Potential Impacts of New Federal Tariffs on the San Francisco Economy

Office of the Controller

Office of Economic Analysis

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Introduction

- In 2025 the Trump administration has made a number of announcements of new tariffs on imports into the United States. Tariffs are duties—essentially taxes—that national governments impose on imported products from other countries.
- In many cases, the administration's new tariffs were subsequently reduced or suspended, pending negotiation with trading partners. Others were subject to legal challenges, which are still ongoing. Nevertheless, the tariffs left in place throughout 2025 have been significantly higher than in previous years.
- Additionally, some trading partners have imposed retaliatory tariffs on U.S. exporters.
- Both the U.S. tariffs and retaliatory tariffs are likely to have meaningful impact on the local and national economy over the long run. This report attempts to analyze the economic impact of the tariffs on the San Francisco economy. For comparison, the impact on the rest of California, and the rest of the United States, is also estimated.
- The analysis uses the REMI model, an econometric model used by the Controller's Office to estimate the economic impact of the tariffs.

How Tariffs Affect the Economy

- Raw materials and manufactured goods that must pass through customs can be subject to tariffs. Tariffs are applied as a percentage of the gross customs value of the shipment being imported and must be paid by the importer to the government.
- These payments ultimately lead to higher prices for the customers, lower revenue to the importer, or a combination of both.
- The effect of higher import prices for commodities and manufactured goods ripples throughout the economy and acts to slow economic growth.
- On the other hand, when U.S. customers choose U.S.-produced goods instead of imports, that creates demand for U.S. producers and tends to stimulate growth in those sectors of the economy.
- Foreign trading partners whose goods are subjected to higher U.S. tariffs may retaliate with tariffs of their own on U.S. goods, and some have announced retaliatory tariffs. These act to restrict export opportunities for U.S. producers, and dampen economic growth in the U.S.

Tariffs and San Francisco's Recovery

- The new tariffs have been imposed at a time of continuing economic recovery for San Francisco.
- Since 2020, the city's economy has been slowed by several factors, including:
  - A slow re-opening and renewal of hospitality and retail businesses that were closed during the COVID-19 shutdown.
  - An increase in hybrid office work, which has reduced office attendance, transit use, and business travel.
  - A reduction in tech employment, which began in 2022 and is ongoing as of the summer of 2025.
- The tariffs represent, at a minimum, a major burden for importers and their domestic customers, and they could have important effects on the city's recovery and its long-term growth prospects.

San Francisco's Economic Structure in Context

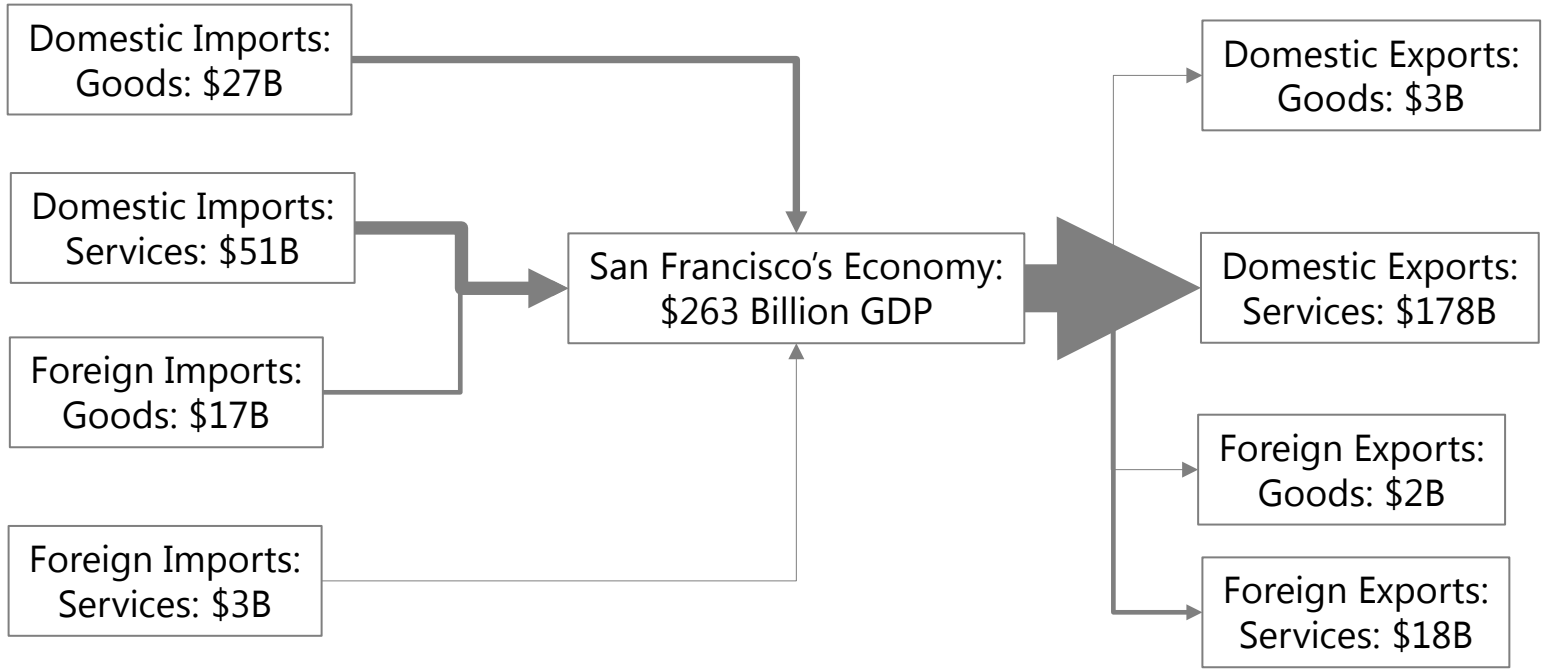
Industry	% of San Francisco GDP	% of U.S. GDP
Primary Industries (Ag, Mining)	0%	2%
Utilities	0%	2%
Construction	2%	4%
Manufacturing	2%	10%
Trade and Transportation	10%	16%
Information	20%	5%
Finance and Real Estate	22%	21%
Professional and Business Services	26%	13%
Education, Health, Social Assistance	4%	8%
Leisure & Hospitality	4%	4%
Other Services	1%	2%
Government	8%	11%
Total	100%	100%

Source: BEA

San Francisco's economic structure is critical context for understanding the impact of tariffs. The city's economy is highly unusual in how much of its GDP is generated by technology and advanced services: in 2023, 68% of the city's GDP was generated by the Information, Financial, and Professional Services sectors. These sectors account for only 39% of the U.S. economy.

