



Arizona's Economy: Tariffs and Other Risks

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MAP Talk Webinar: Tucson Manufacturing Trends and the Impact of Tariffs

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1



Major Risks to the Economy

- ▶ **Policy Uncertainty**
 - ▶ Large business and consumer purchases depend on views about the future, including the future of economic policy
 - ▶ When there is significant uncertainty about economy policy, businesses and consumers hold back
- ▶ **Tariffs**
 - ▶ Tariffs are taxes
 - ▶ Tariffs are paid by importers, but the tax burden may vary across products and industries
 - ▶ Current tariff levels are a significant increase in taxes on consumers and businesses
- ▶ **Mass Deportations**
 - ▶ In already tight labor markets, significant increases in deportations will create and exacerbate labor shortages
- ▶ **Federal spending and job cuts**
 - ▶ Reduced federal purchases of goods and services and reduced federal employment will put downward pressure on economic activity



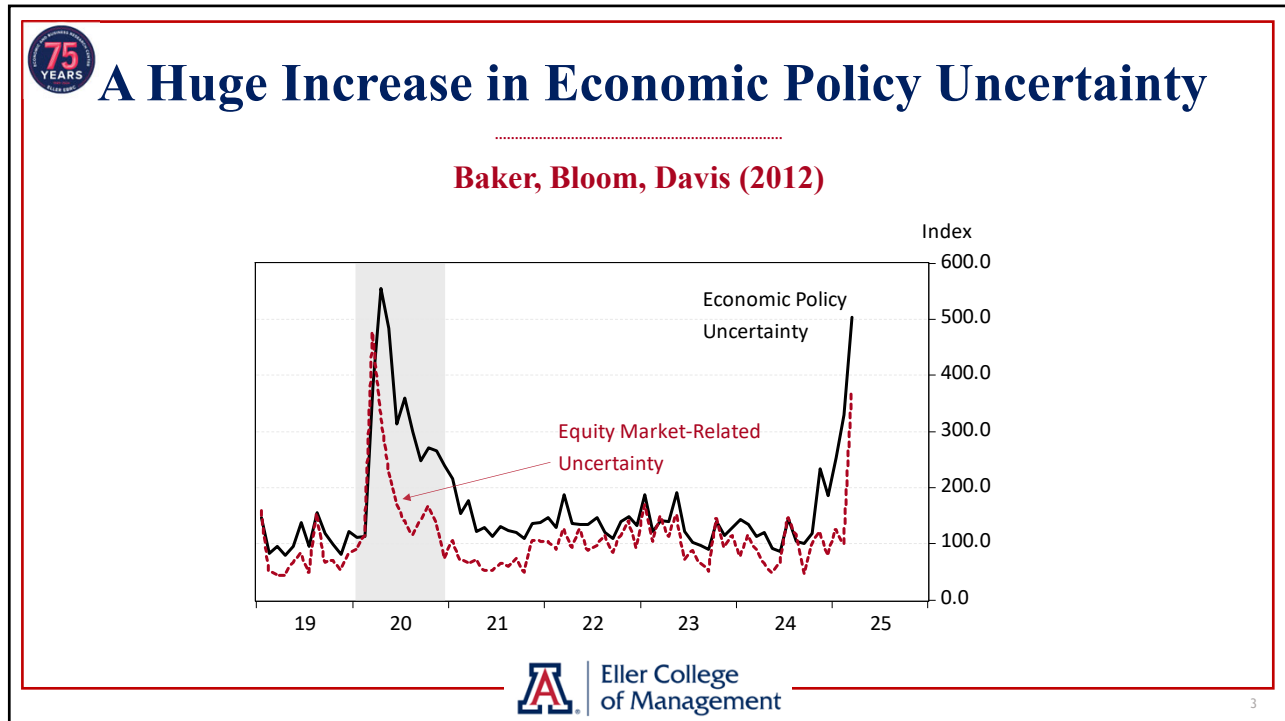
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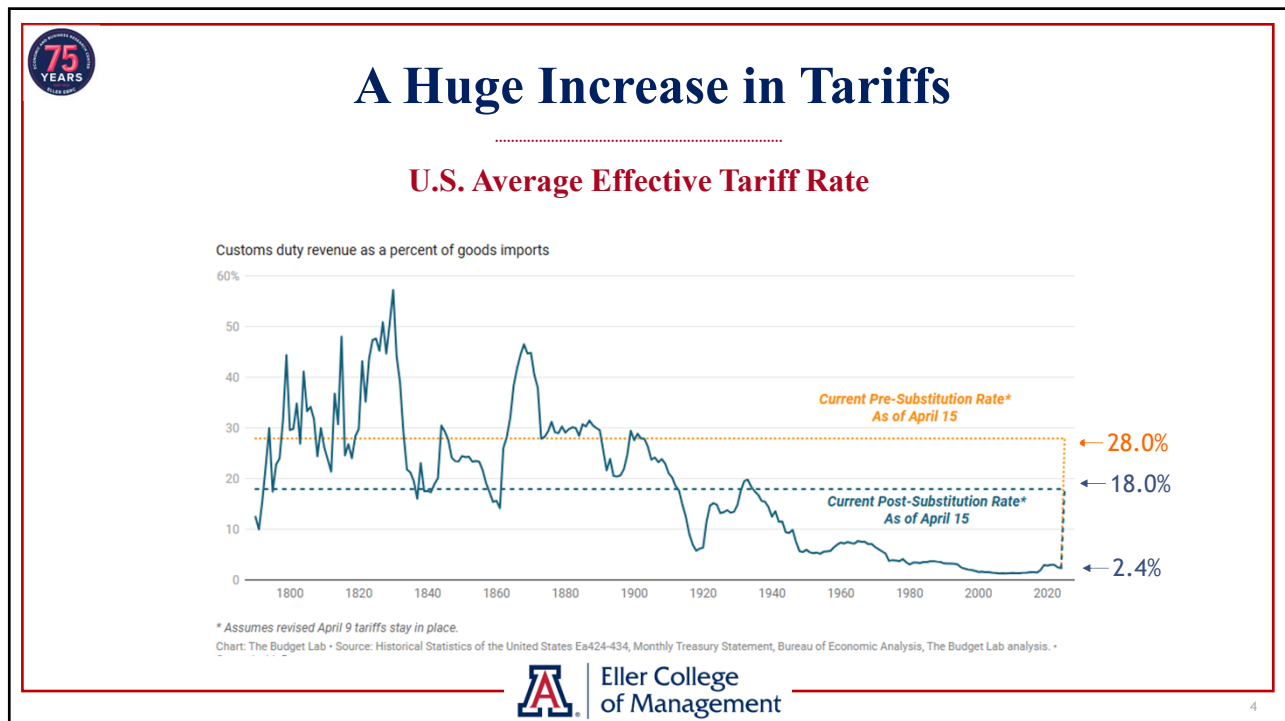
2

