

Tariffs and the Midwest

Impacts on Households, Manufacturing,
and Economies in Six States

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Executive Summary

In 2025, the federal government increased tariffs—or taxes on items imported from other countries—to their highest level since the 1930s. The “effective tariff rate,” or revenue divided by imports, jumped from 3 percent to about 10 percent. After the U.S. Supreme Court struck down most of the hikes in February 2026, the Trump administration responded with a new 10 percent global tariff. While tariffs in some cases can protect American workers, research shows that at least 90 percent of their cost is passed onto U.S. consumers through higher prices.

Midwest states are particularly exposed to tariffs and retaliatory actions from foreign countries.

- Consumer spending accounts for between 60 percent and 78 percent of the economies of Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin.
- These six Midwest states represent 19 percent of U.S. manufacturing output and 20 percent of U.S. agricultural output, making them vulnerable to tariffs on overseas supply chains and foreign retaliation which contributed to a 4 percent drop in agricultural exports over the year.
- Midwest manufacturers reported that tariffs added 10 to 48 percent in costs in 2025.

Tariffs are regressive taxes that disproportionately impact lower-income households.

- New tariffs imposed in 2025 increased costs by an average of \$2,000 for more than 18 million households in Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin.
- As a share of total income, the cost of tariffs due to higher priced goods was three times higher for the bottom 10 percent of households than the top 10 percent across all six Midwest states.
- The new wave of tariffs accounted for as much as 7 percent of earnings for low-income households but 2 percent or less for high-income households in the region.

Economic data and modeling reveal the impacts of new tariffs imposed by the Trump administration on six Midwest states in 2025.

- Illinois: Average household costs increased by \$2,200, manufacturing lost 7,500 jobs, and GDP decreased by \$5 billion.
- Indiana: Average household costs increased by \$2,600, manufacturing lost 9,100 jobs, and GDP decreased by \$3 billion.
- Iowa: Average household costs increased by \$600, manufacturing lost 2,700 jobs, and GDP decreased by \$2 billion.
- Michigan: Average household costs increased by \$3,200, manufacturing lost 12,400 jobs, and GDP decreased by \$4 billion.
- Minnesota: Average household costs increased by \$1,100, manufacturing lost 3,900 jobs, and GDP decreased by \$2 billion.
- Wisconsin: Average household costs increased by \$1,500, manufacturing lost 6,100 jobs, and GDP decreased by \$2 billion.

States and Congress can take steps to mitigate the consequences of on-again, off-again tariffs.

- States can claw back tax incentives and tax cuts from companies that lay off workers.
- States can enhance unemployment benefits, particularly for those displaced due to trade policy.
- States and Congress can strengthen workforce transition funds that deliver connections to jobs, rapid retraining, income support, and relocation assistance for displaced workers.
- Congress can reassert its authority, repeal blanket tariffs, and issue refund checks of at least \$750 to single taxpayers and \$1,500 to married couples since costs were passed on to consumers.

Ultimately, the data reveal that Midwest states—with robust consumer spending and manufacturing-intensive economies—have borne significant costs from the federal government’s new tariff regime.

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Introduction

A tariff is a tax on items that are imported from other countries. Tariffs can rebalance international trade, protecting American workers against unfair competition from countries with low-wages and without environmental standards (Hersh & Bivens, 2025). On the other hand, because tariffs are paid by the U.S. companies that purchase foreign goods, parts, materials, and energy that then pass on costs to consumers through higher prices, they can reduce economic activity and hinder job growth, particularly in the manufacturing sector (Hersh & Bivens, 2025).

Tariffs rose significantly in 2025. New import taxes were levied on specific materials and products—such as steel, aluminum, copper, vehicles, and auto parts—as well as on nearly every country around the world (Burkhart & Hammond, 2026; York & Durante, 2026). Annual tariff revenue grew to \$287 billion, a 192 increase over 2024 (Azzimonti, Titcomb, & O’Trakoun, 2026). The “effective tariff rate,” or total revenue divided by total affected imports, reached a peak of 19 percent in July 2025—the highest burden since 1933 (TBL, 2025). After the U.S. Supreme Court struck down most of these new tariffs as unconstitutional in February 2026, the Trump administration responded with a global tariff of 10 percent for 150 days, which brought the effective tariff rate back up to 11 percent (Oyez, 2026; TBL, 2026a).

Research shows that tariffs are almost entirely passed through to U.S. consumers (Amiti, Redding, & Weinstein, 2019; Gopinath & Neiman, 2026). The Federal Reserve Bank of New York found that about 90 percent of tariff costs were borne by U.S. consumers and businesses in 2025, with foreign exporters absorbing 10 percent (Amiti et al., 2026). A 2025 pass-through rate of 96 percent was calculated by a separate group of researchers (Hinz et al., 2026). Another study found that while foreign producers initially absorbed about 20 percent of tariff costs and passed on 80 percent, U.S. households eventually paid 100 percent as retail prices adjusted to fully reflect tariff impacts after 12 months (NBER, 2026). The Federal Reserve Board also found that tariff changes in 2025 raised core goods prices by over 3 percent, “explaining the entirety of excess inflation” and “consistent with full dollar-for-dollar tariff pass-through into relative consumer prices” (Minton, Ray, & Somale, 2026). Overall, estimates find that the new tariffs imposed in 2025 cost U.S. households between \$1,200 and \$1,700 over the year (TBL, 2026b; McClelland & Wong, 2026).

Tariffs are also a form of national protectionism, with mixed impacts on the economy. Trade volume, trade deficits, retaliatory tariffs, the value of supply chains, the relative productivity of a country’s businesses, the inflationary consequences of tariffs, the negative effects on exports, and the impact on exchange rates are all interdependent variables in determining the overall effect that trade protectionism has on a country’s economy.

Despite promises that tariffs could bring manufacturing “roaring back,” the data tell a different story (Ockerman, 2026). Across the country, the manufacturing sector shed 93,000 jobs last year, including 82,000 between April and December (BLS, 2026; Ackerman, 2026). Higher costs of imported intermediate inputs can lead to manufacturing job losses that exceed modest employment gains in protected industries (Flaaten & Pierce, 2024). For example, a 2018-2019 trade war between the United States and China cost manufacturers \$1,600 per employee, reduced net manufacturing employment by up to 230,000 jobs, and increased producer prices by between 3 and 4 percent (Handley, Kamal, & Monarch, 2019). The nonpartisan Congressional Budget Office (CBO) also found some modest domestic job preservation from tariffs, but concluded that in “none of the cases studied was protection sufficient to revitalize the affected industry” (CBO, 1986). In 1987, there were

184,200 people employed in American steel mills. By 2024, after years and rounds of higher duties on foreign steel products, there were only 85,700 (FRED, 2025).

