STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

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DATE: May 1, 2026

TO: Governor Gretchen Whitmer

FROM: Rachael Eubanks
State Treasurer

SUBJECT: Response to Executive Directive No. 2026-2

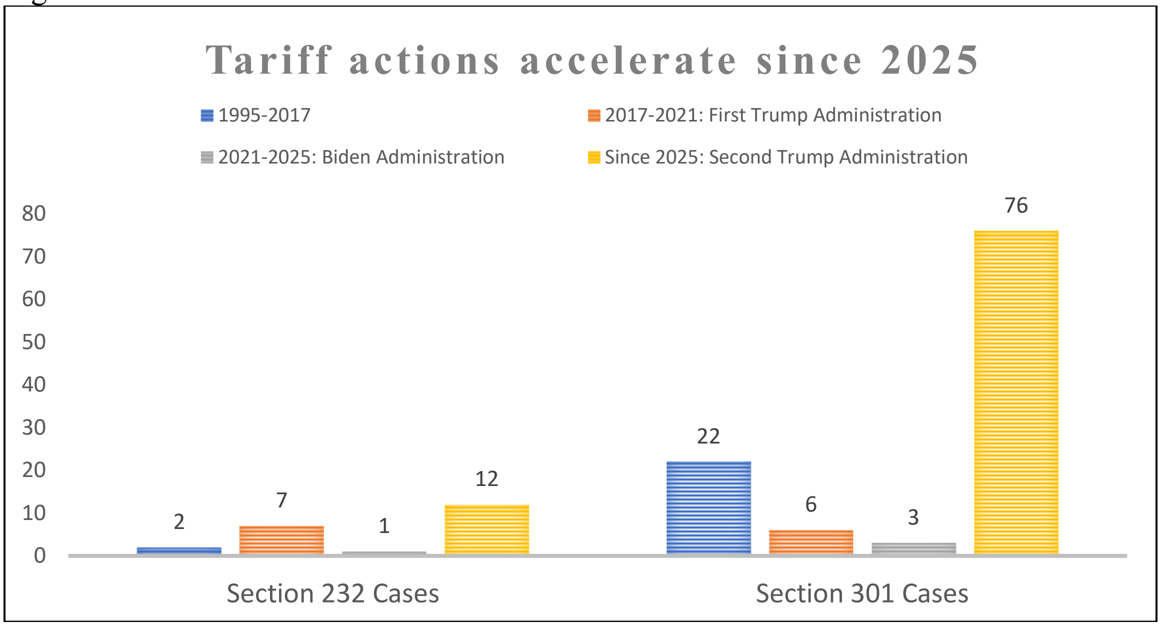
Over the last year, Michigan's economy has navigated a significant shift in U.S. trade policy. This response to the Executive Directive is a summary of how the tariff environment has affected Michigan industries and consumers, focusing on automotive manufacturing, suppliers, retailers, and household budgets.

Dramatic Policy Shifts Create Uncertainty in Michigan

Since President Trump's second inauguration in January 2025, tariffs have become a major focus of U.S. economic policy. Michigan's key trading partners, Canada and Mexico, have been affected as tariff policies continue to shift, including interactions with prior trade agreements and overlapping tariff actions. Within the first month, the administration imposed new fees on many imports, including a 25 percent tariff on select goods from Canada and Mexico and an additional 25 percent on steel and aluminum. In the second month, tariffs on Canada and Mexico rose another 25 percent. On April 2, 2025—declared "Liberation Day"—the administration announced broad tariffs under the International Emergency Economic Powers Act, triggering rapid global trade negotiations and policy shifts.

Overall, these shifts in trade policy are unprecedented. The federal government has relied on several tools to impose trade restrictions. Section 232 tariffs, authorized under the Trade Expansion Act of 1962, allow restrictions on imports deemed to threaten national security, but only after a Commerce Department investigation. As Figure 1 shows, the last 18 months have had more Section 232 cases than the prior 30 years combined. The use of Section 301 tariffs, imposed under the Trade Act of 1974 to combat unfair trade practices, have been used 76 times under the current administration.