Industries that are directly subject or highly exposed to tariffs—like mining, agriculture, manufacturing, construction, and trade, make up only 14% of San Francisco's GDP, compared to 34% of the U.S. economy.

San Francisco's Trading Relationships (2024)



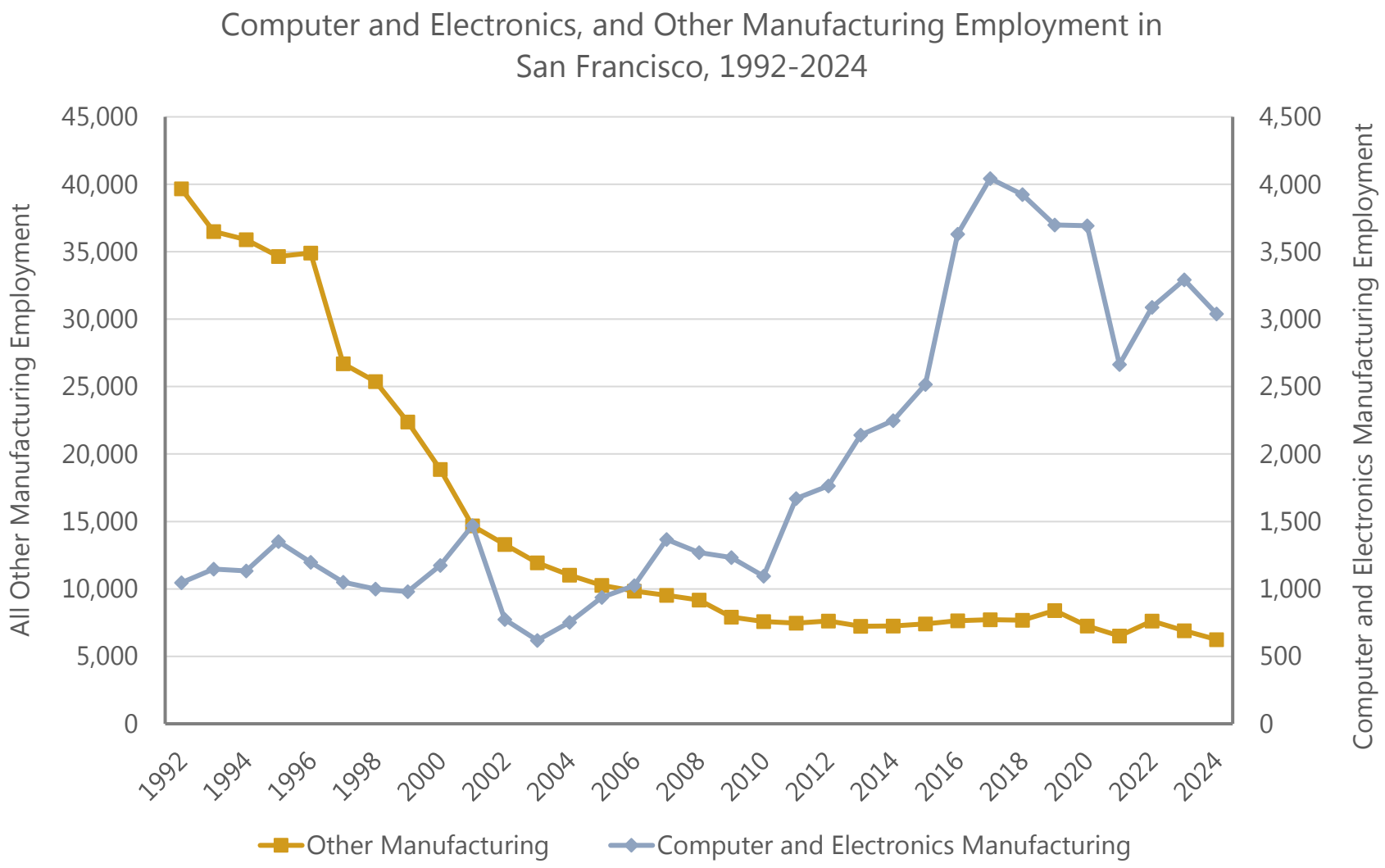
San Francisco's trading relationships with the outside world—including the rest of the U.S.—reflect its economic role as a producer of services and technology.

On a net basis, the city runs a massive trade surplus with the outside world—mainly the rest of the U.S. - of about $103 billion per year, or nearly 40% of its GDP.

In the same way that the city's economy is not very reliant on employment from industries directly subject to tariffs, San Francisco's trade in tariffed goods is very small part of its economy. Our exposure to tariffs is largely indirect.

Source: REMI PI+, Version 3.2.1

San Francisco's Manufacturing



Source: Census LED

As noted earlier, manufacturing makes up only 2% of San Francisco's GDP, compared to 10% of the U.S. as a whole. Manufacturing is highly relevant to tariffs because this sector both absorbs higher import costs (as customers of foreign producers), and potentially benefits from them (as competitors with foreign producers).

Since the early 1990s, the city's manufacturing employment has declined by more than 75%. However, one bright spot has been computer and electronics manufacturing, which has generally grown since 2010 and now makes up more than one-third of all manufacturing jobs in the city.

Methodology: About the REMI Model

- The Controller's Offices uses the REMI model to estimate the economic impact of policy changes in the San Francisco. REMI is a system of hundreds of equations that measure and forecast how different aspects of the economy affect each other, like production, labor and capital demand, population and labor supply, prices, and trade relationships.
- Some variables in these equations, called policy variables, can be changed to represent proposed policy changes like new tariffs. An economic forecast is run both with and without these changes, and the difference in the output of the two forecasts is the economic impact of the policy changes.
- In REMI, two policy variables are industries' Foreign Import Costs and Foreign Export costs. These can be used to model both U.S.-imposed tariffs on imports, and retaliatory tariffs imposed on U.S. exporters.
- The version of REMI used for this analysis can analyze three study areas in this report: San Francisco, the rest of California, and the rest of the U.S. Results are available for each of these three areas.

What is Changing?