This report, conducted jointly by the Midwest Economic Policy Institute (MEPI) and the Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign, assesses the economic impact of tariffs on six Midwest states: Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. Midwest states are manufacturing-intensive and have large agricultural sectors, making them vulnerable to tariffs and retaliatory actions by other countries (Theal & Biernacka-Lievstro, 2025; Matschke & Dzholos, 2025). The report first discusses tariff changes since the beginning of 2025 before detailing tariff exposures of the six states. An analysis of tariff impacts on household costs, manufacturing employment, and economic activity is subsequently presented. Potential policy options at the state and federal levels are offered before the conclusion recaps key findings.

Tariff Changes Since the Beginning of 2025

In 2025, the federal government initiated the largest tariff expansion since the Smoot-Hawley Tariff Act of 1930, which raised taxes on 20,000 imported goods, triggered retaliatory duties from major trading partners, and reduced economic growth during the Great Depression era (Bond et al., 2013; Irwin, 2017; Crucini & Kahn, 2003). On April 2, 2025, the Trump administration used an interpretation of the International Emergency Economic Powers Act (IEEPA) of 1977 to announce broad “reciprocal tariffs” of between 10 and 50 percent on nearly every country. These tariffs were in flux throughout the year with temporary pauses, country-specific decreases due to bilateral framework agreements, and additional hikes for countries that retaliated. These on-again, off-again policy changes caused high uncertainty for U.S. businesses (Meyer et al., 2025a; West & Valle Gutierrez, 2025). Despite multiple 90-day “truces,” China faced the highest effective tariff rate (33 percent) of any major U.S. trading partner by the end of 2025 (Burkhart & Hammond, 2026; PWBM, 2026). The federal government also announced “Section 232” tariffs of up to 50 percent on steel, 25 percent on aluminum, 25 percent on imported vehicles and auto parts, 25 percent on kitchen cabinets and upholstered furniture, 10 percent on softwood timber and lumber, and various charges for other items (Burkhart & Hammond, 2026; York & Durante, 2026).

In February 2026, the U.S. Supreme Court struck down the IEEPA-based tariffs in a 6-3 decision in which the majority held that IEEPA did not authorize the President to impose tariffs and that the Constitution vests taxing power in Congress (Oyez, 2026). U.S. Customs and Border Protection (CBP) disclosed that it had collected \$166 billion in IEEPA-related tariffs from 330,000 U.S. businesses, including 236,000 small businesses with fewer than 500 employees, that would have to be refunded in some way (Mangan, 2026; Negron, Wardak, & Andara, 2026). Following the ruling, the Trump administration announced a new “Section 122” global tariff of 10 percent that would expire after 150 days as well as “investigations” into the manufacturing sectors of Mexico, China, Taiwan, India, the European Union, Japan, South Korea, Bangladesh, Malaysia, Cambodia, Thailand, Vietnam, Singapore, Switzerland, and Norway that could lead to the reimposition of IEEPA tariffs (York & Durante, 2026).

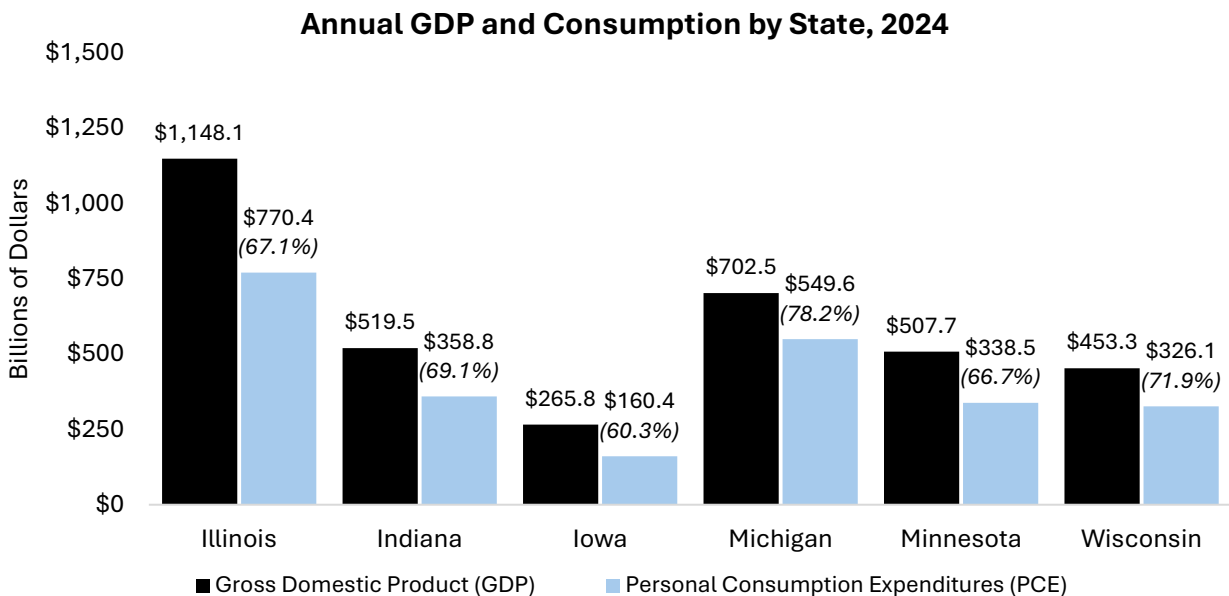
The “effective tariff rate” fluctuated dramatically last year, beginning at 3 percent, reaching 19 percent in July, and falling to about 10 percent by December (TBL, 2025; TBL, 2026c; PWBM, 2026). Despite the largest hikes occurring in April or after, the average effective tariff rate was 8 percent over

the entirety of 2025, generating \$287 billion in revenue from \$3.4 trillion in total goods imported, up from the 3 percent rate that collected \$98 billion in revenue from \$3.3 trillion worth of goods in 2024 (BEA, 2026a; Azzimonti, Titcomb, & O'Trakoun, 2026). After the Supreme Court struck down IEEPA-related tariffs but left others unaffected and the global 10 percent tariff was issued, the effective tariff rate became 11 percent in March 2026 and was set to fall to 7 percent by July 24, 2026 once the “Section 122” tariffs expire (TBL, 2026a).