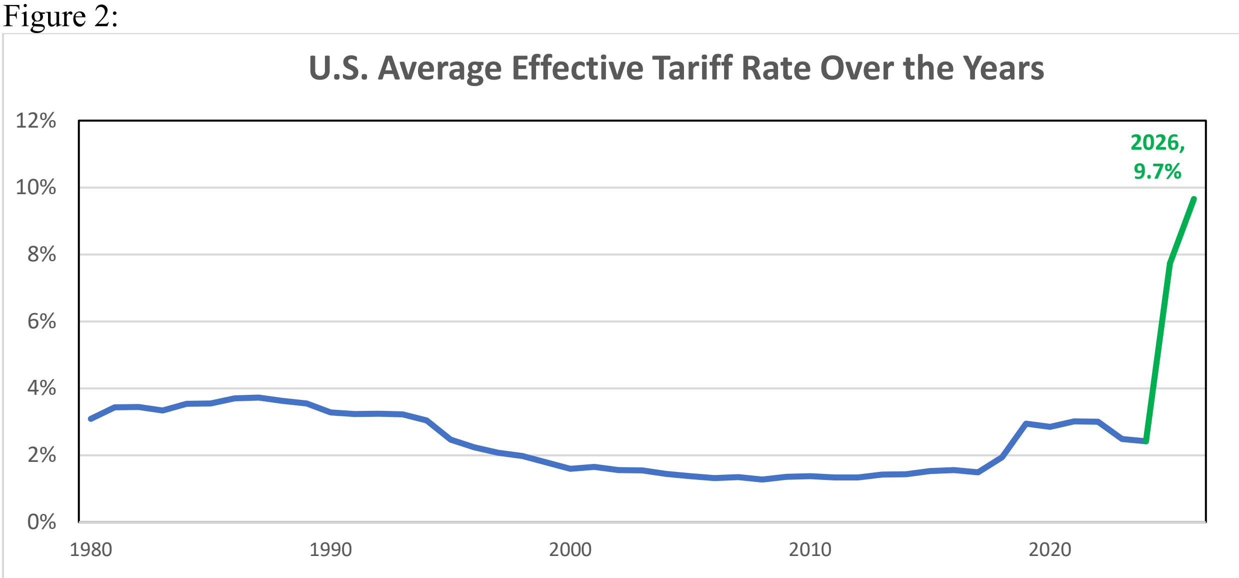
Figure 1:



More recently, the Supreme Court ended the "Liberation Day" tariffs imposed under IEEPA, *Learning Resources Inc v Trump*, 607 US ___ (2026), which will generate some retroactive refunds to businesses. However, the U.S. government introduced a new tariff under Section 122 of the Trade Act of 1974, marking the first use of that authority. These tariffs took effect on February 24, 2026, and will remain in place for 150 days, through July 24, 2026.

In total, the resulting actions have increased tariff levels to levels not seen in over 50 years.

Figure 2:



Impact on the U.S. and Michigan Economy

Economic conditions in Michigan from March 2025 to April 2026 were shaped largely by uncertainty surrounding evolving tariff policies. Manufacturing firms—especially in autos, metals, and machinery—focused on managing procurement and inventory risks. This led to restrained hiring and capital investment rather than significant changes in overall activity. Agricultural producers experienced reduced export volumes due to retaliatory tariffs.

Overall, the macroeconomic and fiscal impacts were modest, as a result of subsequent USMCA exemptions and support for the auto industry. Inflation rose only slightly, and the broader economy absorbed the shock without major disruptions to growth. The most notable consequences were structural and distributional, as tariff revenue increased sharply, trade flows from China fell, and consumer losses were partially offset by gains to domestic producers and the federal government. Following the Supreme Court decision on IEEPA, some firms will receive refunds, which will temporarily lift corporate profits.

