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Fitch: US - China Tariffs Could Hurt Some US States In Midterm.

Fitch Ratings-New York-25 April 2018: The escalating trade dispute between the US and China could lower some state and local tax revenues if China's proposed tariffs on $50 billion of US goods are implemented, Fitch Ratings says. Several states with substantial agriculture and aircraft exports would likely see localized declines in economic activity and tax revenues.

The relative likelihood of the tariffs actually being enacted is uncertain. Early this month China published a list of 120 US products, amounting to $3 billion in exports to China, which will be tariffed. China followed its initial announcement with a second published list of 230 US products ($50 billion worth of exports) that it also threatened with tariffs. President Trump responded by proposing a further $100 billion in tariffs on imported Chinese goods on top of $50 billion of Chinese imports the administration already targeted for near-term tariffs. China reportedly intends to respond to the president's proposals in the coming weeks. Whether China's response will take the form of additional retaliatory tariffs, protectionist measures, or some other set of actions, remain to be seen.

Iowa has the highest exposure to losses from agricultural exports to China. Iowa's 2016 soybean global exports were $3.1 billion, according to the United States Department of Agriculture. Iowa was also the largest exporter of pork and pork products at nearly $2.0 billion and corn at $1.7 billion in export value in 2016. This totaled 3% of Iowa's 2016 gross state product (GSP), according to the Federal Reserve Bank of St. Louis.

Other US states are also major exporters of soybeans. Illinois exported the greatest quantity of soybeans in 2016 at $3.2 billion, while Minnesota exported $2.1 billion worth of soybeans. However, these state economies are large and diverse and agriculture exports account for a smaller portion of GSP than is true for Iowa.

A broad array of vehicles and vehicle parts would be tariffed if US-China trade disputes accelerate and the tariffs are put in place. Just over half of the state of Washington's global exports is in the US Census Bureau's category, "civilian aircraft, engines and parts." The $46.4 billion of this category the state exported in 2016 equaled 9.8% of Washington's GSP.

We do not anticipate a loss of imports from China would significantly affect the state economies. US importers have sufficient ability to replace Chinese imports with alternately-sourced products, albeit at a slightly higher expense.

If the tariffs are enacted and are sustained into the medium term, we believe the tariffs could also lower business activity and sales and income taxes derived from both business activity and employment in some places. These negative revenue impacts could coincide with a softening of revenues if this trend continues.

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