolved as soon as possible.