Introduction

Tariffs have been a hot topic this summer, and with the US and China—the world’s top two economies—seemingly prepared for a trade standoff that will last at least through the end of 2018, it’s likely they’ll be in the news cycle for some time to come, especially as the economic consequences of these surtaxes transition from theory to reality.

In the meantime, experts from the Freedonia Group have been hard at work assembling in-depth analysis and insights on the impacts of the tariffs across global industries. In a volatile and rapidly changing environment, analysts have not only published white papers breaking down the regional ramifications of tariffs, but also contributed extensively to the Tariff Tracker, a special blog series dedicated to examining the effects of tariffs on specific markets and products.

The following is a roundup of published content from July and August. In particular, analysts looked at:

- US tariffs on steel and aluminum, and the impact they’ll have on such construction and consumer goods markets as solar energy, gutters and downspouts, recreational vehicles and boating, and windows and doors
- a 20.83% tariff on Canadian softwood lumber imports to the US, and what it means for the ongoing US housing market recovery
- how tariffs on Chinese imports of consumer goods will hurt lower income shoppers in the US
- tariffs—both official and proposed—announced by the US and China on key chemicals and polymers
- escalating tensions and rhetoric between the US and China, and what each country stands to gain or lose with tariff one-upmanship
- niche product markets, including playing cards, and how they fit into the broader examination of tariffs
- supply chain and other strategies designed to mitigate the impact of tariffs

With its long history as a trusted provider of industry insights and forecasts, the Freedonia Group is able to cut through the noise and conflicting information surrounding global tariffs to offer clarity in an uncertain economic environment.
Rare Earths in the Crosshairs

Published: July 18, 2018
Author: Kyle Peters

Included in the latest list of Chinese products that may be hit by increased tariffs in the US are scandium and yttrium, two rare earth minerals that are sourced almost entirely from China. While China has sought to reduce its exports of rare earths in recent years to ensure sufficient materials were available for domestic use, the country has nonetheless dominated the global rare earths industry due to pure geographic luck—within its borders reside the world’s largest rare earths deposits.

However, the proposed 10% tariff on scandium and yttrium (as well as some other rare earth compounds) is a puzzler in many ways compared to the suggested tariffs on other goods. US rare earths mining has been negligible for decades, so few—if any—US manufacturers would benefit from a higher import tariff. In addition, there are only a handful of countries other than China with the resources to supply the US with notable quantities of rare earth minerals, and none of them can offer anywhere near the volumes that US manufacturers would need.

With rare earths more expensive than ever, and with no alternative supply option, the tariff will result in increased manufacturing costs for nearly all high tech products that utilize rare earths as an essential component, ranging from consumer electronic devices to hybrid and electric vehicles. This will inevitably also increase the price that consumers pay for the finished product.

In another, more indirect, blow to consumers, rare earths are also in high demand by the US military, which requires these minerals for much of its advanced hardware. If rare earths are caught up in an additional round of tariffs, not only will consumers’ disposable income not stretch as far, neither will their tax dollars.
Will Proposed Chemical Tariffs Impact Pharma?

Published: July 20, 2018
Author: Alecia Mouhanna

With tensions escalating and new developments seemingly breaking every hour, the US has released another list of $200 billion in Chinese goods subject to a proposed 10% tariff. That list includes a range of inorganic and organic chemicals of which China is a major supplier, including common products like chlorine, sulfur, carbon, nitrogen, oxygen, silicon, various acids, fluorides, chlorides, sulfates, nitrates, and more. The suggested tariffs would stand to impact countless US consumer and industrial markets, including, potentially, the pharmaceutical manufacturing industry, which often buys competitively priced basic chemicals from China to use in the production of drugs sold in the US.

In particular, this could pose a problem for generic drug manufacturers, who rely on cheap chemicals from China in order to mass produce medications and turn a profit. Higher import costs could turn into more expensive prescriptions at a time when soaring drug prices have already stretched US consumers thin.

However, the news isn’t all bad. The Trump administration appears to have tabled—for now—a much more harmful 25% tariff on China-sourced vaccines, insulin products, and select raw ingredients for pharmaceuticals. This proposed tax was intended to undermine Chinese pharma manufacturers. But it likely would have caused much more significant problems for several major US patent-holders, including Johnson & Johnson, Merck & Co., and Pfizer, who might’ve faced international retaliation in the form of revoked patents and other penalties to their intellectual property holdings.

Though it seems the US has backed off this threat for now, nothing is 100% safe in the current volatile trade environment—particularly considering that President Trump’s most recent threat has been to tax all imports from China—so it’s certainly an industry to watch over the coming weeks and months.
3 Things to Watch in Lumber

Published: July 19, 2018
Author: Alecia Mouhanna

More than halfway into 2018, with a trade war in full swing, it might be difficult to remember that some of the Trump administration’s tariffs have been in place since last year.

In November 2017, President Trump levied a 20.83% tariff on Canadian softwood imports—including pine, spruce, and fir. At the time, the administration justified the decision based on claims made by US lumber producers that Canadian competitors—supported by the Canadian government—had a leg up on pricing.

Considering the fact that Canada supplies roughly one-third of all US demand for lumber, the ramifications of this tariff aren’t inconsequential. Here are three things to watch.

1. Lumber Pricing & Profits

Immediately after the tariff took effect, softwood lumber prices jumped and have remained high since then. In May, the Random Lengths Framing Lumber Composite Price surged to its highest level since its inception in 1995—70% greater than it was the previous year.

According to the National Association of Home Builders, this adds up to an estimated 7% increase in the cost of new home construction in the US. For a single family home, that can translate to up to $9,000 extra (though estimates vary).

However, higher prices can also mean higher profits, particularly for US-based lumber producers like Georgia-Pacific and Weyerhaeuser. While the former doesn’t report sales data, the latter disclosed its highest ever EBITDA for wood products in the first quarter of 2018.

2. US Lumber Capacity Expansions

Though the Random Lengths Framing Lumber Composite Price for lumber is at an all-time high, so too is the need for lumber. According to a May 2018 National Association of Homebuilders/Wells Fargo survey, 31% of single-family homebuilders reported a framing lumber shortage. This is the highest the shortage percentage has been since the NAHB incorporated the question into its survey in 1994.