- The International Emergency Economic Powers Act (IEEPA) gives the President the power to regulate international trade during a declared national emergency. President Trump has invoked the IEEPA to impose a number of tariffs in 2025, including:
  - "Fentanyl tariffs" on Canada, Mexico, and China.
  - "Reciprocal Tariffs" of varying levels on other trading partners.
- In May, the U.S. Court of International Trade determined that the President exceeded his authority under IEEPA and struck down these new tariffs. In August, an appeals court affirmed this decision. They remain in place, pending legal resolution, and are assumed to apply for the purposes of this analysis.
- Other new tariffs were imposed under different legal authority and have not been challenged. These include so-called "Section 232" tariffs on steel and aluminum products, automobiles and auto parts, and copper (excluding raw materials).
- The full list of new tariffs is detailed in the Appendix. Some of the tariffs are additive, and these complex rules are also considered in this analysis.

Effective Tariff Increases by Country

- The U.S. International Trade Commission (USITC) publishes data on imports and exports to and from the U.S., from every country. This data includes the gross customs value, i.e. the total declared value of imports, for each product in the harmonized tariff classification system, from each country that imports that product to the U.S.
- By multiplying 2024 imports, for each country and product, by the applicable tariffs, it is possible to get an estimate of the increased average tariff burden for each trading partner, across all products.
- This information is summarized on the next page for leading trading partners, ranked by the value of their imports to the U.S. in 2024.

Average Tariff Rate Increase, Major Trading Partners (2025)

Country	Value of Imports, 2024 ($B)	Average Tariff Increase
Mexico	$506	8%
China	$439	33%
Canada	$413	6%
Germany	$160	21%
Japan	$148	23%
Vietnam	$136	21%
South Korea	$132	24%
Taiwan	$116	22%
Ireland	$103	15%
India	$87	27%
Italy	$76	18%
United Kingdom	$68	14%
Switzerland	$63	39%
Thailand	$63	22%

Effective Tariff Increases by Industry

- The same USITC data can be used to slice the tariff impacts by industry. The table on the next page indicates the largest U.S. importing industries—computer and electronics manufacturing, motor vehicles and parts manufacturing, chemical manufacturing, and machinery manufacturing—would all be facing more than 15% increases in import costs because of the proposed tariffs.

Average Tariff Increases by Industry (2025)

Industry	Value of Imports, 2024 ($B)	Effective Tariff Increase
Computer and electronic product manufacturing	$540	20%
Motor vehicles, bodies and trailers, and parts manufacturing	$419	23%
Chemical manufacturing	$392	17%
Machinery manufacturing	$251	19%
Electrical equipment, appliance, and component manufacturing	$204	20%
Oil and gas extraction	$176	12%
Miscellaneous manufacturing	$155	21%
Primary metal manufacturing	$135	30%
Apparel, leather and allied product manufacturing	$124	20%
Food manufacturing	$118	17%
Fabricated metal product manufacturing	$99	34%
Other transportation equipment manufacturing	$78	19%
Plastics and rubber products manufacturing	$77	20%

Retaliatory Tariffs Considered in This Analysis

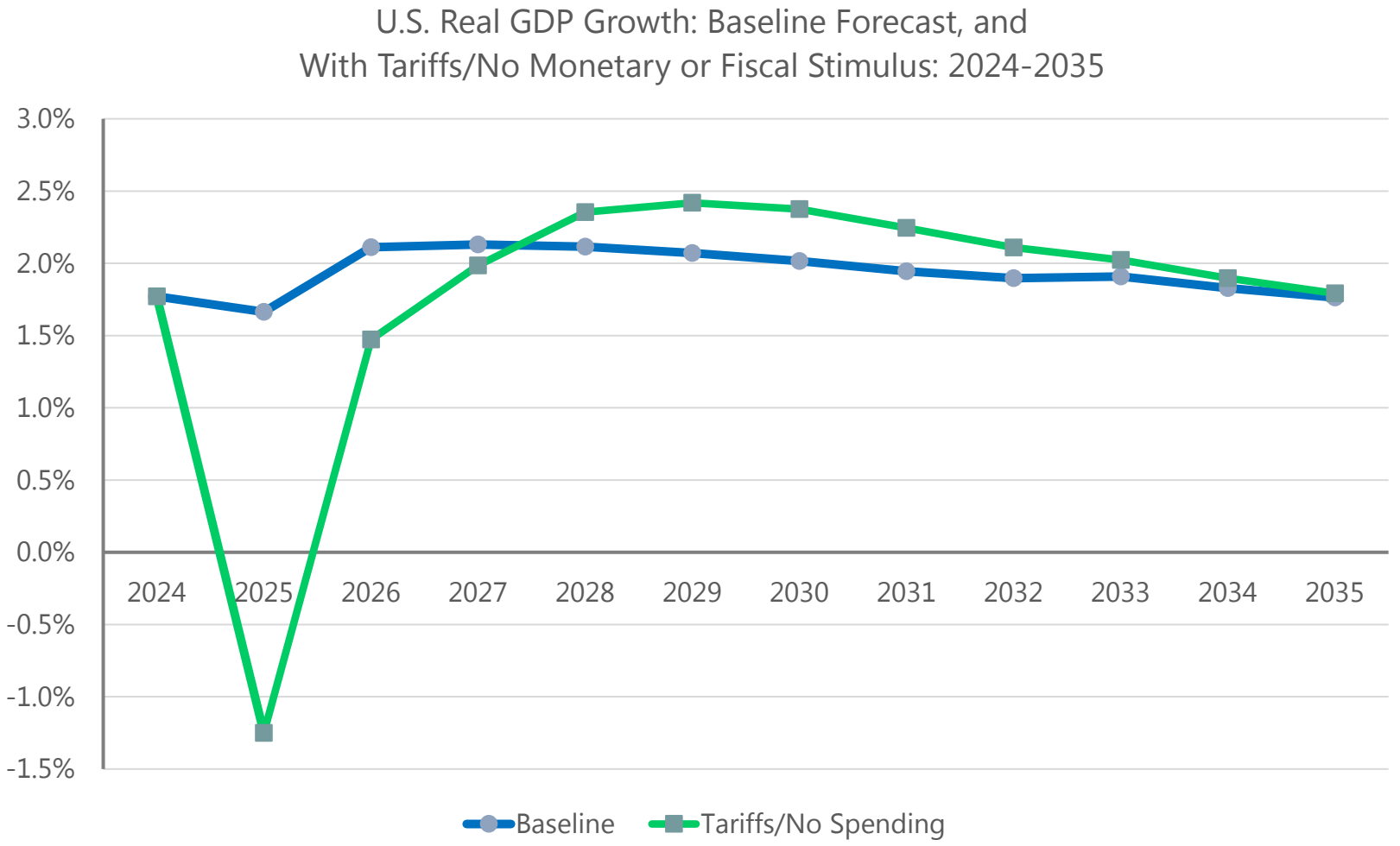
- Some trading partners have announced or planned retaliatory tariffs on U.S. exports, which would have the effect of increasing the costs of affected U.S. goods in those markets.
- The economic effect of this cost can also be modelled using the REMI model.
- Retaliatory tariffs that are included in this analysis are shown in the table below:

Country	**Product**	**Tariff**
China	Certain Agricultural Products	15%
China	All Other Products	10%
Canada	Various	25%

Assumptions about Fiscal and Monetary Policy

- The economic impact of the proposed tariffs will depend on policy decisions made by the federal government and the Federal Reserve, especially in the short term.
- The Federal Reserve could potentially raise or lower interest rates in response to an increase in inflation or decline in employment. Modeling the Fed's response is more complicated in a situation where inflation is rising *and* employment drops. This analysis assumes no Fed action in direct response to the tariffs.
- The federal government stands to receive a significant amount of revenue from tariffs. Estimates from other sources range from $200-$500 billion annually.
- The economic impact of that revenue—which is clearly part of the tariff policy—is uncertain. It could lead to new federal spending which would stimulate the economy. But while the administration's fiscal policy is aggressive, the federal deficit is mainly rising because of the extension of existing tax cuts, and not because of new spending. Thus, this analysis does not consider any fiscal stimulus effect from the tariff revenue.

Impacts on GDP Growth, Without Fed Action or Fiscal Stimulus



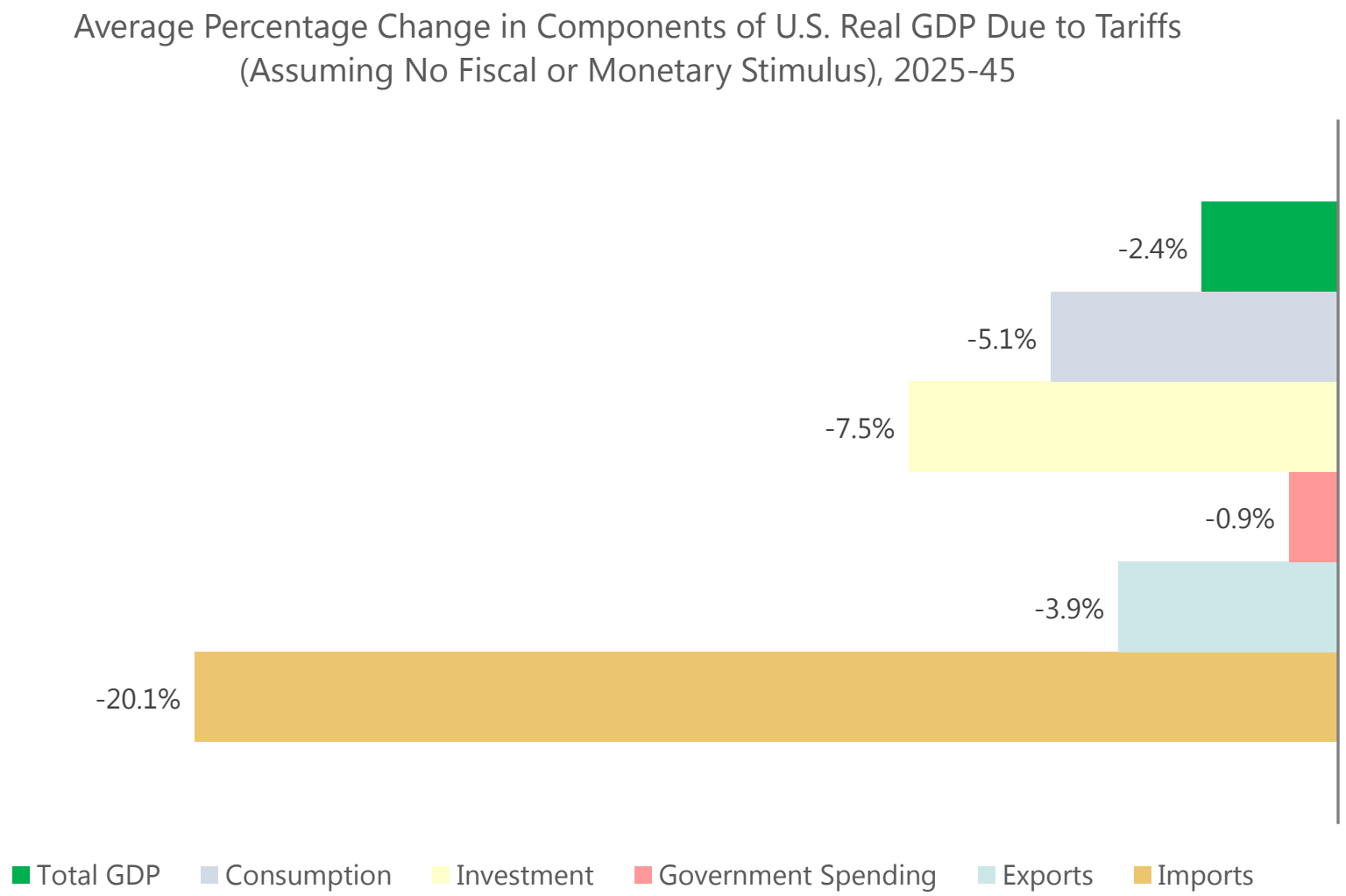
Source: REMI PI+, Version 3.2.1

The new tariffs are likely to have little impact on GDP growth over the longer-term, but could have an important near-term impact.

If the tariff revenue does not lead to new federal spending, and the Fed does not take action to stimulate the economy, the tariffs are expected to lead to negative GDP growth in the first year.

Because of the timing of the tariffs' implementation, the impacts attributed here to 2025 are more likely to be felt in 2026.