Exposure to Tariffs in Six Midwest States

Midwest states are especially affected by tariffs (Theal & Biernacka-Lievestro, 2025; Kepner & Walstrum, 2025; Matschke & Dzholos, 2025). Together, Illinois (\$1.1 trillion), Indiana (\$520 billion), Iowa (\$266 billion), Michigan (\$703 billion), Minnesota (\$508 billion), and Wisconsin (\$453 billion) produced \$3.6 trillion in gross domestic product (GDP) in 2024, accounting for 12 percent of national economic output (Figure 1). Cumulative consumer spending in these six states was \$2.0 billion, accounting for 68 percent of their economic activity. Consumer spending as a share of GDP ranged from 60 percent in Iowa to 78 percent in Michigan. By raising prices of imported goods, tariffs directly impact the largest economic driver in these states.

FIGURE 1: GROSS DOMESTIC PRODUCT AND PERSONAL CONSUMPTION EXPENDITURES BY MIDWEST STATE, 2024



Source(s): Authors' analysis of "Regional Data: GDP and Personal Income" data for 2024 from the Bureau of Economic Analysis at the U.S. Department of Commerce (BEA, 2026b).

Recent research has shown Midwest businesses experienced a tripling of tariff costs from the beginning to end of last year (Negron, Wardak, & Andara, 2026). Nationally, small-business importers paid an average of \$306,000 more due to the new tariffs imposed in 2025. Across the Midwest, small-business importers paid an average of \$709,000 more in Michigan, \$586,000 more in Indiana, \$449,000 more in Illinois, \$272,000 more in Wisconsin, \$197,000 more in Iowa, and \$182,000 more in Minnesota, causing them to raise prices, halt hiring, and scale back expansion plans (Negron, Wardak, & Andara, 2026).

Midwest states have long served as the backbone of U.S. manufacturing (Kepner & Walstrum, 2025). From Indiana’s steel mills to food processing plants in Illinois to the automakers of Michigan, the region’s workers have produced goods that sustain the national economy. Indiana leads the nation in manufacturing employment, with nearly 16 percent of its workforce employed in the sector—twice the national share (NAM, 2026). Manufacturing jobs are also more concentrated in Wisconsin (15 percent), Iowa (14 percent), Michigan (13 percent), Minnesota (11 percent), and Illinois (9 percent) than the rest of the country (8 percent) (NAM, 2026). As a share of each state’s economy, imports account for 24 percent in Michigan, 20 percent in Indiana, 19 percent in Illinois, 9 percent in Wisconsin, 8 percent in Minnesota, and 5 percent in Iowa (Figure 2).

FIGURE 2: IMPORTS, MANUFACTURING, AND GROSS DOMESTIC PRODUCT BY MIDWEST STATE, 2024

State	Imports as a Share of GDP	Manufacturing GDP (\$Billions)	Share of U.S. Manufacturing GDP	Manufacturing Share of State GDP	Comparable State Economy (\$Billions)
Illinois	19.2%	\$133.4	4.6%	11.6%	Idaho (\$129.0)
Indiana	20.2%	\$125.9	4.4%	24.2%	Hawaii (\$117.6)
Iowa	4.8%	\$44.3	1.5%	16.7%	Vermont (\$46.3)
Michigan	24.5%	\$114.1	4.0%	16.2%	Delaware (\$111.0)
Minnesota	8.1%	\$60.1	2.1%	11.8%	Wyoming (\$51.5)
Wisconsin	8.6%	\$73.3	2.5%	16.2%	Alaska (\$71.6)
Six-State Total	16.4%	\$551.2	19.1%	15.3%	Maryland (\$546.0)

Source(s): Authors’ analysis of “Regional Data: GDP and Personal Income” data for 2024 from the Bureau of Economic Analysis at the U.S. Department of Commerce and 2024 imports as a share of state GDP by Pew Charitable Trusts (BEA, 2026b; Theal & Biernacka-Lievestro, 2025).

The manufacturing sectors of Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin combined to boost the economy by \$551 billion in 2024, representing 19 percent of U.S. manufacturing GDP (Figure 2). By output, Illinois has the 3rd-largest manufacturing sector in the United States, contributing \$133 billion annually to the U.S. economy—more than all private and public sector activity in Idaho. Indiana has the 5th largest manufacturing sector (\$126 billion), which adds more value to the national economy than the businesses and people of Hawaii. Michigan has the 6th largest manufacturing sector (\$114 billion), generating more output than the entire state of Delaware. Manufacturing in Wisconsin (\$73 billion) exceeds Alaska’s GDP, manufacturing in Minnesota (\$60 billion) exceeds Wyoming’s GDP, and manufacturing in Iowa (\$44 billion) is on par with Vermont’s GDP. When tariffs raise the cost of imported steel, aluminum, auto parts, and electronic components, they tax the supply chains that feed this \$551 billion regional economic engine.

Economic Impacts of Tariffs on Six Midwest States

This section utilizes data from numerous sources. Data from the Bureau of Labor Statistics (BLS) at the U.S. Department of Labor, Bureau of Economic Analysis (BEA) at the U.S. Department of Commerce, and 2024 *American Community Survey* by the U.S. Census Bureau are used for manufacturing employment, the durable goods share of manufacturing, gross domestic product (GDP), annual household incomes, and household consumer expenditure patterns (BLS, 2026; BEA, 2026b; Census, 2026). The analysis also draws from Pew Charitable Trust’s estimates on imports and exports as shares of each state’s economy and U.S. Department of Agriculture data on agricultural exports as share of state economies (Theal & Biernacka-Lievestro, 2025; USDA, 2025).

Impacts of the new tariffs in 2025 are anchored to estimates from The Budget Lab (TBL) at Yale University on household costs and GDP effects from January 2026, which was before the February 2026 Supreme Court ruling (TBL, 2026b). However, The Budget Lab assumes “full passthrough of tariffs to consumers” and provides cost estimates before and after consumers and businesses shift purchases because “the timing of the transition from ‘pre’ to ‘post’ substitution varies, with some shifts happening within days or weeks while others may take longer” (TBL, 2026b).¹ This analysis assumes that 90 percent of tariff costs are passed through and averages TBL’s pre-substitution and post-substitution effects to account for the transition (Amiti et al., 2026; Hinz et al., 2026; Amiti, Redding, & Weinstein, 2019). Estimates for each of the six Midwest states are weighted by BEA consumer and trade data, BLS employment shares, Pew import intensities, and Census income distributions to reflect their unique economies and tariff exposure risks.²

Impact of Tariffs on Household Costs

When the federal government imposes a 10 percent tariff, the U.S. company that purchases an imported item pays about 9 percent more for it and passes that increase onto households in the form of higher prices.³ While U.S. firms could absorb some of the burden, business profit margins have not decreased and prices have risen for tariff-sensitive goods—or those most exposed to international trade (Butters, 2025; Dvorkin, Leibovici, & Santacreu, 2025). This suggests that U.S. firms have been passing costs onto consumers instead of accepting lower profits.