This increased demand has given some US lumber suppliers the confidence to invest in expansion, whether by building new mills or adding capacity and equipment to existing mills. However, there are significant roadblocks to these plans, including (but not limited to) finite available land for harvesting and a time-consuming permit and regulatory approval process. Considering these obstacles, closing the supply gap may be a task that’s easier said than done.
3. Housing Starts

The implementation of the lumber tariffs combined with the inability of US lumber suppliers to meet domestic lumber demand likely means that a heavier cost burden will be passed on to the consumer. As a result, cautious prospective home buyers will potentially either delay home construction, select a smaller (less expensive) house, or opt to purchase an existing home in lieu of building. The impacts are already noticeable, as June housing starts hit a nine-month low and permits for future construction declined for a third straight month. If this trend continues, the slow-but-steady recovery of the housing market could be derailed.

Additionally, homeowners looking at high-ticket purchases may hold off on pursuing lumber-intensive home renovations, which has the potential to negatively impact both contractors and manufacturers of products like flooring, fencing, and cabinets.
Play At Your Own Risk

Published: July 24, 2018
Author: Kyle Peters

Among the tariffs that Canada imposed in retaliation to US tariffs on Canadian steel and aluminum is a 10% surtax on playing cards. Canada imported $69 million worth of playing cards in 2017, with the US responsible for $56 million, or just over 80%. While the tariff won’t have as significant an impact on the cost of an average deck of cards as it will on more expensive products like motor vehicles (which are also targeted), the inclusion of playing cards is a more strategic play.

At first glance, it seems odd that Canada would include playing cards on its list of retaliatory tariffs without also including other forms of entertainment like board games. After all, the US is also a notable source of imports of other entertainment media. However, the picture becomes clearer once you note that US Playing Card Company, the largest producer of playing cards in the US, is headquartered in Kentucky—the home state of Mitch McConnell, the Republican Senate Majority Leader. As a retaliatory move, the Canadian tariffs on playing cards are symbolic rather than functional.

US Playing Card Company sells playing cards under a diverse range of brands, some of which are distributed through retail stores. Others are made exclusively for use in casinos. Because of this, retailers and casinos are likely to bear the majority of a cost increase the tariff would cause, although they could offset the hike by increasing the price of food and beverages purchased on site.

Alternatively, Canadian businesses could game the system by sourcing playing cards from other nations. China and Japan were the next two leading sources of playing card imports in 2017 and—although both nations are dwarfed by imports from the US—suppliers could increase their purchases from China and Japan to avoid paying the tariff.

However, not all types of playing cards have the luxury of being sourced from a country that isn’t the US. Popular trading card games such as Magic: The Gathering and Pokémon, which also fall under the tariff, are manufactured in the US and imported to Canada. With no readily available alternative source of imports, retailers that stock these games will be forced to either eat the added cost of the tariff or to pass some or all of the cost on to their customers. Because these games are primarily played by younger consumers with lower levels of disposable income, many may hit pause on their card collecting because of the tariffs, driving down sales.
From Basic to Luxury Goods, Proposed Tariffs to Impact Low-Income Households Most

Published: July 31, 2018
Author: Jennifer Mapes-Christ

In July 2018, the Trump administration announced plans to place 10% tariffs on $200 billion worth of imports from China. The list of products encompasses a variety of consumer goods ranging from basic commodities to high-end luxuries. If enacted, the impact of these tariffs on consumers will depend on household income.

Consumer products made in China are generally more basic or lower-quality versions than those that are made in the US, Canada, or Europe—and that means they’re also less expensive. Therefore, Chinese consumer products are widely sold at mass merchandise and discount retail outlets—e.g., Dollar Store, Dollar Tree, Target, and Walmart—as well as on Amazon.com and other e-commerce outlets.

The Walmart Effect

Discount retailers often have tight margins, and their ability to absorb cost increases are limited. As such, the additional cost imposed by these tariffs will likely be passed along to consumers in the form of higher retail prices.

As Walmart—and other discount outlets—stocks a variety of consumer products made in China, its most frequent customers (consumers with household incomes under $100,000 per year) are likely to be disproportionally impacted.

For example, consumers making less than $100,000 per year are more likely to report shopping at Walmart 3 or more times a month. In contrast, higher-income consumers are more likely to report that they only occasionally or never shop at Walmart.

Given the financial profile of the average Walmart customer and the company’s reliance on Chinese imports to inexpensively stock its shelves, lower-income households stand to suffer the most from the US-proposed tariffs.

Tariffs Target Routinely Purchased Consumer Products

In the latest list of $200 billion in Chinese goods facing a 10% tariff, the Trump administration includes a number of products that many households consider routine purchases:

• paper products (e.g., writing and drawing paper, envelopes, toilet paper, facial tissues, napkins, and paper plates and cups)
• consumer-grade pesticides, herbicides, and insecticides
- soap
- furniture polish

Other products under consideration for tariffs include common household items such as:
- lighting (e.g., ceiling, wall, floor, and table light fixtures; lamp shades; and Christmas lights)
- apparel & accessories (e.g., hats, lace, rainwear, handbags, luggage, leather gloves, and belts)
- decorative items (e.g., wicker and rattan bags and baskets as well as paint)
- appliances (e.g., refrigerators, freezers, stoves, and ovens)
- consumer electronics (e.g., digital cameras, video cameras, and televisions)
- tools (e.g., saws and blades, pliers, files, tweezers, hammers, screwdrivers, chisels, wrenches, crowbars, and caulking guns)

In many cases, value-added and higher-quality versions of these items are available from other countries, but they come with higher price tags. The more basic or entry-level versions of these products available in the US are commonly imported from China and will thus be subject to price increases.

**Luxury Items Impacted, but Luxury Consumers?**

Although most Chinese imports to the US are of products that are generally lower-cost and considered lower-quality than products made elsewhere, the Trump administration's tariffs will impact a range of Chinese luxury goods as well, including:
- leather gloves, belts, and other clothing accessories
- hand-hooked rugs and rugs made from natural fibers
- handmade lace
- hats (e.g., fur, wool, cotton, knit, crochet, and felted)
- marble, granite, travertine, and other monumental or building stone
- silver tableware and flatware
- boats (e.g., sailboats, motorboats, inflatable boats, canoes, yachts, and rafts)
- perfume & essential oils

Wealthier consumers are more likely to buy pricier versions of these products sourced from places other than China, such as the US, Canada, Europe, and other specialty-source countries (e.g., Brazilian stone, rugs from the Middle East, North African oils and perfumes, or exotic Australian leathers).