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1



3



4
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A Huge Increase in Tariffs

Current U.S. Tariffs

U.S. Tariffs	Retaliatory Tariffs
20% broad tariff on all Chinese imports (effective February 4; increased March 4)	China 10%/15% list (announced February 4)
10% tariff on Canadian potash and energy (effective April 2)	Canada 25% list (announced March 4)
25% tariff on all Mexican imports and other Canadian imports* (effective March 4)	China 10%/15% list (announced March 4)
25% tariff on all automobiles, with an exemption for US content** (effective April 3)	Canada 25% list (announced March 13)
25% tariff on all steel and aluminum imports (effective March 12)	China broad 125% (announced April 4)
Modified April 2 announcement: 10% minimum tariffs on all countries ex. China, Canada, & Mexico; 125% tariff on China (effective April 9, modified April 9, 90-day duration)***	China suspension of exports of minerals and magnets (announced April 11)****

* USMCA-compliant trade remains duty-free. TBL assumes that 49% of imports by value from Mexico are USMCA-compliant, while 38% of imports from Canada are compliant.
 ** TBL assumes that 40% of automobile content in imported motor vehicles from Canada and Mexico are of US origin.
 *** The tariffs announced on April 2 apply to most imported goods but exempt steel, aluminum, and autos—which have already been tariffed separately this year—as well as copper, pharmaceuticals, semiconductors, lumber, energy, and critical minerals. The Administration clarified the scope of the semiconductor exemption on April 13. TBL carved out these commodities in its analysis of the April 2 announcement but does stack tariffs on those commodities from earlier announcements where applicable.
 **** TBL simulated this as a prohibitive Chinese export tariff on these commodities.
 Table: The Budget Lab - Created with Datawrapper



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5

5



Tariffs Will Adversely Impact the Economy

- ▶ **Arizona will feel the impact of tariffs on Mexico more than most states**
 - ▶ Arizona ranked 31st in the nation in the importance of international trade (12.3% of GDP)
 - ▶ Arizona ranked 6th in the nation in the importance of trade with Mexico (3.8% of GDP)
 - ▶ Lower after-tax income for households, higher costs for businesses importing inputs
 - ▶ Short-run burst of inflation followed by higher price levels that linger
- ▶ **May incentivize capital investment in the U.S., resulting in increased manufacturing output (long run)**
 - ▶ But probably not much job impact since firms invest in state-of-the-art automation
- ▶ **Raises the value of the U.S. dollar, other things the same**
 - ▶ Offsets some of the price/inflation impact
 - ▶ But hurts exports of goods and services
- ▶ **Retaliatory tariffs**
 - ▶ Hurt U.S. exporters, including those in Arizona