Forecast GDP Drop Led by Declines in Consumption



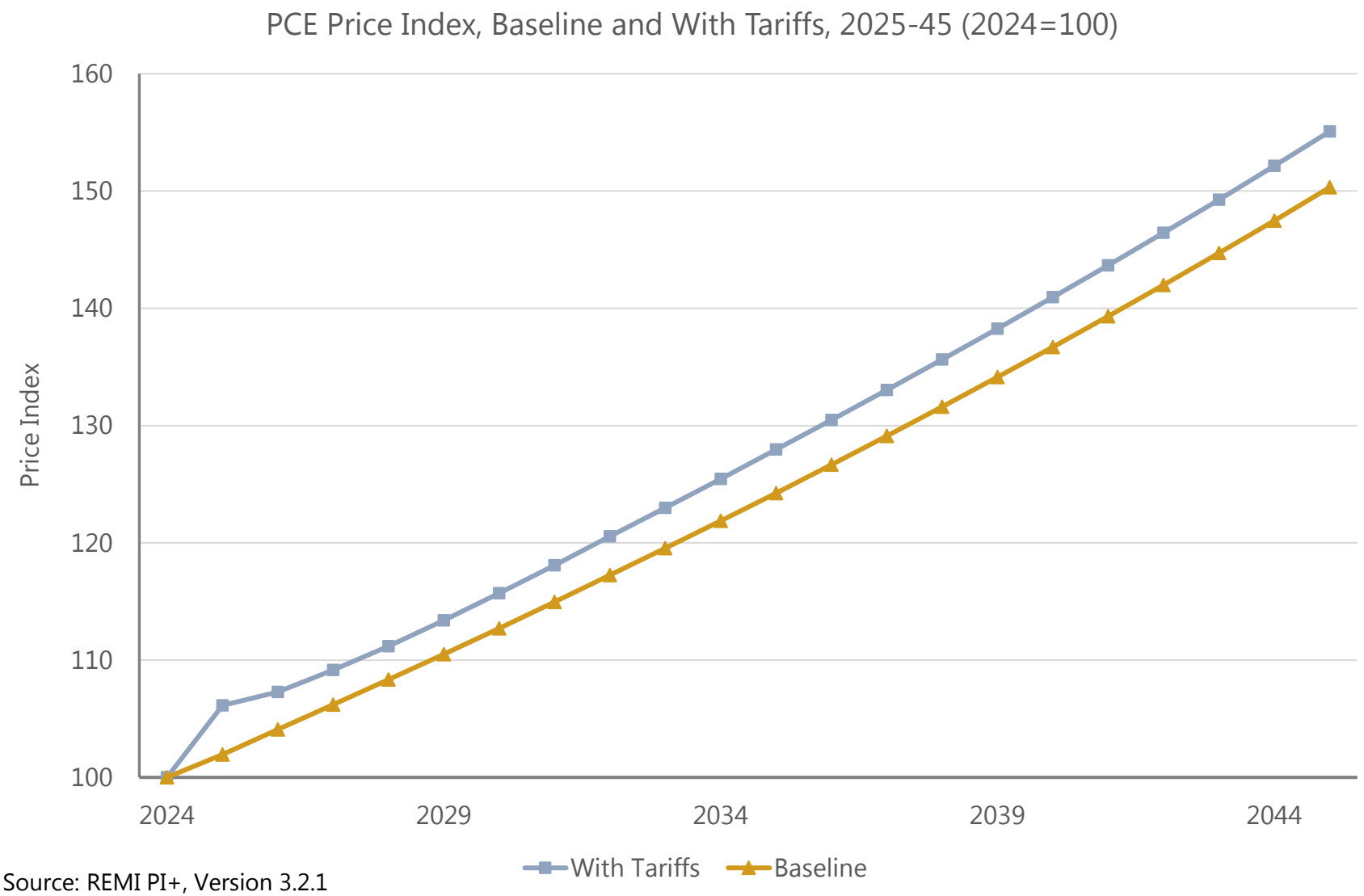
Gross Domestic Product (GDP) is made up of several components: consumption spending, investment spending, government spending, and net exports (exports minus imports).

In the absence of stimulus spending, overall GDP is forecast to be 2.4% lower than baseline over the next twenty years. The reduction is primarily due to a reduction in consumption spending, the largest component of GDP. Investment spending is also expected to drop significantly, mainly due to a short-term drop in construction.

The 20% reduction in imports will reduce the nation's trade deficit, and net exports are the only component forecast to grow as a result of the tariffs.