However, if a middle- or working-class consumer were looking to splurge on a similar item, the version imported from China might be selected as a more affordable option. If enacted, the tariffs would reduce the affordability of Chinese luxury goods.
Tariffs to Spur Increase of US Production of Solar Panels

Published: August 2, 2018
Author: Matt Zielenski

The recent announcement by Heliene—a Canada-based manufacturer of solar panels—that it would begin production operations at a modernized facility in Minnesota is the latest of a string of such announcements of expanding US plant capacity among both foreign and US-based companies. Many leading global suppliers of solar panels—such as First Solar, Hanwha Q Cells, Jinko Solar, and LG—have announced plans to construct manufacturing facilities in the US in 2018. While several other factors have boosted US demand for and output of solar panels—including California’s requirement that nearly all new homes have solar panels and the extension of federal tax credits to homeowners who install solar panels on their residences—tariffs on imported solar panels have clearly encouraged firms to increase US production.

Under the Section 201 tariffs imposed by the Trump administration in January 2018, the US will allow 2.5 gigawatts (gW) of foreign-made solar panels to be imported into the US every year—for the next four years. Imports of solar panels in excess of 2.5 gW are subject to a tariff—beginning at 30% for the first year and gradually sliding back to 15% in the fourth year. As US imports of solar panels totaled more than 10 million gW in 2017, many manufacturers are faced with the prospect of 30% price increases for their products. Several of these firms decided that one way to deal with this issue is to add or expand production capacity in the US.

The imposition of these tariffs has attracted both praise and criticism. Supporters of the move—such as US-based manufacturers of solar panels—claim that foreign suppliers are undercutting US firms to drive them out of business; thus, tariffs are the only way to level the playing field. Furthermore, good-paying, high-technology jobs are created as plants open across the US. Detractors of the tariff policy point out that many of these domestically produced solar panels will cost more than imported products. Many consumers—when faced with higher prices—will balk at the expense, thus costing US solar panel installers work and continuing the nation’s dependence on fossil fuels for its energy needs.

Debate over the effects of these tariffs is expected to continue—as are the efforts of other firms to avoid them by opening or expanding solar panel production facilities in the US.

For information on the expanding market for solar roofing in the roofing in the US, check out the Freedonia Group’s Solar Roofing in the US study.
Will Tariffs Wash Away Gutter & Downspout Sales?

Published: August 3, 2018
Author: Ellen Kriz

The Trump administration’s tariffs on aluminum and steel have drawn a mixed reaction from US producers. With the long-term fate of US aluminum and steel at stake, gutter and downspout products are hardly top of mind.

However, the rainware supply chain is not only a microcosm of larger steel and aluminum supply chains but also representative of many construction industries—like those of pipe, siding, and roofing—that rely on the metals.

According to the Freedonia Group’s Gutters & Downspouts in the US study, over 70% of gutters and downspouts are made of aluminum, and a much smaller—but still sizeable—20% are made of steel. With over 90% of its products in the balance, will the rainware industry be a winner or loser in Trump’s trade war?

The Winners: Primary Metal Manufacturers

The basic component of most gutters and downspouts is metal coil, a product manufactured by major primary metal producers like US Steel for a variety of industries.

US primary metal manufacturers stand to benefit the most from the metal tariffs. Citing an expected increase in demand for US-made steel, US Steel announced in June that it is restarting two furnaces at its Granite City, Illinois, facility, a move the company says will create 500 new steel jobs.

However, some argue that primary metal producers will only benefit when they have excess capacity that can be restarted easily. US Steel's Granite City location, for instance, was shut down in 2015 and is still in relatively good condition. Even so, the furnaces will not be ready for use until October and it may be too expensive for other companies with older operations to rev up production, leading to the possibility of supply shortages.

The Losers: Fabricators, Contractors, or Consumers?

Either way, the next link in the rainware supply chain—sectional gutter manufacturers and fabricators that slit and coat the base coil for use by seamless gutter contractors—are likely to face higher material costs.

Steel and aluminum prices have increased substantially in recent months, leading many companies that use the metals—ranging from pipeline builders to automakers—to complain that the tariffs are creating an unreasonable cost burden.
However, sectional product manufacturers and coil fabricators may just pass cost increases directly to builders and consumers.

As a result, some builders may be discouraged from installing rainware in regions where gutters are less likely to be installed—like the South and West—but new construction accounts for a small portion of overall product demand.

Homeowners make the majority of buying decisions, and they will likely accept higher costs.

While the gutter and downspout industry is mature and higher prices can damage contractors’ competitiveness, two factors will likely shield them from reduced demand:

• Unlike siding and roofing, there are no competitive products that homeowners are likely to choose over aluminum and steel to avoid higher prices; while DIY plastic products exist, they are much less durable than metal types.

• Gutter installation is a relatively low-cost project that’s often tagged onto more costly renovations like reroofing or re-siding, so the cost of the gutter system will not make or break the homeowner’s decision to install.

• A sales manager at an Indiana gutter supply company compares this dynamic to buying gas: “people are still replacing gutters—kind of like when consumers wait on buying gas when prices increase, but then realize that they must fill the empty gas tank regardless of cost.”

As long as expected consumer buying patterns hold true, the tariffs will not damage sales for most companies involved in the rainware industry.

For more information on the rainware industry, see the Freedonia Group’s Gutters & Downspouts in the US, a comprehensive industry study that includes demand forecasts for gutters, downspouts, gutter guards, and hardware and accessories, as well as for rainware markets, materials, and US Census regions.
Steel & Aluminum Tariffs Complicate the Kitchen Appliance Market

Published: August 7, 2018
Author: Matt Breuer

Most indoor and outdoor kitchen appliances—everyday items like stoves or ranges, ovens, refrigerators, freezers, and grills—contain large amounts of steel and aluminum, so the Trump administration’s tariffs—25% on steel and 10% on aluminum from many countries worldwide—have the potential to upend a product market that accounted for more than $18 billion in sales in the US in 2016. Should these tariffs result in price increases for kitchen appliances—even the least expensive of which tends to be a major purchase—sales could slump as consumers decide a new fridge or stove isn’t worth the price.

However, not all kitchen appliance manufacturers will be affected by the tariffs in the same way. The effect on a given company will depend on a number of factors, including:

• where their manufacturing operations are located (i.e., inside or outside of the US)
• whether their supply chains cross US borders (e.g., from headquarters abroad to US facilities)
• where they source their steel and aluminum (i.e., from an exempt country or from a nonexempt country)
• whether their home countries face a tariff (or a quota) from the US

Tariffs Affect Steel & Aluminum Imports from Nearly All Countries

Only a handful of countries have been granted exemptions. Here’s the current state of things:

• Argentina, Australia, Brazil, and South Korea are exempt from the steel tariff.
• Argentina and Australia are exempt from the aluminum tariff.

While these countries won’t face increased taxes on their exports, they will face quotas that limit the amount of steel and/or aluminum that can be exported to the US. For example, Brazilian steel imports will be reduced by about 20%.