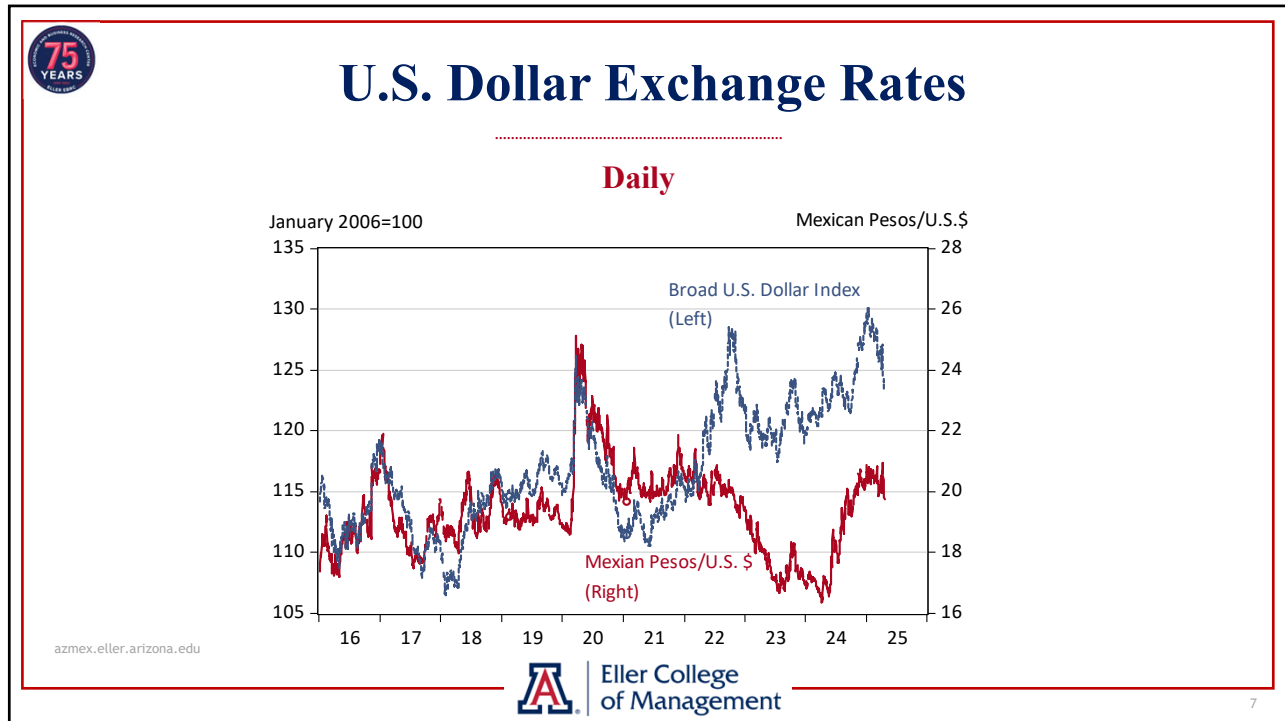


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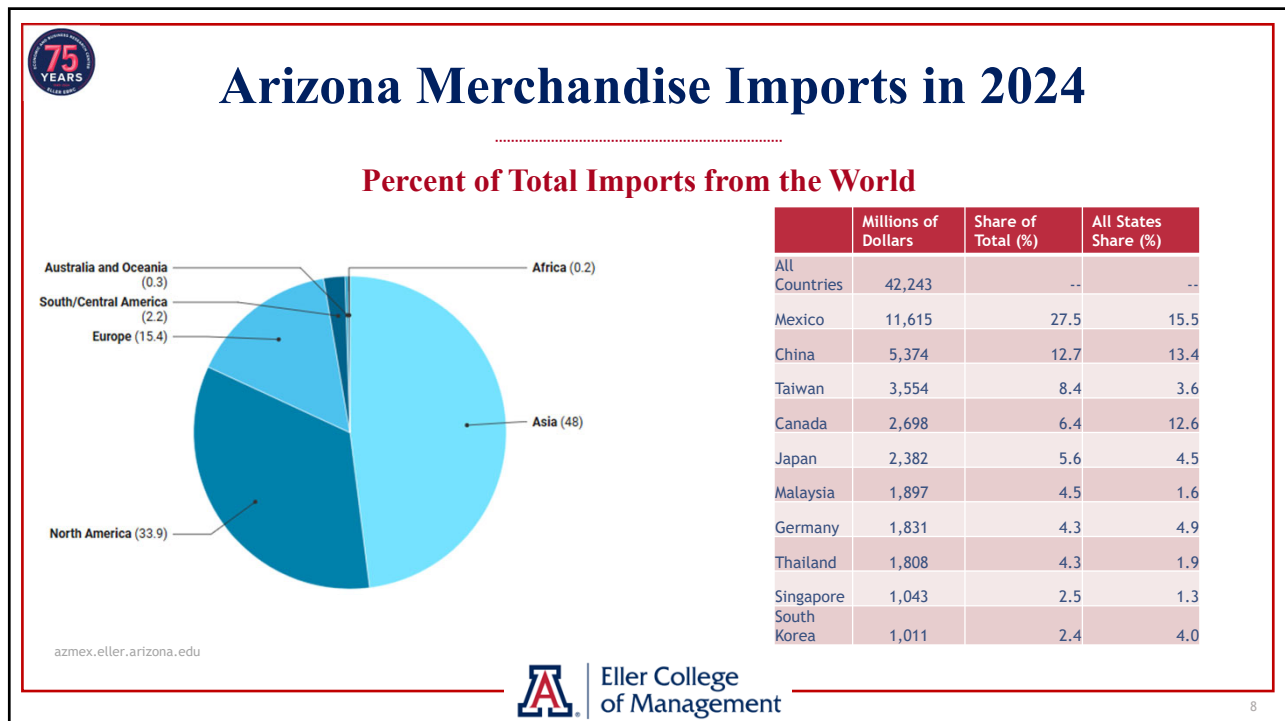
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6

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7



8
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9



10

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11

Main Takeaways

- ▶ **The U.S. and Arizona face increased risks of recession**
 - ▶ Increased policy uncertainty is the biggest risk to the economy this year
- ▶ **Tariffs will adversely impact the economy**
 - ▶ Tariffs are taxes that reduce after-tax household income and raise business costs
 - ▶ Increased tariffs on Mexico will impact Arizona more than most states
- ▶ **Mexico is by far Arizona’s most important trading partner**
 - ▶ But Arizona trades with many countries around the world, including Europe and Asia

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12

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