Source: REMI PI+, Version 3.2.1

Tariffs Create Short-Term Inflation, Permanently Higher Prices



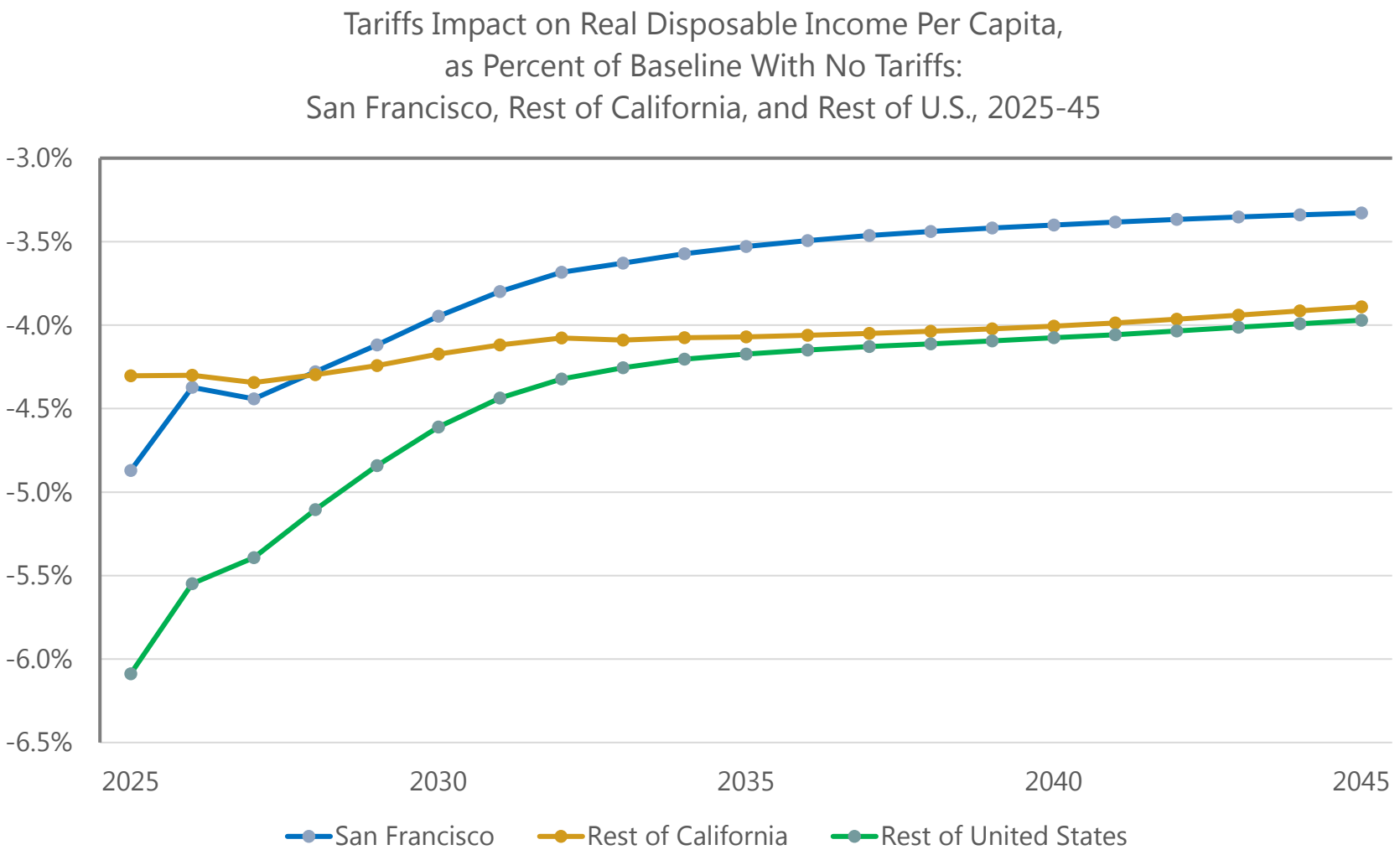
Source: REMI PI+, Version 3.2.1

The tariffs are forecast to create a significant inflationary shock in the year after full implementation, with Personal Consumption Expenditure (PCE) inflation forecast to be about 4% higher than baseline in the year following implementation.

After that initial shock, inflation will return to baseline levels, but prices will remain permanently higher as a result of the tariffs. This is due to the fact that some of the burden of the new tariffs will be passed on to U.S. businesses and consumers in the form of higher prices.

In this way, the tariffs function somewhat like a national sales tax, in which the federal government raises revenue and the private sector faces higher prices.

Negative Impact on Disposable Income



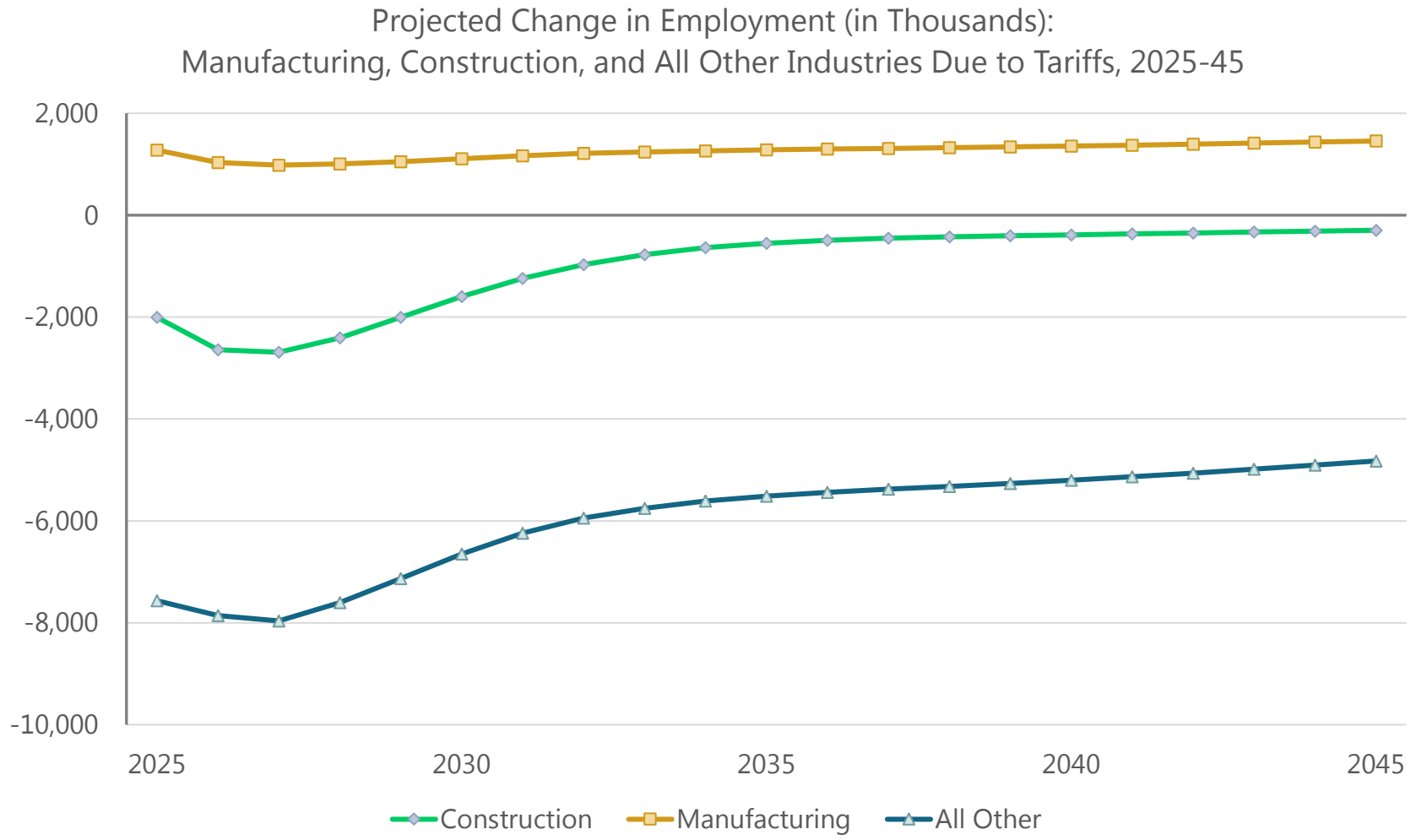
Largely because of this permanent price impact, the tariffs will have substantially negative effect on the inflation-adjusted disposable incomes, in San Francisco, the rest of California, and the rest of the United States.

Average San Francisco real disposable incomes are projected to be reduced by an average of 3.7% over the 2025-45 period, equivalent to about $5,600 per person in today's dollars.

However, in percentage terms, the long-term impacts on real incomes will be worse in the rest of California, and the rest of the United States.

