Consumer companies brace for fallout from US steel, aluminum tariffs

Thursday, March 01, 2018 5:47 PM ET

By Evan Fallor

As President Donald Trump plans to impose tariffs on imports of steel and aluminum, U.S. manufacturers and retailers are bracing for retaliatory duties and a potential increase in production costs on a wide range of consumer products.

Trump said March 1 that he will impose tariffs of 25% on steel and 10% on aluminum from all countries. The decision comes after Department of Commerce Secretary Wilbur Ross on Feb. 16 recommended Trump impose steep tariffs on imports of steel and aluminum, as well as a quota on imported steel products.

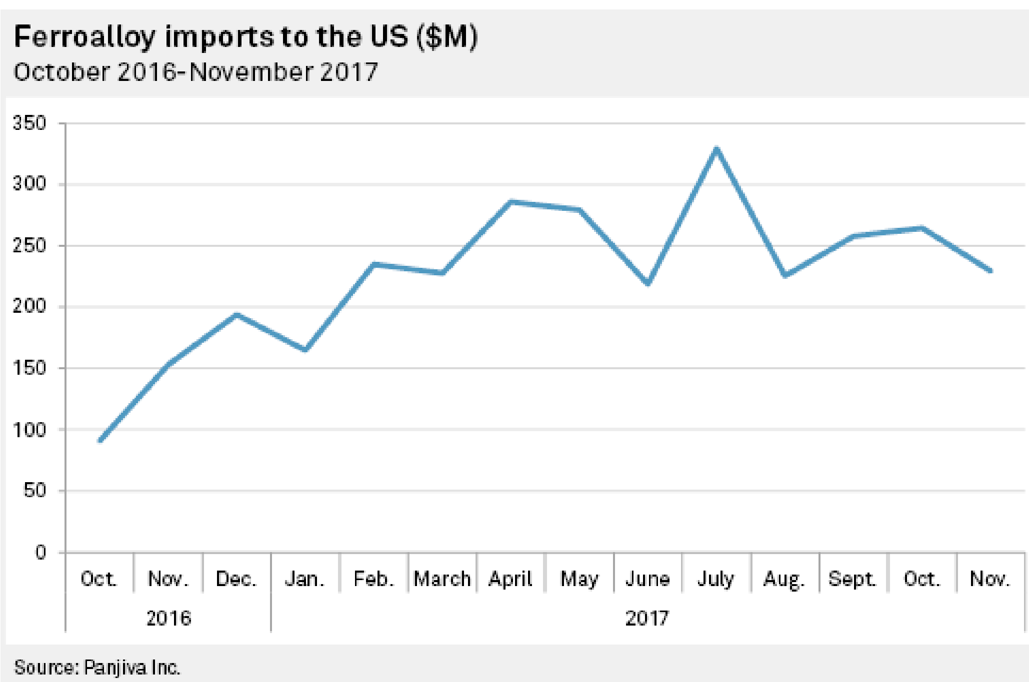
Rising import levels

As the decision on steel and aluminum tariffs loomed, companies appeared to build inventories of imported products. This follows a pattern seen among other products subject to recent tariff decisions.

In January, Trump approved tariffs up to 50% on imports of large residential washing machines in an effort to make domestic producers more competitive. Ahead of Trump's decision, companies appeared to stockpile foreign-sourced product.

A similar trend seems to be the case with steel and aluminum. Imports to the U.S. of foreign-produced steel increased by 31.4% over the past 12 months, according to Panjiva Research, while aluminum imports rose 31.1%.

Total imports of steel and aluminum reached $46.1 billion in 2017, a 30.6% year-over-year rise, according to a Feb. 19 Panjiva report. Steel imports from China totaled $2.74 billion in 2017, according to Panjiva — 17.4% higher than in 2016.



Trade war concerns

Against this backdrop, executives for U.S.-based steel and aluminum companies applauded Trump's March 1 tariff announcement during an appearance with the president at the White House.

"We believe very strongly that it's time for decisive and meaningful action to stem the flow of illegally traded imports into this country," said John Ferriola, chairman, CEO and president of Nucor Corp., a large U.S. steel manufacturer. "And we are counting on the administration to fulfill the promises that were made and to give us that level playing field to compete.

Ferriola said that "cheating" by foreign competitors is "phenomenal."

"Once we initiated the beginning of the 232 [case], other countries saw this as the need to get in before it went into effect," he said. "So what we are asking for today is fast action and action that will last."

