

INFLATION & TARIFFS

IMPACT ON GLOBAL SUPPLY CHAIN

Effective September 24th, the U.S. Government now has tariffs levied on almost half of the over \$500 BILLION of annual imports from China. These tariffs have sparked a new wave of inflation throughout the US and global economies, and have exacerbated pressure already in effect from ancillary cost drivers, such as transportation costs, 232 tariffs, low unemployment rates and others.

Tariff Overview

Section 232 on Steel/Aluminum

- Invoked under section 232 of the 1962 trade expansion act in response to a national security risk threatening the domestic steel industry.
- All Raw Steel and Aluminum imports were tariffed 25% and 10% respectively
- Effective March 23rd, 2018, all countries of origin are effected with exception of Argentina, Australia, and Brazil

Section 301 on China Imports

- Invoked under section 301 of the 1974 Trade Act in response to unfair trade practices related to intellectual property.
- List 1: \$34 billion of imports tariffed 25% effective July 6th
- List 2: \$16 billion of imports tariffed 25% effective August 23rd
- List 3: \$200 Billion of imports tariffed at 10% effective September 24th, escalating to 25% effective January 1st 2019

Tariff Impact to Marketplace

The section 301 tariffs will have a widespread impact on goods throughout the US economy and have been a catalyst to additional inflation throughout the global supply chain:

- **Direct impacts** - finished goods coming directly from China receive the full impact of the tariffs. An estimated 80% of that cost will flow through to the final cost of the product.
- **Indirect Impacts** - Components of items assembled in the USA may be subject to section 301 tariffs, effectively driving final costs up, but not to the full extent of completely finished goods. Many commodities are also sourced from multiple countries, which would also see an impact if China is part of that source. Finally, items resourced out of China may be able to avoid a direct tariff hit but could still see some inflation if the new source base cost is higher than China's.
- **Inflation Catalyst** - Demand shifting out of China and into other countries will put pressure on already tight manufacturing capacities and drive prices up.

Inflation

Tariffs are not the only thing driving inflation throughout supply chains:

- Raw material inflation
- Transportation costs are up 22% (fuel/driver shortage)
- Packaging
- Manufacturing labor rates driven by low unemployment
- Interest rates have moved from 1% to 2.25% over the last 6 quarters

Additional Resources

[Section 301 Fact Sheet](#)

[USTR Finalizes Tariffs on \\$200 Billion of Chinese Imports in Response to China's Unfair Trade Practices](#)