

Trump's Tariff on Steel and Aluminum and Its Impact on You...

***By Bob Deitrick
March 2nd, 2018***

We have two seminars regarding the current market climate coming up at Eddie Merlot's which we would like to invite you to:

- A Wednesday Dinner, March 21st at 6:15 p.m. at Eddie Merlot's***
- A Friday Luncheon, March 23rd at 12:15 p.m. at Eddie Merlot's***

Please RSVP to Jace or to Steven and call if any questions arise once reading this letter at: 614.901.3400. Please consider bringing a friend, neighbor, or colleague from work as well.

The United States is the world's largest user and importer of steel. We bought 36 million tons of this raw material in 2017. Canada is the #1 Trade Partner with 38 of our states in the U.S. as well.



Steel bars for sale displayed at a shop in the Mulla-dong steel district in Seoul

Donald Trump surprisingly announced yesterday he is going to impose a 25 percent tariff on steel imports and 10 percent on aluminum imports to protect American jobs. But other countries, including Canada, have threatened with retaliatory action creating fears of a global trade war. Below are the top steel exporters to the United States and their corresponding percentage of total U.S. steel imports:

- **Canada 16.7 percent**
- **Brazil 13.2 percent**
- **South Korea 9.7 percent**
- **Mexico 9.4 percent**
- **Russia 8.1 percent**
- **Turkey 5.6 percent**
- **Japan 4.9 percent**
- **Germany 3.7 percent**
- **Taiwan 3.2 percent**
- **China 2.9 percent**
- **India 2.4 percent**

The biggest concern we at PFP have is the unknown and potential instability this decision, if implemented, brings to the equity markets. Keep in mind that Donald Trump made this call contrary to the advice of his own counsel, or what is left of them. Gary Cohn, Trump's National Economic Council Director, discouraged the President on this decision, yet Trump moved ahead despite that. This event has cast doubt on Cohn's future in the White House after he was unable to dissuade the President. Trump's tariff plan sent stocks into a tailspin Thursday, re-approaching the February lows.

On Thursday, conservative Larry Kudlow, a CNBC contributor and economist who served in the Reagan administration said Trump's tariffs are a "bad omen" and could cause "major calamity." Kudlow also spoke to Cohn urging him to stay on at the White House and "fight for another day." Cohn is one of the remaining legs of stability in The White House.

The Libertarian Cato Institute commented by saying "it's hard to understand what has gotten into the President." Industries that use steel collectively contribute more to growth in the United States and employ more workers as compared to the steel producers, said Daniel Ikenson, from the Cato Institute. The economics don't make sense, we're going to hurt ourselves," he said. We at PFP have determined that the economic contribution by the steel-using industries is 15 times greater than the steel producers. Further, steel users in the U.S. employ 57 workers to every one employee of the steel producers. Major steel and aluminum users in the U.S. include the auto sector, construction, aerospace and the beverage industry.

The prospect of retaliation from Canada, China and Europe sent global stocks tumbling on Thursday and Friday. Canadian Prime Minister Trudeau said this decision was "absolutely unacceptable" and that "any disruption to this integrated market would be significant and serious." On Friday, Electrolux said it was delaying a \$250 million expansion of its plant in Tennessee due to worries that U.S. steel prices would rise and make manufacturing there less competitive.

White House adviser, Peter Navarro – a protectionist on trade, brushed off the drop in U.S. stock prices and the negative effects of tariffs on U.S. industry. He said a 10 percent tariff on aluminum would add one cent to the cost of a can of beer, \$45 to a car and \$20,000 to a Boeing 727 Dreamliner.

The EU called the U.S. tariffs a blatant intervention that amounted to protectionism and promised to act "firmly" in response. The EU sees itself as a global counterweight to the protectionist-leaning governments like the U.S. and Great Britain. We don't see this as a situation where one party loses because another party wins. Trade should be beneficial for everyone," per the EU.

Steel has been an important focus for Trump, who wants to restore the U.S. steel industry and punish what he sees as unfair trade practices, particularly by China. The reality is that we get less than 3% of our steel from China so this will likely not punish them at all. In fact, we suspect that this new policy may wind up punishing American consumers more than anyone in the form of higher inflation on goods and services we purchase every day.

Republican U.S. Senator Ben Sasse, said there were only losers in trade wars. According to Sasse: "Kooky 18th century protectionism will jack up prices on American families and will prompt retaliation - if the president goes through with this it will kill American jobs."

The last major tariff implemented by the U.S. was the Smoot-Hawley tariff installed by Hoover and the Republicans during the Great Depression. Smoot-Hawley caused threats of retaliation by other countries before the bill was enacted in June of 1930. When it passed the House a year earlier, boycotts broke out and foreign governments created tariffs against American products. By September of 1929, Hoover received protest notes from 23 of our trading partners. By May of 1930, Canada, our most loyal trading partner, retaliated imposed tariffs on products on 30% of US exports to their country. Canada later forged closer economic ties with Great Britain, France and Britain developed new trade partners, and Germany developed a system of autarky – leading to the rise of Hitler. In 1932, with the depression having worsened for workers and farmers, despite Smoot and Hawley's promises of prosperity from the tariff, both men lost their seats in the elections that year.

We at PFP believe free and fair global trade is paramount to our free-market economy and we are concerned about the measures being considered, if implemented. We are watching these events closely and will keep you apprised of what is going on and what we intend to do if things become problematic. Thank you for your time and have a terrific weekend!

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