Figures 3 through 5 display the impact of tariffs on households in Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. The data are based on the December 2025 import tax regime with a 10 percent effective tariff rate, which was a 7 percentage-point increase over 2024 levels. Estimates include a 90 percent pass-through to U.S. consumers and are weighted by each state’s import intensity and durable goods share of manufacturing to account for items most exposed to international trade as well as each state’s consumer expenditure share of the economy.

The data reveal that the average Midwest household paid more in tariff costs than the rest of the United States (Figure 3). The U.S. average was \$1,800 per household in total tariff costs, including \$1,300 per household from new tariffs imposed in 2025. The average for the six Midwest states was \$2,800 per household in total tariff costs, including \$2,000 per household from new 2025 tariffs. Across the region, the combined household burden of the Trump administration’s tariffs was \$37 billion in 2025. Together with \$14 billion from tariffs previously in effect, the total cost to all households in Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin exceeded \$51 billion.⁴

¹ Research shows that consumer spending flowing to firms that imported from China declined by 11 percent between 2018 and 2023 in response to new tariffs, providing evidence of shifting expenditure patterns (Baslandze et al., 2025).

² For additional technical information, see the Appendix.

³ Research shows that about 90 percent of tariffs are paid by U.S. consumers and businesses while foreign exporters absorb 10 percent (Amiti et al., 2026). A 10 percent tariff multiplied by a 90 percent U.S. share equals 9 percent, which is the expected cost increase for importing companies.

⁴ As a robustness check, 2025 data on U.S. imports by state of destination from the U.S. Census Bureau show that Illinois accounted for 6.2 percent of national imports, Michigan accounted for 5.9 percent, Indiana accounted for 4.5 percent, Minnesota and Wisconsin each accounted for 1.1 percent, and Iowa accounted for 0.4 percent (BEA, 2026a). Multiplying the \$287 billion in total tariff revenue by each state’s share of imports produces estimated total costs of \$17.7 billion in Illinois, \$14.1 billion in Michigan, \$12.8 billion in Indiana, \$3.1 billion in Minnesota, \$3.1 billion in Wisconsin, and \$1.0 billion

FIGURE 3: AVERAGE AND STATEWIDE HOUSEHOLD COST OF ALL TARIFFS AND NEW 2025 TARIFFS BY MIDWEST STATE

State	Total Tariff Costs	New 2025 Tariff Costs	Total 2024 Households (Millions)	New 2025 Tariff Household Burden (\$Millions)	Total Tariff Household Burden (\$Millions)
Illinois	\$3,086	\$2,236	5.11	\$11,416	\$15,757
Indiana	\$3,569	\$2,586	2.78	\$7,178	\$9,907
Iowa	\$763	\$553	1.34	\$742	\$1,025
Michigan	\$4,359	\$3,158	4.13	\$13,047	\$18,008
Minnesota	\$1,278	\$926	2.54	\$2,588	\$3,240
Wisconsin	\$1,511	\$1,095	2.36	\$2,348	\$3,572
Six-State Total	\$2,822	\$2,044	18.25	\$37,318	\$51,510
<i>U.S. Estimates</i>	<i>\$1,822</i>	<i>\$1,320</i>	<i>132.74</i>	<i>\$175,213</i>	<i>\$241,847</i>

Source(s): Authors' analysis using The Budget Lab at Yale University's January 2026 estimates from a 9.8 percent effective tariff rate, Pew Charitable Trust's 2024 import intensities, data on the number of households and their average annual incomes from the 2024 *American Community Survey* by the U.S. Census Bureau, and a 90 percent tariff pass-through rate from recent economic research (TBL, 2026b; Theal & Biernacka-Lievstro, 2025; Census, 2026; Amiti et al., 2026).

There is significant variation by state (Figure 3). The average Michigan household paid \$4,400 more per year because of tariffs in 2025, including \$3,200 more from new tariffs levied over the year. The average Indiana household paid \$3,600 more because of tariffs in 2025, including \$2,600 more from new 2025 tariffs. This is due to their reliance on imported industrial inputs and relatively higher consumer spending shares of the economy. Illinois households faced average annual tariff costs of \$3,100, of which \$2,200 was due to new tariffs imposed in 2025. Annual averages were \$1,100 from new tariffs and \$1,500 total for Wisconsin, \$900 from new tariffs and \$1,300 total for Minnesota, and \$600 from new tariffs and \$800 total in Iowa.

Tariffs are “regressive,” with lower-income and middle-class households paying more as a share of their earnings toward tariffs than affluent households (TBL, 2026b; McClelland & Wong, 2026). Lower-income and middle-class families spend more on goods, such as groceries and household essentials, that are directly affected by tariffs while wealthy individuals purchase more services and have the ability to save large portions of their incomes (Fisher et al., 2019; Carroll et al., 2017). For instance, low-income households devote 22 percent of their consumption to food and 18 percent to transportation compared to respective rates of 9 percent and 15 percent for high earners (BLS, 2026).

The new 2025 tariffs had outsized impacts on working-class residents across the Midwest (Figure 4). In Illinois, the bottom 10 percent of households paid \$800 in additional costs in 2025. Although the top 10 percent of households paid \$3,900, they also earned at least \$230,800 annually while the lowest-income group earned \$15,100 or less. As a result, new tariffs accounted for 5 percent of the earnings of low-income households compared with less than 2 percent for high-income households. Half of Illinois' households faced annual costs of \$1,300 to \$2,900 from tariffs introduced by the Trump administration. The median Illinois household paid \$2,200, or 3 percent of their \$83,200 earnings.

in Iowa. The “total tariff household burden” estimates are between 77 percent (Indiana) and 128 percent (Michigan) of these import-share estimates. Differences can be explained by the type of goods and materials imported by state. Indiana and Illinois import higher shares of intermediate manufacturing inputs while Michigan, Minnesota, Wisconsin, and Iowa purchase relatively higher shares of imported consumer goods, including those initially shipped to other states (e.g., online shopping items that are delivered from another state).