For Appliance Producers, Tariff Ramifications Vary

Exactly how the tariffs will affect kitchen appliance manufacturers depends not only on where their facilities are located, but also on each producer’s overall supply chain
structure, including its material sourcing and product assembly.

A number of factors are at play for Samsung Electronics and LG Electronics, both of which are leaders in the kitchen appliance market and are headquartered in South Korea. Imports of finished kitchen appliances from these companies’ Korean facilities have grown rapidly in recent years as electronics companies have made major market share gains in the general home appliance market. But both Samsung and LG have also been making inroads in US production of their goods, since this can reduce shipping costs and allow for greater agility in responding to changes in the US market.

As Samsung and LG’s US production ramps up, the new tariffs on steel and aluminum could raise manufacturing costs, depending on where the materials are coming from. Since these companies are based in South Korea, which is exempt from the steel tariff, it’s possible that they could still source their steel and aluminum at home without dramatically increased costs. However, they would ultimately face the quota that limits the amount of South Korean steel they could use to supply their US operations.

These same roadblocks may also apply to both GE Appliances (a US subsidiary of Haier, a Chinese company) and Electrolux (a Swedish company with a major subsidiary covering North America), two leading appliance companies with a wide US kitchen appliance manufacturing footprint. Again, whether their production costs have risen depends on where they source their steel and aluminum. Should they import steel from Brazil, another tariff-exempt country, they won’t face added costs directly associated with the tax. However, the quota on Brazilian steel limits its availability to US producers (and could affect its pricing as it raises US demand for tariff-free steel but effectively reduces its supply).

Whirlpool, another leader in the kitchen appliance market, has certainly suffered slower growth since the steel and aluminum tariffs were put in place. The company manufactures its kitchen appliances primarily in the US, and its steel and aluminum sources are largely derived from countries subject to the tariffs. As such, it’s now paying more for materials, cutting into profits and raising product prices. (Whirlpool, an all-American company, had actually lobbied for a tariff on washing machines amid fierce competition from Samsung and LG. It got what it wanted—until the steel and aluminum tariffs complicated its own washing machine production as well as its manufacture of kitchen appliances.)

**With Kitchen Appliances, Where Does China Fit In?**

The main motivation behind the Trump administration’s tariff spree is to punish China, and this has become clearer as Trump has gone on to propose an extensive list of tariffs targeted directly at Chinese finished-good imports—a 25% tariff on $200 billion-worth of Chinese end-use products including cooking fixtures, refrigerators, and freezers.
As a significant exporter of steel and aluminum to the US, China is therefore wrapped up in the same developments affecting other steel exporters and the companies they supply. As for Trump’s new proposed tariffs, the kitchen appliance market isn’t particularly reliant on imports of finished products directly from China. However, while Chinese manufacturers might not produce appliances with the same level of brand recognition as Frigidaire, GE, LG, Samsung, or Whirlpool, they are increasingly competitive, especially as they continue to improve the quality of their products to better match the leading brands. Implementation of a 25% tariff could stall progress as these firms lose their competitive pricing advantages.

There is one major exception, however. Chinese producers are very important to the grill market, since many of the grills sold in the US are made in China. Even large legacy US grill companies like WC Bradley and Weber-Stephen Products (makers of Char-Broil and Weber grills, respectively) contract much of their grill manufacturing out to Chinese companies. So while materials tariffs like the ones currently impacting steel and aluminum may not measurably increase the cost of a new grill, it’s likely that implementation of Trump’s proposed tariffs on Chinese finished goods would eventually see prices go up.
No End in Sight to US & China Trade Hostility

Published: August 8, 2018
Author: Kyle Peters

In the latest measure to deteriorate trade relations between the US and China, President Trump this week floated the possibility of increasing the previously proposed tariff on $200 billion in Chinese goods from 10% to 25%. This $200 billion list includes products and materials targeted by China in earlier tariff retaliations, chosen because they comprise a significant share of the country’s imports from the US. While the extent of the impact that a 25% tariff would have (and the likelihood of its implementation) is currently unknown, the sheer breadth of products included means it almost certainly would have severe impact on the price and availability of many Chinese products.

For the US, Tariffs are Key to Negotiations

There is a rationale behind the sharp escalation in the tariff rate. Since the end of May, the value of the yuan has fallen approximately 6%, the lowest point in more than a year. Following this devaluation of China’s currency, much of the impact of the original proposed 10% tariff would be mitigated and not likely to spur the Chinese government to de-escalate or begin negotiations with the US.

To counter this, President Trump indicated willingness to increase the tariff to 25%. At that rate, US distributors would be compelled to seek alternative supply sources, and Chinese suppliers would feel the sting of the tariffs more sharply. As a result, the Chinese government would have no choice but to come to the bargaining table (or so the thinking goes).

Trade Standoff: Neither Side is Blinking

However, while the US is promoting these tariffs as temporary measures to force China’s government to fix what is perceived to be longstanding unfair trade practices, China holds a different view. Instead of conceding to US pressure, China’s government retaliated by announcing plans to impose even stricter tariffs on $60 billion worth of US goods should the US follow through on its 25% tariff threat. China’s tariffs would range from 5% to 25%, impacting such imports as alcohol, coffee, machinery, and meat.

As each country continues the game of one-upmanship, it seems few (if any) products traded between China and the US are safe from the threat of a tariff. Frankly, the probability is low that the Trump administration follows through on taxing all of the products on the proposed $200 billion list at the 25% rate, as this would have a substantial negative effect on US consumers. A more likely outcome is strategic implementation of the 25% tax on a selection of goods expected to have a more profound impact on Chinese
suppliers, a strategy well underway after the US unveiled a list of $16 billion in Chinese goods—including motorcycles, speedometers, and antennas—subject to a 25% tax starting August 23.

So far, however, China’s resolve is holding steady. Following the Trump administration’s reveal of this new list, China almost immediately struck back by announcing plans to impose a 25% tax on $16 billion in US imports, including passenger vehicles, fuels, and fiber optic cables. With tensions higher than ever and no resolution imminent, it seems like only a matter of time before the trade war hits the wallets of consumers in both countries.
China Hits Out at US Polyethylene Manufacturers

Published: August 10, 2018
Author: Alecia Mouhanna

With the US and China both standing firm in their resolve to see their trade war through to the bitter end, two new product classes have found themselves squarely in each country’s crosshairs—chemicals and polymers.

New Trade War Target: Commodity Chemicals & Polymers

Earlier this week, the US finalized a list of $16 billion in Chinese goods subject to a 25% import tax. The list included numerous products familiar to US consumers, among them liquefied propane, liquefied butane, styrene, and polyethylene. In retaliation, China slapped a 25% tariff on its own list of $16 billion in US imports. Of note on this list were a range of common chemicals and polymers like linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE), polypropylene, and ethylene vinyl acetate.

