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WHAT WILL TRUMP'S NEW TARIFFS MEAN FOR AMERICA'S MANUFACTURING BUSINESSES?

The U.S. has a $3.9 trillion merchandise trade currently navigating challenging waters due to the 2018 trade tariffs, part of the Trump Administration's manufacturing jobs initiative. The new import tariffs announced in March are not the first trade policy updates of 2018. In January, tariffs on steel, aluminum, solar panels, and washing machines were set by the Administration, then a few months later, a revision to the existing policy created a 25 percent steel and 19 percent aluminum import tariffs. 2018's tariffs affect trade partners the European Union, Mexico, and Canada, encouraging our trade partners to create retaliatory tariffs on American exports.

CURRENT FINANCIAL STATE OF TARIFFS

According to leading economists, as reported by Reuters, no one believes the tariffs will be a financial boost to the U.S. economy. But is that also the case with regard to the manufacturing industry in particular or simply a GDP observation? Will manufacturing companies come out on top? Let's take a more in-depth look at the resulting marketplace since the recent import tariff wars began.

On the one side of the ring you have the Trump's import tariffs and a pending war that threatens international relations. On the other side, you have manufacturing activity that is on the upswing. Where does the fulcrum fall?

To start, the U.S. is looking to add an additional $275 billion to the GDP as a result from separate spending and tax cuts—a gain of 1.4 percent—nearly tripling the 0.5 percent GDP gain from the increased tariffs. Full employment coupled with a massive economic stimulus by Congress is increasing interest rates and strengthening the U.S. dollar.

However, these perks from the tax cuts along with regulatory rollbacks have caused a balloon in the economic growth. Enter the tariffs and the unpredictability of what these will do to the global economy. This is where the current financial state lies.

CONCERNS AND CRITICISMS

There is the concern of the manufacturing sector in regard to the tariffs on raw materials and other imported goods. Also, the supply chains including employment resources and transportation remains a struggle according to Forbes. Yet as of July 2, 2018, Market Watch reports that manufacturing data is better than expected in the face of global trade clashes caused by the tariff wars.

Then there are the countries who were directly affected by the tariffs including Canada and the European Union. Even though Canada responded saying there would be retaliation, this has not had an obvious effect on the market as of yet. China is predicted to be the next country to face tariffs, and expectations are that they will likely retaliate. Economically, the data for the manufacturing index showed an increase of 60.2 percent in June, which is up from 58.7 percent in May.

At the same time, Trump proposed a bill in which the US would no longer be required to ask permission or negotiate before raising tariffs. In this bill, the US under Trump would be able to raise tariffs, as well as abandon the rules of the World Trade Organization. This comes at a time when Trump also withdrew the US from the United Nations. Removing all rule over the US appears to be the president's mode of evading regulatory practices governing countries in unison.

COMPANIES HARDEST HIT

Some of the oldest American brands in the nation are already looking across international waters for new territories due to Trump's import tariffs. One of the most recognizable American brands, Harley-Davidson, is moving production of its machines destined for foreign soil to the EU. The move will allow Harley-Davidson to build motorcycles for international markets without paying excessive fees on raw materials including steel due to the revised tariffs.

Manufacturers from different verticals who are sending their production to other countries in order to serve international markets at a lower cost include those producing tobacco, food, and beverage. While some manufacturers are able to split production across borders, certain domestic-bound product manufacturers are feeling the tariff squeeze on raw materials. News of one such domestic product manufacturer in Poplar Bluff, Missouri gained significant exposure months after the Trump Administration enacted the tariffs. Mid Continent Nail Corporation reported job loss on half of their workforce as a result of steel and aluminum tariffs with even more jobs at risk in coming months.

With the added expense of tariffs on raw materials, auto manufacturing states such as Alabama are bracing for reduced workforces as management looks to reduce costs through payroll and likely increase automation. Alabama governor Kay Ivey lobbied against the tariffs, stating the automobile and parts tariffs would cause the state to lose more than 4,000 jobs. Critics expect the windfall from reduced competition will be for corporations who favor automation meanwhile payroll reductions are a concern for blue-collar workforces and labor unions.

ORGANIZATIONS SUPPORT MANUFACTURING

On a larger scope, 12 automobile manufacturers in the US have joined forces in the Alliance of Automobile Manufacturers. These companies include Ford Motor Co., General Motors Co., Daimler AG, and Volkswagen AG. These manufacturers stated that there needed to be “a careful re-evaluation of these tariffs so they address legitimate concerns” without reducing safety barriers protecting consumers. The goal of the Alliance is to find a middle ground between charging legitimate tariffs and increasing prices of goods on down the line.

One of the top manufacturing advocacy organizations in the US, the Aluminum Association which includes interests of Alcoa, was also discouraged by the tariffs particularly on raw steel and aluminum. According to representatives for the association, while the issue is far more complex, a leading cause for price disparity, the catalyst for the tariffs, is China’s overcapacity brought on by illegal Chinese government subsidies for their own domestic mining and refining industries, leading to an artificial price advantage on a global scale.

SOLVING A PURPOSE

If the economists are right and the tariffs are not financially beneficial to the US, then what is the gain? The reality is that based on the numbers, the tariffs are not expected to provide great gains to the nation’s economy on a macro scale, however certain opportunities do exist for the United States of America. President Trump campaigned on a promise to increase domestic production of both sourcing domestic raw materials and manufacturing them to finished goods for domestic and export consumption. The first part of that promise is being realized today, with adverse effects on the second. The second opportunity lies in the nation’s reduced foreign dependence on raw materials and oil; less of an economic opportunity rather a strategic decision for national defense.