Source: REMI PI+, Version 3.2.1

Long-Term Improvement in Manufacturing Employment; Decline in All Other Employment



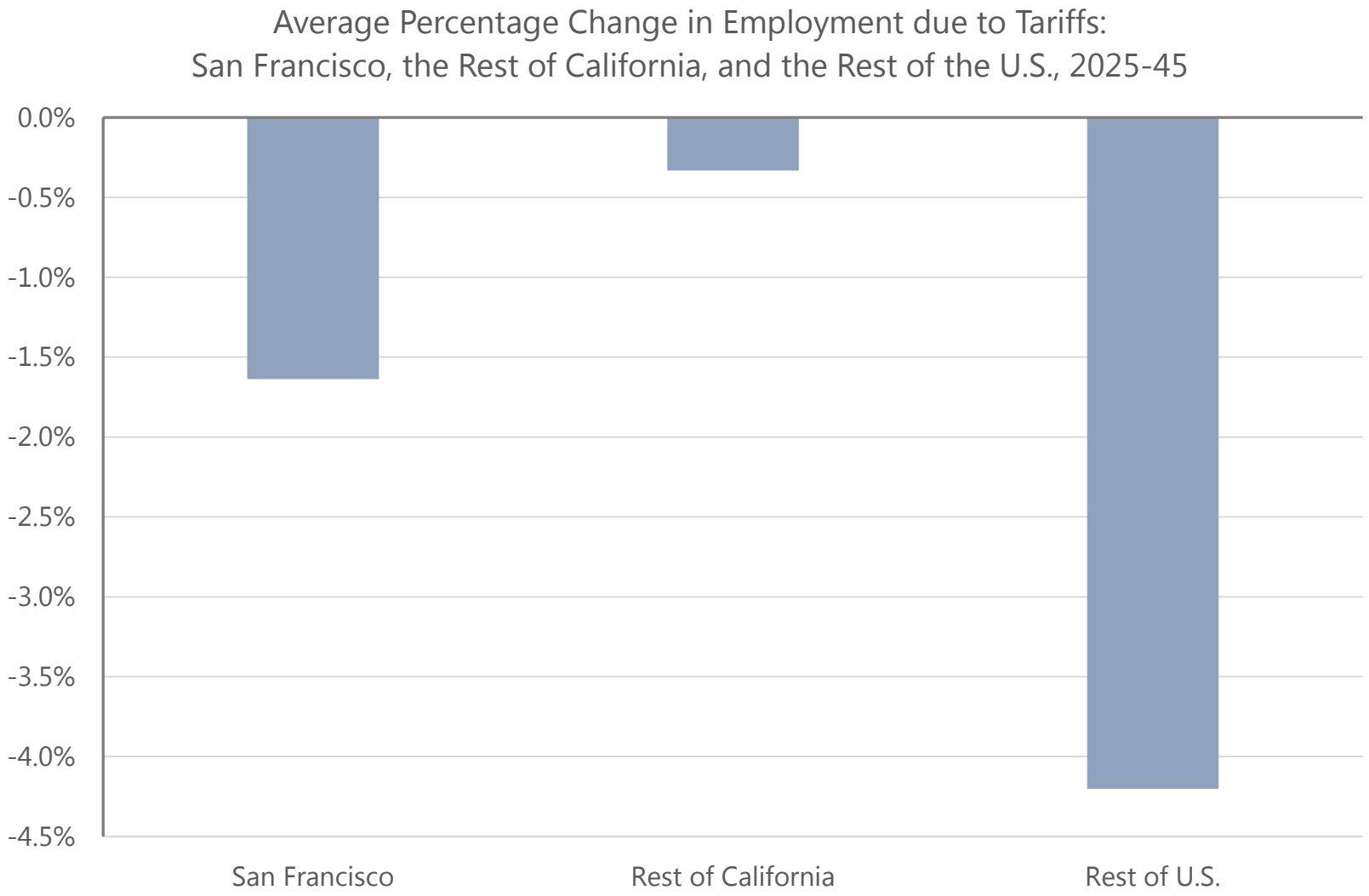
Source: REMI PI+, Version 3.2.1

The decline in consumption and investment spending, combined with the decline in imports, will impact the pattern of job creation across the U.S. economy.

Domestic manufacturing is expected to benefit because of higher import prices, while the employment in the rest of the economy shrinks.

Construction employment is projected to suffer the greatest percentage job losses in the near term, due to the downtown in investment spending. Recovery in construction and other industries will eventually reduce, but not eliminate, employment losses in the long run.

Regional Differences in Employment Impact



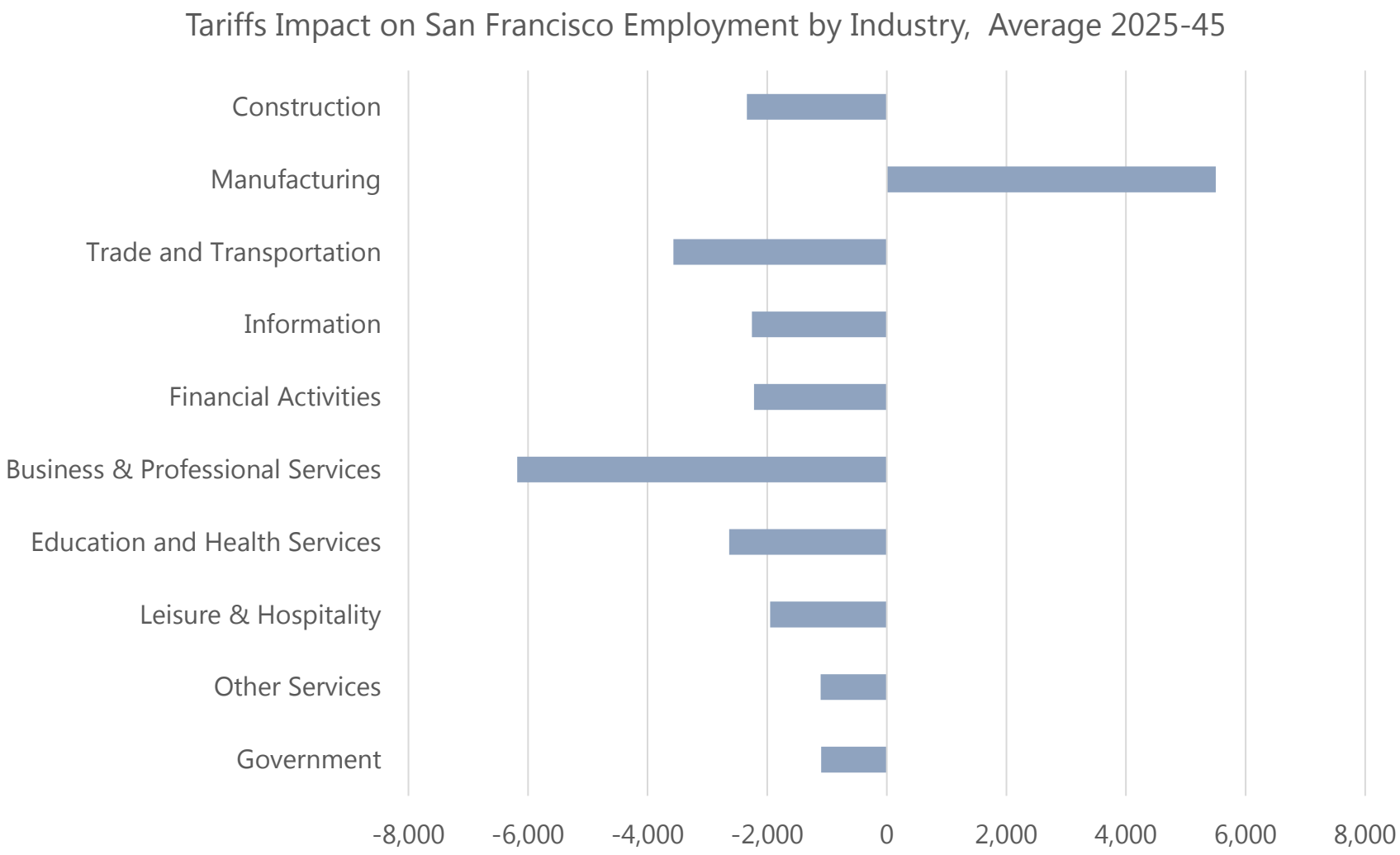
There are expected to be significant differences in the employment outcomes across areas and industries.