The polyethylene tariffs are particularly damaging because the US is a major PE producer, and China is a major PE consumer, and it faces a growing polymer deficit. According to ICIS, the US is expected to export 458,000 metric tons of HDPE to northeast Asia this year, the bulk of which will be heading to China. LLDPE and HDPE are both used to manufacture a wide range of common goods, including plastic films and packaging, milk jugs, grocery bags, and detergent bottles.

US Chemical Manufacturers Face Uncertain Short-Term Future

The timing of the tariffs is unfortunate, as the US is in the middle of a chemical infrastructure boom. The surge in US natural gas production has led to cheaper feedstocks, which in turn has led to an uptick in new plant constructions and capacity expansions. And much, if not all of the new capacity is destined for export to growth markets, of which China leads the pack.

Top manufacturers with large international footprints, like DowDuPont, may be able to circumvent these issues—for now—by diverting shipments from the US to other regions and supplying China from foreign operations. But this isn’t an option for many smaller US manufacturers with heavy investments in the US—particularly in Texas—and it’s likely they’ll face tougher market conditions and higher prices should the tariffs go into effect on August 23 as currently planned.
New Taxes Target Plastics

Published: August 13, 2018
Author: Kent Furst

On August 7, the US announced that it would enact an additional 25% tariff on imports of 279 products from China, effective on August 23. Around 150 plastic products are slated to be impacted, including:

- base plastic resins and polymers
- plastic pipe, tubing, and hose
- plastic adhesive tapes and labels
- plastic film and sheet

Plastic resins, the base materials used to make finished plastic products, are an enormous industry. The US produces 48 million metric tons (or 105 billion pounds) of plastic resins every year, while China produces over 70 million metric tons (over 155 billion pounds) annually.

However, the tariffs aren’t likely to have a major effect on the US plastics industry. US imports from China totaled around $1.1 billion in 2017—make them equivalent to just 1% of demand. The US has ample production capacity for plastic resins, and the industry has been investing in new manufacturing plants to take advantage of low-cost oil and natural gas feedstocks in the US. Plastic processors on the west coast of the US—far from the resin production hubs in the east and Gulf coasts—will be most impacted by the tariffs, as these are the companies that are most likely to source resin from overseas.

The forthcoming tariffs on plastic products from China, including plastic pipe and plastic film, will have more of an impact. While these are smaller markets than plastic resins, imports from China are larger and account for a greater share of US demand. For example, the US imports nearly $1 billion of plastic film and sheet from China. Plastic pipe and tubing imports were over $600 million in 2017, while imports of adhesive tapes and labels were nearly $300 million.

These tariffs are unlikely to fundamentally change the US market—even the $1 billion of plastic film and sheet from China is only equivalent to 3% to 4% of US demand. But China is either the largest or second largest import source for all of these products, and higher tariffs will increase prices for US customers overall. This will have the most significant effect on companies that purchase plastic film and sheet for bags and product packaging, as well as construction firms that use plastic pipe and tubing.
RV Industry Faces a Steel & Aluminum Fork in the Road

Published: August 15, 2018
Author: Daniel Debelius

Many industries are scrambling to adapt to the steel and aluminum tariffs imposed by the Trump administration, and the recreational vehicle industry could be on the skid as well. Sales have been booming in recent years, reaching historic levels. However, the materials that make RVs—aluminum and steel—are facing price increases, forcing manufacturers like Thor Industries and Winnebago to make adjustments.

Recreational vehicle shipments in the US have grown every year since 2009, following the collapse of the market during the Great Recession. Per a monthly report published by the Recreational Vehicle Industry Association (RVIA), shipments topped 500,000 units in 2017, growing over 17% from 2016.

In 2018, shipments through April looked strong as well, showing gains on comparable months in 2017. However, the most recent 2018 data show shipments are down in May and in June, when shipments dropped over 11% compared to the same month last year.

Is this a sign of an industry feeling the effects of tariffs? Are dealers decreasing orders in anticipation of future sales declines? Could this just be a correction in a booming industry?

While we don't know which of these questions is the right one to be asking at this time, the industry is undoubtedly under a bit of stress.

Early Warning Signs

At the beginning of June, the CEO of Thor Industries—the largest manufacturer of RVs in the US—warned about the effects of the tariffs. In a press release, he stated, “While labor costs have moderated, we are experiencing inflationary price increases in certain raw material and commodity-based components due in large part to the headwinds created by the announcement and implementation of the steel and aluminum tariffs and other regulatory actions, as well as higher warranty costs.” At the time, he believed that the company would be able to “offset these cost increases”.

Aluminum and steel prices had already increased substantially by the time the tariffs went into effect in early June, preempting the actual tariffs. While it appears pricing for aluminum and steel has stabilized a bit recently, some manufacturers are being forced to pass the increased costs of materials on to consumers.
Price Increases & Looking Ahead to the Future of the RV Market

Recently, Winnebago was reported to be taking measures to meet the rising costs of production. The company is trying to adjust the way it manufactures its products to reduce costs, but is also raising prices on its RVs.

While top RV manufacturers will continue to look for ways to modify their production methods to absorb some of these costs, price increases are inevitable for many manufacturers, particularly smaller players.

The coming months will start to spell out the true effects of these tariffs on the RV market and other major industries. In the meantime, consumers may be more likely to turn to the used RV marketplace or to seek out rental opportunities to fulfill their need to hit the open road—but at a lower price.
The Last of Many Straws

Published: August 20, 2018
Author: Leon Mengri

Chinese Business Practices & Their Discontents

While interest in relations with China has surged recently due the tariff fights, some US companies in China were feeling less than happy in recent years and had come to question their China strategies, including the sharing of technical expertise.

These issues may have not made recurring headline news, but problems were becoming apparent in the last few years, as evidenced by these news stories:

- Manufacturers leaving China (2014)
- Reshoring to Mexico (2014)
- China becoming more challenging for foreign companies (2015)
- Expatriates leaving China (2015)
- Foreign firms find China less welcoming (2015)
- US companies leave China (2015)
- Trademark issues; legal remedies (2016)
- Your Chinese factory as your toughest competitor (2016)
- Why US tech companies can’t figure out China (2016)
- US firms planning to leave China (2016)
- Why foreign companies are shutting shop in China (2017)
- German Companies are Threatening to Leave China (2017)

Initial reports from 2014 focused on US firms that were considering reshoring production to Mexico because producing in China was turning out to be more expensive than initially expected, especially as labor and other costs continued to grow.