The hardest-hit group in the six-state region has been the bottom 10 percent in Michigan (Figure 4). These households earned just \$13,900 per year but were saddled with an additional \$1,000 burden from new 2025 tariffs, capturing 7 percent of their incomes. Those in Iowa's top 10 percent earned at least \$182,300 annually and had the lowest burden in the region (about half of 1 percent of their incomes) but still paid \$800 more on average over the year. Across the region, the top 10 percent paid 2 percent or less of their total household income toward higher tariff costs.

FIGURE 4: DISTRIBUTIONAL EFFECTS OF NEW 2025 TARIFFS AND SHARE OF INCOME, BY MIDWEST STATE

State	Bottom 10 Percent	Bottom 25 Percent	Median (50 th Percentile)	Top 25 Percent	Top 10 Percent
Illinois	\$800 (4.9%)	\$1,318 (3.4%)	\$2,168 (2.6%)	\$2,936 (2.0%)	\$3,923 (1.6%)
Indiana	\$791 (5.7%)	\$1,291 (3.9%)	\$2,151 (3.0%)	\$2,716 (2.2%)	\$3,590 (1.9%)
Iowa	\$184 (1.2%)	\$298 (0.9%)	\$495 (0.7%)	\$611 (0.5%)	\$797 (0.4%)
Michigan	\$1,026 (7.4%)	\$1,629 (5.2%)	\$2,736 (3.9%)	\$3,406 (3.0%)	\$4,506 (2.4%)
Minnesota	\$344 (2.2%)	\$569 (1.5%)	\$967 (1.1%)	\$1,259 (0.9%)	\$1,697 (0.7%)
Wisconsin	\$348 (2.4%)	\$574 (1.7%)	\$1,001 (1.3%)	\$1,233 (0.9%)	\$1,623 (0.8%)

Source(s): Authors' analysis using The Budget Lab at Yale University's January 2026 estimates from a 9.8 percent effective tariff rate, Pew Charitable Trust's 2024 import intensities, data on the number of households and their average annual incomes from the 2024 *American Community Survey* by the U.S. Census Bureau, a 90 percent tariff pass-through rate from recent economic research, and adjustments for spending on seven different commodity groups (food, apparel, housing, transportation, healthcare, electronics, and other items) by household income percentile from the 2024 *Consumer Expenditure Survey* by the Bureau of Labor Statistics at the U.S. Department of Labor (TBL, 2026b; Theal & Biernacka-Lievstro, 2025; Census, 2026; Amity et al., 2026; BLS, 2026).

Impact of New 2025 Tariffs on Manufacturing Employment

From April 2025 through December 2025, manufacturing contracted by 82,000 jobs across the country (BLS, 2026). Tariff changes raised input costs for 73 percent of surveyed manufacturers in 2025 (Meyer et al., 2025b). Across the Midwest, manufacturing companies reported that tariffs added between 10 percent and 48 percent in costs, recorded a 5 percent drop in exports, and cited tariffs in plant layoffs (DePass, 2026). Stellantis temporarily laid off 900 hourly workers at six Midwest plants, including three in Indiana, citing tariff-driven production pauses (Hall, Shepardson, & Eckert, 2025). Cleveland-Cliffs cut about 300 jobs at a steel mill in Illinois (Magill, 2025). In Iowa, Whirlpool laid off 250 workers in July 2025 and another 341 in March 2026 (Barton, 2026). Detroit Axle permanently laid off more than 100 employees due to tariffs in August 2025 (MichAuto, 2026).

Job losses are only part of the story. From 2021 through 2024, manufacturing employment expanded by 531,000 jobs—an annualized growth rate of about 1 percent (BLS, 2026). This trend prior to the tariff escalation suggests that the United States could have added manufacturing jobs in 2025. Including a baseline trend with the 82,000 jobs lost yields a gap of 187,000 manufacturing jobs nationally from the beginning to end of last year (Figure 5).

Figure 5 adjusts this gap to Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin based on a “net domestic effect” and a “foreign retaliation effect” from tariffs. Domestically, higher prices for imported parts and materials raise production costs, which can cause firms to cut production and lay off workers. On the other hand, domestic manufacturers can capture market share from foreign competitors subject to tariffs, leading to new hires. The difference between those burdened by higher costs and those protected from foreign competition is the net domestic effect. Research shows that the net domestic effect accounts for about two-thirds of manufacturing job and price changes while the retaliation effect accounts for the other one-third (Flaen & Pierce, 2024).

Transportation equipment manufacturing is the largest subsector in Indiana and Michigan (BLS, 2023). With vehicles, parts, and engines flowing continuously across borders, this subsector is the largest importer and exporter in the United States (Census, 2025). Food manufacturing is the top subsector in Illinois, Iowa, Minnesota, and Wisconsin and is highly export-oriented with global markets for processed foods, corn and corn-based products, and soybeans and soy-based products (BLS, 2023; Census, 2025). Chemical manufacturing is a proportionally large employer in Indiana and Illinois and is also a major exporter. Accordingly, Indiana and Michigan are most impacted by the net domestic effect while Iowa, Minnesota, and Wisconsin have higher risks associated with the foreign retaliation effect (Figure 5).

FIGURE 5: ESTIMATED IMPACT OF NEW 2025 TARIFFS ON MANUFACTURING EMPLOYMENT BY MIDWEST STATE

State	Net Domestic Effect (Supply: Costs Minus Protection)	Foreign Retaliation Effect (Demand)	Total Impact on Manufacturing Jobs
Illinois	-5,044	-2,470	-7,514
Indiana	-6,258	-2,890	-9,148
Iowa	-1,487	-1,224	-2,711
Michigan	-8,780	-3,570	-12,350
Minnesota	-2,290	-1,620	-3,910
Wisconsin	-3,851	-2,203	-6,055
Six-State Total	-27,710	-13,977	-41,688
<i>U.S. Estimates</i>	<i>-125,415</i>	<i>-61,771</i>	<i>-187,186</i>

Source(s): Authors’ analysis of nonfarm manufacturing employment trends from 2021 through 2024 and job losses in 2025 using data from the Bureau of Labor Statistics at the U.S. Department of Labor and weighting values by import- and export-oriented subsectors and net domestic and retaliation effects from recent economic research (BLS, 2026; BLS, 2023; Census, 2025; Flaen & Pierce, 2024).