Both San Francisco and—in particular—the rest of California will do relatively well in employment terms, compared to the rest of the United States.

The key word is "relatively." California stands to benefit from high tariffs on electronics, as the state with the largest base of high-tech manufacturing in the country by far. However, this will not be enough to prevent overall long-term job losses, even in California, because of the other economic damages caused by the tariffs.

Source: REMI PI+, Version 3.2.1

Impacts on Employment in San Francisco



Manufacturing in San Francisco—though currently a small employer—is expected to grow to add more than 5,000 jobs, with 44% of that growth occurring in the computer hardware and electronics industries.

Other than that, the remainder of the city's economy is expected to shed jobs, mainly due to reduced local demand associated with reduced consumption and investment. Business and Professional Services, Trade and Transportation, and Construction will be hardest-hit.

Source: REMI PI+, Version 3.2.1

Long-Term Average Employment Differences (versus Baseline) by Industry and Region

	San Francisco	Rest of California	Rest of United States
Total	**-1.6%**	**-0.3%**	**-4.2%**
Construction	-7.6%	-3.9%	-9.0%
Manufacturing	38.9%	20.5%	8.1%
Trade and Transportation	-3.6%	-3.1%	-5.3%
Information	-2.9%	-3.5%	-4.4%
Financial Activities	-1.4%	-1.2%	-3.0%
Business & Professional Services	-2.0%	-1.3%	-3.0%
Education and Health Services	-1.8%	-1.2%	-2.9%
Leisure & Hospitality	-1.9%	-0.9%	-2.8%
Other Services	-2.4%	-2.1%	-3.9%
Government	-0.9%	1.1%	-1.4%

Source: REMI PI+, Version 3.2.1

Looking at the employment effects by industry confirms that California would do less badly than the rest of the United States in job terms. Both San Francisco and the rest of California are expected to see greater job gains, or lesser job losses, in every major industry sector, compared to the rest of the United States.

Although San Francisco's manufacturing sector is smaller than California's, it is even more focused on electronics and stands to see even greater growth in percentage terms than the rest of California. California stand to benefit from tariffs on Asian electronics imports, which the rest of the U.S. will in effect pay for.

Conclusions – National Impacts

- The tariffs are projected to have a notably negative impact on consumer purchasing power, as measured by inflation-adjusted disposable income, in San Francisco, as well as the rest of California and the U.S. This is primarily due to the permanently-higher prices that the tariffs will create in the U.S. economy.
- However, several caveats are in order:
    1. The most impactful tariffs (the IEEPA Fentanyl and Reciprocal tariffs) have been ruled unlawful and may be cancelled, which would neutralize most of the negative impact described in this report.
    2. The Federal Reserve possesses powerful policy tools to stabilize the economy in the event of a downturn caused by new tariffs. Use of those tools can have other adverse economic impacts, which are beyond the scope of this report. Nevertheless, this analysis should not be read as predictive of a recession, notwithstanding the major negative impacts of tariffs in the short term.

Conclusions – Sectoral and Regional Impacts

- Within the economy, the most significant impact of the tariffs will be to support manufacturing employment by making foreign imported goods more expensive.
- However, employment in most other sectors of the economy, particularly construction and trade, are expected to contract.
- On a net basis, San Francisco and the rest of California are expected to lose jobs over the long term, but not at the level of the rest of the U.S.
- The primary reason why California is expected to do well is the size of the tariffs on Asian countries, especially but not exclusively China, who provide electronics and other high-tech inputs to the U.S. California is best-placed to capitalize on higher prices for those imports because of its strong base in electronics manufacturing. Because of the tariffs, consumers in the rest of the U.S. will pay for more electronics, and in large measure they will be produced in California.

Appendix: New Tariffs Considered in This Analysis

Basis and Type	Country	Product	Tariff
IEEPA Border Security/Fentanyl	Mexico	All Non-USMCA	25% in 2025, falling to 12% in 2026 and thereafter
IEEPA Border Security/Fentanyl	Canada	Energy and Potash	10% in 2025, falling to 0% in 2026 and thereafter
IEEPA Border Security/Fentanyl	Canada	All Other Non-USMCA	25% in 2025, falling to 12% in 2026 and thereafter
Section 232	All Except United Kingdom	Steel and Aluminum Products	50%
Section 232	All	Autos and Auto Parts	25%
IEEPA Reciprocal	All Others	All Others	See Next Page for Details

Other Country-Specific Reciprocal Tariffs

Country	Tariff
China	30%
European Union countries	15%
Brazil	50%
India	50%
Japan	15%
South Korea	15%
Taiwan	20%
Switzerland	39%
South Africa	30%
Vietnam/Thailand/Philippines	20%
Indonesia/Malaysia/Cambodia/ Pakistan	19%
Laos/Myanmar	40%
Syria	41%

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