However, concern soon shifted from labor costs to other issues. One in four of the US companies surveyed by the American Chamber of Commerce in China in 2016 said they had in the past three years considered moving some capacity outside of China because of regulatory and other challenges, such as:
protectionism

“inconsistent regulatory interpretation and unclear laws”

“difficulty obtaining required licenses”

Notably, the survey found that industrial and consumer companies were moving to other countries in Asia while “technology and other R&D intensive industries most frequently reported moving to the U.S. or NAFTA region”.

With each passing year, more and more Western businesses have recognized that protectionism works differently in China. Rather than simply blocking foreign participation or issuing crippling tariffs, Western expertise is allowed in, manufacturing companies are forced to transfer technology to joint ventures, and then their proprietary knowledge is neutralized by weak intellectual property protections and inefficient bureaucracy.

Experience of US Tech Companies Foreshadowed China Challenges

Here’s a piece of interesting trivia: a leather goods company in China uses Apple’s iPhone trademark without permission and a Chinese court says there’s nothing Apple can do about it. That wasn’t a recent court decision infused with trade retaliation subtext—it was more than two years ago.

Giants Google (Alphabet) and eBay have also found the Chinese business environment chafing.

Consumer-focused tech and service firms in China have developed much faster than their capital goods cousins. As a result, Western consumer-focused technology companies quickly felt their Chinese competitors were receiving preferential treatment. In manufacturing, the favorable environment for foreign participants lasted longer, as domestic firms needed years to accrue vital expertise, often secured from Western companies via joint ventures.

The need to understand and comply with Chinese regulations and meet the needs of Chinese consumers was also a challenge that presented itself early to consumer-focused technology companies, as they deal directly with consumer preferences. On the other hand, manufacturers, such as car makers, spend a few years setting up joint ventures, supply chains, and/or prioritizing production for export, before realizing that meeting the needs of Chinese consumers better than domestic firms isn’t always easy. For instance, Ford has had difficulty gaining traction in the Chinese market, in part because Chinese consumers demand lots of new technology in the cars they buy.
Conclusion

It was recently announced that a Chinese delegation is coming to the US later in August to discuss setting up future talks to solve the trade dispute. However, if technology transfer and China’s ambitions (e.g., Made in China 2025) to advance its capacity to manufacture technologically advanced products were an important consideration in the US imposition of tariffs against China (rather than just the US trade deficit alone), then a quick or easy deal to eliminate the tariffs may not be in the offing. It doesn't appear realistic to expect China, now the world’s largest economy in terms of purchasing power parity, to curtail its ambitions to manufacture more technologically advanced products. Nevertheless, China has taken steps to eliminate the requirement for foreign transportation equipment manufacturers to participate in joint ventures by 2022, potentially creating a way to end the tariff dispute. Until this conflict is resolved, however, it may be US farmers that end up losing potentially lucrative opportunities.
Recreational Boating Industry Is Rocked by the Rough Seas of a Trade War

Published: August 21, 2018
Author: Daniel Debelius

The recreational boating industry is facing tariffs on multiple levels, both in the materials used to construct boats and boat parts and the boat parts and boats themselves. These tariffs not only raise costs; they also increase uncertainty—a development that is especially hard to swallow for the US industry, which has posted a strong recovery since the significant downturn that followed the Great Recession.

US Boating Industry Hit with Tariffs on All Sides

First, the US industry is feeling the effects of US tariffs imposed on imported steel and aluminum (with a few exceptions), as well as additional countervailing duties on common alloy aluminum sheet from China, which were initiated in response to a recent finding of dumping on the US market. Although US boat manufacturers source a majority of their aluminum from domestic sources, these tariffs have affected the global market and distorted prices so that the cost of even US-made aluminum has increased substantially, pulling the price tags of boats made with the material up along with it.

Retaliatory tariffs from Canada, Mexico, and the European Union as well as US tariffs on marine products from China have put the industry under further stress. Overall, these tariffs are raising the costs of production and the sticker price of any recreational boat. Long term, these additional costs could result in decreased boat sales and orders, prompting manufacturers to slow production and cut jobs.

Some of these issues are already being realized. In a recent op-ed piece, the CEO of Correct Craft, Bill Yeargin, wrote, “Our deepest fears are already setting in. Distributors from around the globe are canceling orders at a concerning pace and we’re worried about the impact these canceled orders will have on our employees.” In reference to the retaliatory tariffs from Canada, Mexico, and the EU, Mr. Yeargin said, “The boating industry is the only recreational industry being slapped with retaliatory tariffs by all three of those jurisdictions.”

Canada, Mexico, and the EU Retaliate with Tariffs on Recreational Boats

In response to steel and aluminum tariffs imposed by the US in June 2018, Canada, Mexico, and the EU levied tariffs of 10%, 15%, and 25%, respectively, on imports of US-made recreational boats. The last of these tariffs to go into effect—those from the EU on July 2—were called a “showstopper” by Stephen Hesse, the president of Chris-Craft, in a recent article.
Canada is the largest recipient of US boating product exports. Additionally, the majority of recreational boats sold in Canada are imported from the US. Because the US boat industry is closely tied to the Canadian boat market, the effects of the tariff will be felt on both sides of the border.

**Trade Relationship with China Grows More Complicated**

After China responded to the aluminum and steel tariffs with surtaxes of its own on US goods, the US announced a 25% tariff on nearly 300 marine related products. The products include marine components, propulsion systems, and navigational equipment. Many of these tariffs went into effect on July 6, 2018.

Unless US boat manufacturers are able to obtain an exclusion from the US government, these tariffs will increase the costs of manufacturing boats, and those expenses will likely to be passed on to the consumer, causing boat prices to hike.

Additionally, the US government has threatened more tariffs against China, stemming from the Chinese response to the July 6 tariffs. Among the list of products that would be part of the $200 billion in potential tariffs are a number of marine related products, as well as recreational boats themselves.

Finally, it appears China has recently added recreational boats imported from the US to its list of trade targets. If this comes to pass, China's retaliatory tariffs would join those of Canada, Mexico, and the EU and add further pressure to the recreational boating industry.

Looking ahead, the final effects of all of these tariffs are still unknown, and that’s likely to remain true for some time. But, as the tariffs continue to mount, experts will increasingly wonder if the industry can ride out the storm unscathed.
US HVAC Industry Hit Hard by Trump Tariffs

Published: August 22, 2018
Author: E. Reta Sober

Steel and Aluminum Tariffs Caused HVAC Prices to Rise

The administration’s initial steel and aluminum tariffs caused raw material prices to rise in March 2018 as foreign suppliers became subject to US tariffs and as domestic suppliers also raised their prices as cheaper competition was eliminated.