Impact on Michigan Consumers

Consumers have closely followed trade actions over the past year. Academic studies indicate that the tariffs implemented during this period raised U.S. prices only slightly—and far less than early estimates suggested—largely because effective tariff rates were reduced through exemptions and shifts in sourcing.

Beginning in early 2025, the University of Michigan's Survey of Consumers reported that tariff policy had become a prominent concern. The survey noted that tariffs remained highly salient to consumers and influenced their economic expectations. By mid-2025, 65% of respondents offered unprompted comments about tariffs, up from 28% in January 2025.

Impact on Michigan Businesses

While tariffs contributed to some input cost pressures, the primary challenge for firms was the unpredictability of future policy changes. Business spending remained subdued, as companies delayed capital commitments and expanded their use of tools such as Foreign Trade Zones to manage tariff exposure. Inventory fluctuations were most evident in the auto sector and reflected efforts to prepare for possible shifts in policy.

The extraordinary pace and scale of policy changes have had noticeable effects on Michigan's economy. In December 2025, the Detroit Regional Chamber of Commerce reported that the largest U.S. tariff increases in nearly a century had significantly weakened cross-border economic activity between Michigan and Canada, affecting both goods flows and tourism.

Approximately 65–70% of Michigan's imports from Canada are tied to motor vehicles and parts. Michigan's auto industry has acutely felt the uncertainty surrounding tariffs. Following the Supreme Court's rejection of the IEEPA tariffs, MichAuto noted: "While we recognize that other avenues exist for the Administration to again impose these tariffs, we continue to stress that Michigan's businesses are disproportionately negatively impacted by tariffs, especially in our automotive, manufacturing, and agriculture sectors."

Impacts to Key Sectors:

Manufacturing

Tariffs had a steady but uneven impact on manufacturing, particularly for automotive suppliers, fabricated metals producers, and machinery manufacturers. Automotive related firms, which make up an important share of Michigan's manufacturing base, reported repeated planning difficulties as shifting tariff policies affected procurement and input cost expectations, and some metals and fabricated metals contacts warned that tariff sensitive materials like nickel could experience price spikes.

For Michigan, these shifting policy dynamics were relevant. Vehicle inventories rose and fell sharply around tariff deadlines, and manufacturers in the state shared concerns about potential shortages of imported components. Manufacturers have delayed or paused capital investment decisions due to the uncertainty.

Tourism

The tensions in trade policy have led to a decline in Michigan tourism, especially due to tensions with Canada. In 2025, Michigan saw passenger vehicle visits from Canada drop to about 8.3 million from nearly 10 million in 2024, a nearly 16% decline.

Outlook: Upcoming USMCA Impact Could Alter Economic Trajectory

Much of the tariff impact on Michigan has been softened by exemptions for goods that qualify under the United States-Mexico-Canada Agreement (USMCA). In this context, the USMCA enters a critical review phase in 2026. By July 1, the three countries must decide whether to extend the agreement for an additional sixteen years or allow it to move into annual reviews. This summer's date serves as a decision point regarding renewal, rather than a deadline for concluding negotiations. Potential negotiations are expected to continue into the upcoming year.

The United States enters the review seeking to tighten rules of origin, increase labor value–content requirements, and limit Chinese participation in North American supply chains. For Michigan's automotive sector, these goals are broadly aligned with existing production patterns. Emergency tariffs imposed in 2025 on noncompliant goods have already accelerated a shift toward USMCA compliant sourcing, with compliance rates in Mexico and Canada rising to roughly 75 and 80 percent, respectively, up from about 50 percent. While this trend benefits Michigan firms integrated into regional supply chains, it also increases the risk of disruptions and higher input costs if rules become more stringent in 2026.

For Michigan businesses, the combination of an extended USMCA negotiation timeline, evolving tariff actions, and the potential tightening of compliance requirements creates substantial planning and investment uncertainty.