The results indicate that tariffs have shrunk manufacturing employment in Midwest states (Figure 5). The new 2025 tariff wave was responsible for an estimated 41,700 manufacturing jobs lost in the six-state region, including 12,400 in Michigan, 9,100 in Indiana, 7,500 in Illinois, 6,100 in Wisconsin, 3,900 in Minnesota, and 2,700 in Iowa. After accounting for import intensities, workers in protected industries, export shares, and foreign responses, the six-state manufacturing sector shed 27,700 jobs due to higher supply-chain costs and another 14,000 jobs as the retaliatory actions of other countries reduced demand for Midwest-based exports.

Impact of New 2025 Tariffs on Economic Growth

Tariffs can reduce economic growth beyond household budgets and factory floors. The U.S. economy expanded by between 2.5 percent and 2.9 percent in inflation-adjusted terms from 2022 through 2024, but just 2.1 percent in 2025 (FRED, 2026a). The Budget Lab at Yale University has found that

the new 2025 tariffs reduced national GDP growth by 0.4 percentage points (TBL, 2026b). This represents more than half of the 0.7 percentage-point drop in GDP from 2.8 percent in 2024 to 2.1 percent in 2025.

Consequences are amplified in Midwest states that are more trade-dependent and more susceptible to foreign retaliation targeting agricultural products. Economists at the Federal Reserve Bank of Minneapolis found that the Midwest was disproportionately exposed to Chinese retaliatory tariffs in the 2018-2019 trade war (Waugh & Horwich, 2025). In particular, soybean exports to China collapsed, and the federal government paid more than \$23 billion in farm subsidies over three years to offset losses incurred by U.S. farmers (Waugh & Horwich, 2025; Bose, Douglas, & Holland, 2025).

Figure 6 assesses how the newest tariffs shaped state economies. The model incorporates “trade openness”—or imports and exports as a share of GDP—and retaliation effects based on agricultural exports as shares of state GDPs to estimate impacts (USDA, 2025). Nationally, exports of agricultural goods fell from an inflation-adjusted \$182 billion in 2024 to \$175 billion in 2025, a drop of \$7 billion or nearly 4 percent (FRED, 2026b; BLS, 2026).

These six Midwest states cumulatively account for 20 percent of U.S. agricultural GDP. In 2025, the tariff escalation reduced economic activity by 0.4 percent in Illinois, by 0.5 percent in each of Indiana, Wisconsin, and Minnesota, by 0.6 percent in Michigan, and by 0.8 percent in Iowa. This translated into GDP losses of \$5 billion in Illinois, \$4 billion in Michigan, and \$2 billion to \$3 billion in the four other states—accounting for 15 percent of the estimated \$120 billion cost to the nation’s GDP (Figure 6).

FIGURE 6: ESTIMATED IMPACT OF NEW 2025 TARIFFS ON GROSS DOMESTIC PRODUCT BY MIDWEST STATE

State	Agricultural GDP (\$Billions)	Share of U.S. Agricultural GDP	GDP Effect (Percent Growth)	GDP Effect (\$Millions)
Illinois	\$11,063.3	4.1%	-0.44%	-\$5,052
Indiana	\$7,189.2	2.7%	-0.51%	-\$2,650
Iowa	\$15,027.3	5.6%	-0.79%	-\$2,100
Michigan	\$5,465.4	2.0%	-0.56%	-\$3,934
Minnesota	\$9,194.5	3.4%	-0.51%	-\$2,312
Wisconsin	\$7,205.1	2.7%	-0.47%	-\$2,386
Six-State Total	\$55,144.8	20.4%	-0.51%	-\$18,433
<i>U.S. Estimates</i>	<i>\$269,686.0</i>	<i>100.0%</i>	<i>-0.41%</i>	<i>-\$120,122</i>

Source(s): Authors’ analysis using The Budget Lab at Yale University’s January 2026 estimates from a 9.8 percent effective tariff rate, “Regional Data: GDP and Personal Income” data for the “agriculture, forestry, fishing and hunting” industry in 2024 from the Bureau of Economic Analysis at the U.S. Department of Commerce, “State Agricultural Trade Data - Annual State Agricultural Exports” for 2024 from the U.S. Department of Agriculture, Pew Charitable Trust’s 2024 import and export intensities, and a 90 percent tariff pass-through rate from recent economic research (TBL, 2026b; BEA, 2026b; USDA, 2025; Theal & Biernacka-Lievstro, 2025; Amity et al., 2026).

Iowa suffered the largest percentage hit to GDP growth despite a smaller consumer spending share and its manufacturers relying less on imported parts and materials (Figure 6). This implies that the cost of tariffs mostly manifested as lost income for farmers rather than higher costs for households or job reductions in manufacturing. Conversely, Illinois has a more diversified economy, so the overall GDP impact was less severe even though consumer costs were higher (Roney & Ruetschlin, 2025). In December 2025, the federal government responded to farm losses by announcing another \$12 billion in new taxpayer-funded aid (Bose, Douglas, & Holland, 2025).

Impacts on Midwest States in 2026 and Beyond

Results from Figures 3 through 6 can be used to determine “marginal effects,” or impacts from each additional 1 percentage-point hike in tariffs on household costs, factory jobs, and GDP (Figure 7). In Michigan, every 1 percentage-point increase in the effective tariff rate costs the average household \$500 annually and reduces manufacturing employment by 1,800 jobs. In Indiana, the marginal effect is almost \$400 in added household costs and 1,300 manufacturing jobs lost. In Illinois, the marginal effect is \$300 in added household costs and 1,100 manufacturing jobs lost. For each 1 percentage-point tariff hike, household costs rise by around \$100 and manufacturers shed hundreds of jobs in Iowa, Minnesota, and Wisconsin as well.

FIGURE 7: AVERAGE MARGINAL EFFECT OF 1 PERCENTAGE POINT TARIFF HIKE ON ECONOMIC OUTCOMES BY STATE

State	Average Household Cost	Manufacturing Jobs	Gross Domestic Product
Illinois	\$315	-1,058	-0.06%
Indiana	\$364	-1,288	-0.07%
Iowa	\$78	-382	-0.11%
Michigan	\$506	-1,739	-0.08%
Minnesota	\$154	-853	-0.07%
Wisconsin	\$130	-551	-0.07%
Six-State Total	\$288	-5,638	-0.07%
<i>U.S. Estimates</i>	<i>\$186</i>	<i>-26,364</i>	<i>-0.06%</i>

Source(s): Authors' analysis using results from Figures 3, 5, and 6.