While U.S. steel and aluminum executives focus on the positive impact the tariffs could bring, the fallout from the decision remains unclear. The Commerce Department conducted its investigation into steel and aluminum imports as part of a national security review under Section 232 of the Trade Expansion Act of 1962. Utilizing a trade remedy under the premise of a national security review has some trade experts concerned about the potential for a trade war with China as well as the broader geopolitical implications for U.S. allies and trading partners.

While the Trump administration claims tariffs on foreign products make U.S. producers more competitive, others warn that Trump's approval of tariffs could trigger a trade war.

The steel and aluminum the U.S. exports would be a clear target for retaliatory action. Panjiva said in a Feb. 20 report that U.S. exports of steel and aluminum products could be subject to retaliation by China, including aluminum scrap, the largest export line from the U.S. to China over the past year.

Other U.S. metals exports that could be targeted, according to Panjiva, include steel bolt fasteners, which represented $181 million of exports over the same period, and aluminum alloy plate, valued at $90 million worth of exports.

Beyond American-made steel and aluminum products that could face hefty counter-tariffs, U.S. makers of consumer products could also take a hit.

Matthew Shay, CEO and president of the National Retail Federation, called the tariffs a "tax on American families."

"When costs of raw materials like steel and aluminum are artificially driven up, all Americans ultimately foot the bill in the form of higher prices for everything from canned goods to automobiles," Shay said. "These tariffs threaten to destroy more U.S. jobs than they will create while sending an alarming signal to our trading partners and diminishing markets for American-made products overseas."

American Apparel & Footwear Association President and CEO Rick Helfenbein said in an interview that while he is not concerned about direct impact to American footwear and apparel companies in terms of the manufacture of their products, he believes a tariff on steel — especially steel from China — could lead to retaliatory action on American companies doing business in the Asian nation. Apparel and textile imports to the U.S. from China totaled $38.74 billion in 2017, according to government data.

"A lot of [American] apparel companies do more business in China than they do here," Helfenbein said. "[China's] pushback could really hurt them."

"There will be a retaliatory action," he added. "I'm not ... concerned about *if* it will happen. That's a fact."

It's not just China that could be the source of in-kind tariffs on American manufacturers. In July 2017, just three months after the opening of the Commerce Department's steel investigation, the *Financial Times* reported that European Union officials were ready to target U.S. whiskey, orange juice and dairy products as a result of any steel tariffs.

Now, those threats appear renewed. On Feb. 20, German newspaper *Frankfurter Allgemeine Zeitung* reported that the European Commission could respond with tariffs on U.S.-made whiskey, agricultural products and Harley-Davidson Inc. motorcycles.

Inflated costs

The American Automotive Policy Council, or AAPC, a trade group representing Ford Motor Co., Fiat Chrysler Automobiles NV and General Motors Co., has taken notice, as the U.S. auto industry purchases 15% of all steel used in domestic manufacturing, the price of which is already "significantly higher" than in the foreign markets where its competitors assemble their vehicles.

The group warned in a Feb. 16 statement that sales of U.S. cars would actually fall as a result of a Section 232 tariff and provide leverage to foreign producers, despite the Trump administration's goal of making U.S. producers more competitive.

Matt Blunt, the group's president, said the tariffs, if enacted, would go against the Trump administration's goal of making U.S. automakers more competitive.

"We are concerned with the unintended consequences the proposals would have, particularly that it will lead to higher prices for steel and aluminum here in the United States, compared to the price paid by our global competitors," Blunt said. "This would place the U.S. automotive industry ... at a competitive disadvantage."

Steel is used in not only large consumer products like automobiles; it is integral in stocking the stores and distribution centers where customers shop, Hun Quach, the Retail Industry Leaders Association's vice president for international trade, told S&P Global Market Intelligence. Many stores and warehouses have fixtures, racks and other shelving made with steel and aluminum.

"Retailers are closely monitoring the aluminum investigations," Quach said. "As we're trying to keep prices low for American consumers, we don't want to incur additional costs. The secondary costs of additional tariffs will be passed down to us."

To a certain extent, the impact to the consumer sector will be determined by the duration of the tariffs, noted Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University’s J. Mack Robinson College of Business. Permanent tariffs would result in upped costs for consumers, but temporary tariffs would be less likely to cause a hike in consumer product costs, Dhawan pointed out in an interview.

"Tariffs will raise production costs for sure but for it to translate into consumer price hikes is not a certainty," Dhawan said, adding that producers will start by looking at their profit margin. "If they have a cushion and perceive the consumer demand will fall as the price is hiked, then they may absorb the cost," he said. "But not for too long. Only in the short term.”

Details on the duration of the new tariffs have not yet been released.

Panjiva Research and S&P Global Market Intelligence are owned by S&P Global Inc.