Domestic HVAC equipment manufacturers quickly felt the repercussions of these price hikes, with the Air-Conditioning, Heating and Refrigeration Institute (AHRI) maintaining that the tariffs were detrimental to US HVAC equipment manufacturing competitiveness.

The US HVAC market sustained an additional impact in July 2018 when the US applied tariffs to $34 billion in Chinese goods, among them industrial heating equipment and industrial furnaces.

Consumers Caught in the Tariff Crossfire

The implications of the diverse tariffs on the US HVAC equipment market are most perceptible in the increases in prices to the consumer. This poses a problem for the domestic industry because, when faced with high prices, consumers are likely to select the least expensive option or choose to repair old, inefficient HVAC systems rather than replacing them with new, but more expensive, efficient systems.

Tariffs May Cause Some Companies to Shift Production

Thus, the higher prices also have implications for local HVAC equipment manufacturing. For example, in order to keep their costs competitive, domestic manufacturers may quietly shift production to countries unaffected by the steel tariffs, thereby resulting in lower steel prices to the company and lower end product prices for the consumer, but also a reduction in domestic HVAC equipment manufacturing.

Steel and Aluminum Tariffs Not Having Intended Effect

And, while the tariffs were touted as a means of supporting the domestic steel and aluminum industry, a survey conducted by Heating, Air-conditioning & Refrigeration Distributors International (HARDI) in March 2018 concluded that:

- current overall domestic steel and aluminum production capacity is insufficient to meet current domestic demand
• with many nations specializing in the manufacture of certain types of steel and aluminum or related products, US steel and aluminum producers are not equipped to manufacture certain targeted materials, such as low-gauge foil involved in the manufacture of foil-scrim-kraft (FSK) facings used on duct insulating products
With Latest Round, Foamed Plastic Market Slowdown?

Published: August 23, 2018
Author: Matthew Hurley

On August 23, 2018, the Trump Administration imposed new tariffs on $16 billion worth of Chinese goods, including chemicals used in the production of foamed plastic insulation. These chemicals are expanded polystyrene (EPS) and extruded polystyrene (XPS), the latter of which is better known by the brand name STYROFOAM. Like the other goods covered by these new tariffs, imports of EPS and XPS from China are subject to a 25% tariff. According to the US Trade Commission, China was the fifth largest foreign source of EPS and the seventh largest foreign source of XPS to the US in 2017.

End Users Likely to Absorb Higher Raw Material Costs

The immediate impact of these tariffs is expected to be an increase in the price of polystyrene foam insulation in the US. This would be detrimental to the US industry in the short-term as foamed plastics are already the most expensive of the major insulation materials. A price increase may cause some homebuilders and commercial building contractors to replace foamed plastic insulation with less expensive products.

Demand for EPS and XPS insulation has been growing at a pace well above the market average for the last few years. Due both to probable price increases and overall uncertainty in the chemical industry as a result of the US-imposed tariffs, producers of both EPS and XPS insulation can expect a slowdown in market growth in the near-term; however, it remains to be seen how the US market will ultimately respond to the tariffs.

Tariff Threat Looms for Other Insulation Materials

Other major insulation materials—including fiberglass, mineral wool, and cellulose—are not directly affected by the August 23 round of US-imposed tariffs on Chinese goods. This should allow these materials, particularly mineral wool and fiberglass, to gain market share from foamed plastics in both residential and commercial markets—at least in the short term.

Looking ahead, however, these materials are not out of the woods yet. The day before the foamed plastic tariff took effect, the White House threatened to impose still more duties on an additional 6,000-plus items imported from China, including fiberglass and mineral wool insulation. If enacted, this could lead to higher prices for these products, ameliorating the likely negative effect of EPS and XPS price hikes on foamed plastic insulation demand.
Supply Chain Shell Game

Published: August 24, 2018
Author: Freedonia Focus Reports

A sort of shell game is playing out in global supply chains as companies seek ways to avoid getting caught in the crossfire of the trade war, usually by employing one of three strategies:

- transshipments
- intra-company supply-demand rearrangements
- move production capacity to another country due to US or retaliatory tariffs

Around the World & Back Again

Transshipment logistics providers (a.k.a., freight forwarders or re-exporters), such as Settle Logistics, can help companies skirt the trade war by landing goods in intermediary countries and re-exporting the goods to their final destination, making them appear as though they’re from a neutral source country. While the act of landing subjects goods to the import duties of the intermediary country—in addition to the duties and extra shipping costs of re-exporting the goods to the US—the total expense may be low enough compared to trade-war-impacted channels to justify the hassle.

However, there are limits to what transshipments can accomplish, particularly because goods must bear country-of-origin marks. Therefore, the effectiveness of re-exports in bypassing the trade war depends on a company’s willingness to engage in false or misleading product labeling practices. Somewhat more legitimate options do exist, though. For example, some companies arrange for the final stages of production to occur in intermediary countries.

The Multinational Advantage

With production capacity around the world, many multinational corporations have great flexibility in eluding the effects of the trade war—as do companies with supplier agreements or potential supplier availability in countries with low-cost labor.

For instance, Volvo announced it will supply its XC60 SUVs to the US market from its factory in Europe instead of China. Similarly, Levi’s, the popular maker of jeans, plans to sell US consumers jeans made in Vietnam if tariffs are imposed on clothes, and sell the jeans it makes in China to Mexican consumers.

Of course, multinationals still face challenges from the imposition of tariffs. For example,
the inefficiencies inherent in mismatched supply and demand geographies (e.g., atypical freight costs and suddenly irrational installed-capacity) are bound to cause headaches.

**The Nudge They Needed**

Indeed, freight costs and capital equipment outlays can make transshipment and supply-demand swaps impractical. In yet other cases, country-of-origin is too obvious to disguise. For instance, there’s no way to hide that a Harley-Davidson motorcycle or Tesla automobile is made in the US, as these products are currently made nowhere else. Due to such factors, many companies have announced that they are moving production capacity to other countries.

For example, toy-maker Hasbro announced in July 2018 that it would move production out of China due to the US-China trade war. Furthermore, two US sellers of home furniture and furnishings, RH (also known as Restoration Hardware) and At Home Group, have announced intentions to reduce sourcing from China. Similarly, JinkoSolar, a Chinese solar panel producer, announced in January 2018 plans to open a facility in the US in response to the Trump administration’s 30% tariff on solar panels.

However, it’s worth remembering that moves like these have often been on a company’s drawing board for some time, and that a trade spat simply gives the extra push to follow through.