FIGURE 8: IMPACTS ON HOUSEHOLD COSTS AND MANUFACTURING JOBS FROM SELECTED EFFECTIVE TARIFF RATES

State	Effective Tariff: 5 Percent		Effective Tariff: 10 Percent		Effective Tariff: 15 Percent	
	Household Cost	Factory Jobs	Household Cost	Factory Jobs	Household Cost	Factory Jobs
Illinois	\$1,575	-5,290	\$3,149	-10,580	\$4,724	-15,870
Indiana	\$1,821	-6,440	\$3,642	-12,880	\$5,463	-19,320
Iowa	\$388	-1,910	\$777	-3,820	\$1,165	-5,730
Michigan	\$2,530	-8,697	\$5,061	-17,394	\$7,591	-26,092
Minnesota	\$771	-4,265	\$1,542	-8,530	\$2,313	-12,795
Wisconsin	\$652	-2,755	\$1,304	-5,510	\$1,956	-8,265
Six-State Total	\$1,440	-28,188	\$2,879	-56,377	\$4,319	-84,565
<i>U.S. Estimates</i>	<i>\$930</i>	<i>-131,821</i>	<i>\$1,859</i>	<i>-263,642</i>	<i>\$2,789</i>	<i>-395,463</i>

Source(s): Authors' analysis using results from Figure 7.

As tariffs are raised, lowered, or paused in future months and years, these values can be applied to estimate state-level impacts (Figure 8).⁵ If, as a hypothetical example, the average effective tariff falls to 5 percent due to changing legal or political dynamics, then per-household costs would amount to \$1,400 annually and manufacturing jobs would be 28,200 lower across the six-state region—and \$900 annually and 132,000 less manufacturing jobs across the United States—relative to an alternative scenario with no tariffs. If rates were to rise to 15 percent, then Midwest households would pay \$4,300 per year and 84,600 fewer workers would be employed in the manufacturing sectors of Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. The comparable national numbers from a 15 percent effective tariff rate would be \$2,800 per year and 395,500 fewer manufacturing workers (Figure 8).

⁵ Note that estimates in future years should be adjusted for inflation and the relative size of the manufacturing workforce.

Potential Policy Options

Tariffs can be effective at spurring domestic investments and protecting U.S. workers from unfair competition when they target countries with sweatshop labor, child labor, no safety regulations, other abusive employment practices, and little to no clean air and water standards ([Hersh & Bivens, 2025](#)). However, blanket tariffs across all countries—including those with similar incomes, policies, and standards as the United States—reduce both imports and exports, causing manufacturing job losses, higher prices for Americans, and diminished economic growth.

State lawmakers can take steps to mitigate the economic consequences of a shifting tariff regime. First, states could claw back tax incentives, subsidies, and corporate tax cuts from companies that lay off workers and from those that move jobs to facilities outside the country ([Marchel Hoff, 2025](#)). Second, states could enhance unemployment insurance benefits and offer targeted extensions for workers who lose jobs because their employers close or relocate production overseas. As of 2026, Iowa provides just 16 weeks of unemployment benefits while Massachusetts offers a maximum of 30 weeks ([CBPP, 2026](#); [Kite, 2025](#)). Third, states could establish or strengthen workforce transition funds that deliver connections to other employment opportunities, rapid retraining, pathways into pre-apprenticeship programs and registered apprenticeships, income support, and relocation assistance to displaced workers ([IWCS, 2026](#); [Goodman, Otero Martinez, & Andara, 2024](#)). The federal government can increase support workforce transition funds as well.

At the federal level, Congress could reassert its authority over trade policy. In 2024, \$98 billion in customs revenue was generated from an effective tariff rate of about 3 percent ([BEA, 2026a](#); [Azzimonti, Titcomb, & O'Trakoun, 2026](#)). A portion of this revenue was strategically invested to bolster industries critical to U.S. economic security, such as semiconductor chip manufacturing, solar energy generation, battery and storage production, and medical device manufacturing ([U.S. Department of Commerce, 2024a](#)). For example, the CHIPS and Science Act invested \$53 billion over five years to advance semiconductor supply chains, creating domestic manufacturing and construction jobs ([U.S. Department of Commerce, 2024b](#)). In 2025, U.S. officials began including a goal of using tariff revenue—which disproportionately comes from low-income and middle-class households—to reduce the federal deficit and offset income tax cuts that primarily benefitted wealthy households ([Dore, 2025](#); [Wamhoff et al., 2025](#); [TPC, 2025](#); [Clausing & Obstfeld, 2024](#)).

Congress could repeal blanket tariffs and prioritize working families. Thousands of companies have sued the U.S. government for refunds on the \$166 billion in unconstitutional tariffs that were collected last year ([Cousins, 2026](#)). Only “importers of record” are currently entitled to refunds, leaving households without a mechanism to recoup costs—although some corporations are facing class-action lawsuits arguing that refunds should be paid to members ([Todd & MaCallum, 2026](#); [Cousins, 2026](#)). With tariffs almost entirely passed through to consumers, Congress could instead direct the Department of the Treasury to issue refund checks ([Amiti, Redding, & Weinstein, 2019](#); [Gopinath & Neiman, 2026](#)). The Internal Revenue Service (IRS) reported that 161 million individual income tax returns were filed in 2024, and about one-third are filed jointly ([IRS, 2026](#); [IRS, 2025](#)). As a result, tariff refund checks could deliver at least \$750 to each single taxpayer and \$1,500 for each married couple from just the struck-down IEEPA tariffs.⁶ Taxpayers would turn around and spend much of their refund checks back in the economy, supporting U.S. businesses.

⁶ In 2024, there were 161,052,672 total individual income tax returns filed ([IRS, 2026](#)). In 2022, 34.2 percent of the 159,651,330 returns were filed jointly ([IRS, 2025](#)). Assuming 162.0 million returns and 35 percent filed jointly in 2025, there

Remaining tariff revenue, if it is not struck down by court decisions, would be maximized by addressing affordability concerns for American workers. As examples, universal preschool and early childhood education for three- and four-year-olds would cost \$35 billion per year while improving labor force participation rates while permanently restoring Affordable Care Act (ACA) enhanced premium tax credits would cost another \$35 billion per year (Viana Costa, Erbabian, & Wu, 2022; CBO, 2025). These example investments would have a greater effect on economic growth than tax cuts for high-income individuals and corporations (Bivens, 2025; Zandi, 2023; Grunewald, 2016).

The best way to spur economic growth, however, is by increasing worker incomes. Several paths would generate stronger returns than tariffs. Adopting laws that make it easier for workers to freely organize into unions drives up the consumption power of the working class. Investing in public and higher education and developing technology that raises worker productivity creates markets for highly skilled workers. Instituting graduated income taxes and treating capital gains the same as other forms of income incentivizes employers to reinvest in workers and job creation. Expanding research and development investments leads to breakthrough discoveries that promote economic development. Breaking up monopolies and oligopolies within industries improves entrepreneurial competitiveness and lowers costs for consumers. Investments in infrastructure and emerging technologies ensure a globally competitive labor market. Research consistently shows that these are more dynamic policies that generate higher economic returns for working families than changing import tax rates.

Conclusion

The data reveals that Midwest states, with their robust consumer spending and manufacturing-intensive economies, bear significant costs from escalating tariffs. New tariffs imposed by the Trump administration in 2025 increased household costs by thousands of dollars per year, disproportionately burdened working families, reduced manufacturing employment by thousands of jobs, and shrank the economy by billions of dollars in Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin. Without Congress reasserting its authority over trade policy and delivering refund checks to consumers, states can strengthen workforce transition funds, enhance unemployment benefits, and claw back taxpayer subsidies from companies that lay off workers to mitigate the negative consequences of tariffs.

is an estimated 56.7 million joint returns—or 113.4 million married individuals—plus 105.3 million single or head of household individuals. \$166 billion divided by 218.7 million people equals \$759 per individual, which would be \$1,518 per married couple.

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Appendix

This appendix provides equations for calculating state-level tariff impacts and tables that present formal regressions which verify that the models produce internally consistent cross-sectional patterns. These regressions are for all 50 states plus the District of Columbia and serve as diagnostic checks confirming that the structural relationships in the models align with economic theory. As a result, this report can be replicated for any other state or group of states.

Household Costs Equation: *Change in Per Household Expenditure in a State = The Budget Lab National Average x 90% Pass Through x State Import Intensity / National Import Intensity x (1.4 x State Durable Goods Share of Manufacturing / National Durable Goods Share) x [(State Personal Consumption Expenditures / State GDP) / (National Personal Consumption Expenditures / National GDP)]*

TABLE A: OLS REGRESSION OF HOUSEHOLD TARIFF COST ON STATE CHARACTERISTICS

Impact on Annual Household Tariff Cost (\$)	Coefficient	Std. Error	t-statistic
PCE Share of GDP	1,441.75***	142.16	10.142
Import Share of GDP	12,914.04***	236.04	54.710
Durable Goods Share of GDP	431.13**	182.38	2.364
Constant	-1,292.01***	138.17	-9.351

$R^2=0.999$; $n=51$ (50 states + DC). *** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.10$. Based on December 2025 scenario with an effective tariff rate of 9.8 percent. Import share of GDP ("import intensity") is the dominant driver of cross-state variation in household tariff costs.

Distributional Effects Adjustments: *Adapts the above to include consumption at each percentile x consumption-to-income ratio from Consumer Expenditure Survey (CEX) x the sum of weighted spending on seven different groups (food, apparel, housing goods, transport, healthcare, electronics, and other) x 1.594*

TABLE B: POOLED OLS REGRESSION: TARIFF BURDEN ON INCOME AND STATE CHARACTERISTICS

Tariff Burden as Share of Income (%) by Percentile: P10, P25, P50, P75, P90	Coefficient	Std. Error	t-statistic
ln(Average Household Income)	-0.776***	0.034	-22.585
Import Intensity Ratio	2.097***	0.060	35.273
Constant	8.374***	0.379	22.101

$R^2=0.877$; $n=255$ (51 jurisdictions x 5 income percentiles). *** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.10$. Based on December 2025 scenario with an effective tariff rate of 9.8 percent. The coefficient on $\ln(\text{Income})$ confirms regressivity, with each log-point increase in income reducing the tariff burden by 0.78 percentage points. Example interpretation: A household at the 10th income percentile in an average-import-intensity state faces a tariff burden of $8.374 - 0.776 \times \ln(14,000) + 2.097 \times 1.0 \approx 3.1\%$ of income. Moving from the lowest import-intensity state (Iowa, ratio = 0.89) to the highest (Indiana, ratio = 1.80) adds approximately $2.097 \times (1.80 - 0.89) = 1.9$ percentage points to the burden at every income level.

Manufacturing Employment Equation: *Change in Manufacturing Employment in a State = (National Observed Job Change - Baseline Job Growth) x (State Share of U.S. Manufacturing Employment) x [(67% Net Domestic Effect x State Manufacturing Employment x State Share of Imports) + (33% Retaliation Effect x State Manufacturing Employment x State Share of Exports)],* where the baseline job growth was determined by multiplying manufacturing employment to start last year in January 2025 by the 0.83 percent compound annual growth rate from 2021 to 2024.

TABLE C: OLS REGRESSION OF MANUFACTURING JOB GROWTH ON STATE CHARACTERISTICS

Impact on Manufacturing Jobs (#)	Coefficient	Std. Error	t-statistic
Manufacturing Import Share	-64,775.89***	16,616.09	3.898
Manufacturing Export Share	19,301.70	20,510.93	-0.941
Constant	4,855.68**	2,192.25	-2.215

$R^2=0.403$; $n=51$ (50 states + DC). *** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.10$. Based on December 2025 scenario with an effective tariff rate of 9.8 percent. The R^2 reflects cross-state variation: states with higher manufacturing import-input shares lose significantly more jobs, while the export share coefficient is not statistically significant.

GDP Growth Equation: *Change in Natural Log of GDP = $-0.4 \times [(State Imports + State Exports) / State GDP]^{1.3} / [(National Imports + National Exports) / National GDP]^{1.3} \times 90\% Pass Through + Agricultural Export Share \times -8]$,* where -0.4 is the national percentage-point drop in GDP from new tariffs estimated by The Budget Lab

TABLE D: OLS REGRESSION OF GDP GROWTH IMPACT ON STATE CHARACTERISTICS

Impact on GDP Growth (%)	Coefficient	Std. Error	t-statistic
Trade Openness: (Imports+Exports)/GDP	-1.790***	0.022	-80.660
Agricultural Export Share of GDP	-7.860***	0.119	-66.097
Constant	0.051***	0.004	14.399

$R^2=0.996$; $n=51$ (50 states + DC). *** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.10$. Based on December 2025 scenario with an effective tariff rate of 9.8 percent. Both trade openness and agricultural export exposure are highly significant across all 51 states. The agricultural coefficient reflects the average effect of retaliatory tariffs on U.S. farmers.