For example, Foxconn, the Taiwanese electronics powerhouse known for its China-based production facilities, has had plans to build in India and the US for years. In July 2017, the company announced it was stepping up its plans to build in India after the country imposed an import duty on phones and components. By then, many companies had already begun the process of diversifying their supply chains or relocating production capacity due to rising Chinese wages and increasing intellectual property fights.

**Trade War Hustle**

The escalating trade war between the US and China is continuing to drive an evolution in the way corporations think about supply chains in China. Such concerns began to gain traction a few years ago, as Chinese wages were rising (along with production costs) and companies were reevaluating sourcing strategies. But the imposition of tariffs—which were catalyzed in part by US concerns about its trade deficit with China, as well as China’s growing technological ambitions—is causing an acceleration in this supply chain culture change.

In response to the Chinese government’s goal to boost production of high-tech goods under its Made in China 2025 initiative, the US enacted tariffs and attempted to limit the participation of Chinese technology companies in the US market, hoping to ameliorate the
potential negative effects of competition from China.

However, efforts to limit the impact of China’s growing capabilities on the US technology sector is causing upheaval in the supply chains of many other industries. And it remains to be seen whether tariffs can even effectively countervail China’s unfair trade practices—the primary goal of US initiation of this trade war—which include (among other things):

- currency manipulation
- forced technology transfer
- government financed acquisition of competitors
- intellectual property theft

The next step in negotiating a deal may come when the US and Chinese presidents meet in a multilateral summit in November. Much can happen in the meantime, of course. But one constant is expected: technology will continue to be a major sticking point for both countries.
Canada’s Retaliatory Tariffs Impact Windows & Doors Industry

Published: August 27, 2018
Author: Carolyn Zulandt

On July 1, Canada announced the implementation of tariffs on C$16.6 billion (US$12.7 billion) worth of US-produced steel and aluminum products—a category that encompasses “doors, windows and their frames and thresholds for doors”. According to the Canadian government, the countermeasures “will remain in place until the US eliminates trade-restrictive measures against Canadian steel and aluminum products”.

These retaliatory tariffs came into effect a month after the Trump administration’s imposition of 10% duties on steel and aluminum products exported into the US from Canada. These tariffs, intended to provide a boost to the US aluminum sector, have been met with wide criticism due to concerns that they will increase costs for domestic companies using imported steel and aluminum products in the manufacture of their goods.

A “North American” Window & Door Industry

Unique performance standards and product configurations are the key hindrances to the international trade in windows and doors. However, markets in the US and Canada share important commonalities that have resulted in significant window and door trade (Canada accounts for over 50% of US window and door exports). Such commonalities include:

- close proximity to customers
- easy cross-border transport of goods (and, until 2018, tariff-free trade)
- widespread use and acceptance of US-made building products in Canadian buildings (and vice-a-versa)
- shared performance requirements and testing procedures

The US and Canadian fenestration industries have long aligned their window and door requirements, using performance testing established by the American Architectural Manufacturers Association (AAMA), the Window & Door Manufacturers Association (WDMA), and the Canadian Standards Association (CSA). Both also participate in the National Fenestration Rating Council (NFRC) Product Certification Program. While regional variations in code requirements exist—including the Canadian Supplement to the AAMA 101 standard (applicable only to windows and doors used in Canada) and windborne debris testing for products sold in high velocity hurricane zones (HVHZ) in the US—a shared set of base standards facilitates cross-border trade.
Tariffs Could Lead to Higher Construction Costs in the US & Canada

Participants in the US and Canadian window and door industries have criticized the tariffs implemented by both countries, arguing that such actions will contribute to even higher building construction costs. Manufacturers of windows and doors that use imported metal components will now face higher prices, which they are expected to pass along to consumers.

These tensions come at a time when the US construction sector is already facing price hikes due to the trade dispute over softwood lumber; the 20.83% duty levied by the US on Canadian softwood imports in November 2017 is expected to lead to a 7% increase in the cost of new home construction in the US.

The affordability of new housing in the US sank to a 10-year low in the second quarter of 2018, according to the National Association of Home Builders, due in part to rising building material costs. Facing further price hikes, window and door manufacturers in both countries will hope for a swift resolution to the trade dispute.

To Learn More

To learn more about the US and Canadian windows and doors markets, check out the following studies recently published by the Freedonia Group:

- *Residential Windows & Doors Market in the US, 2nd Edition*
- *Commercial Windows & Doors Market in the US, 2nd Edition*
- *Global Windows & Doors, 8th Edition*
New NAFTA Preliminary Deal Does Little to Quell Auto Market Uncertainty

Published: August 30, 2018
Author: Zoe Biller

On August 27, US President Trump and Mexican President Peña Nieto announced a preliminary renegotiation of the North American Free Trade Agreement (NAFTA). The agreement largely leaves the existing trade pact intact, with a few changes to the sections regarding motor vehicle parts:

- At least 75% of a car’s value must originate in North America, up from 62.5% under existing NAFTA rules.
- 40-45% of the car must originate in plants where workers make $16.00 or more per hour.

But Wait—What About Canada?

After over a year of uncertainty concerning NAFTA’s fate, the announcement of any deal, even a preliminary one, provides some reassurance. However, major problems remain, including:

- Canada didn’t participate in the agreement, and no changes can be made to NAFTA without the consent of all three countries.
- The US Congress hasn’t given its stamp of approval, which is required before any changes to take effect.
- The general public still doesn’t know a lot about the details of the renegotiation.

In the best case scenario, changes will quickly be approved by all parties, and the new NAFTA will become law with few major alterations. There’s a chance this could happen, because auto parts suppliers in the US and Canada stand to benefit since workers in these countries typically earn far higher wages than workers in Mexico. Slightly higher costs might be passed on to consumers, but greater industry stability may outweigh the downside of price hikes.

Trump Turns to Tariffs… Again

However, the plan as it exists is far from certain. Because a 90-day review period is required by the US Congress, it must receive a finalized version by this Friday, August 31, in order for Mexico’s current president to sign it before the end of his time in office. New president Andrés Manuel López Obrador may not agree to the deal, or he may wish to renegotiate yet again.
This is troubling given that Canada must also buy into the plan. President Trump threatened to impose tariffs on vehicles made in Canada if the country’s government doesn't sign, but this move seems unlikely to work, given that Canada has stood firm in the face of past tariff threats from the US president.

Furthermore, President Trump wishes to include a provision in the new NAFTA that would require periodic reviews and changes, making long-term planning difficult for automakers and other capital-intensive industries.

Unfortunately, the preliminary agreement announced will likely only add to uncertainty faced by North American manufacturers in the short term, even if it is submitted to Congress for review by the end of the week.
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