

## BUSINESS

# Trump's tariffs could send prices for U.S. manufacturers soaring. That includes Wisconsin firms

*Tariffs protect some American manufacturers but hurt others*



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Wisconsin manufacturers are bracing for the impacts of tariffs and trade wars in the next Donald Trump presidency, although some companies may get a break from foreign competition.

Tariffs, fees levied on imports, make it more expensive for U.S. manufacturers to produce goods using raw materials and components from outside the United States. Also, when other countries retaliate with their own trade sanctions, it hurts sales of American products in those markets.

President-elect Trump has said he would sign an executive order introducing a 25% tariff on all goods coming from Mexico and Canada. At times he's also suggested tariffs of up to 100% on China.

Trump says those moves are aimed at forcing the three countries to curtail the flow of illegal drugs into the United States and migrants entering the country illegally.

However, business groups warn Trump's tariffs would be ineffective and costly.

"If imposed, tariffs themselves would not solve our border problems and instead would send prices soaring...with significant harm to U.S. manufacturers," John Murphy, a senior vice president at the U.S. Chamber of Commerce, said in a statement.

Moreover, the affected companies could seek workarounds which don't necessarily advance the Trump agenda and may harm America's closest trading partners and global interests.

“Trade is like water; if it is blocked from flowing in one direction, it will flow in another,” said Kurt Bauer, president and chief executive officer of Wisconsin Manufacturers and Commerce.

## **Tariffs helped revitalize a Wisconsin industry**

Tariff supporters say the import fees, when prudently applied, can shield American industries from unfair foreign competition.

In 2021, a coalition of U.S. cargo trailer manufacturers prevailed in their complaint that Chinese companies were selling trailer chassis in the United States for below the fair market value, a trade violation known as dumping.

As a result, the U.S. levied tariffs of more than 200% on those chassis used to haul shipping containers on American highways. Sales returned to the U.S. manufacturers, including Stoughton Trailers in Stoughton, supporting thousands of jobs in Wisconsin, Michigan, Pennsylvania, New Jersey, Alabama and Texas.

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Critics said the tariffs raised chassis prices across the industry and led to higher transportation costs for goods carried by truck, which is nearly everything.

But prices eventually settled to levels that are now the same or lower than when China had a monopoly on the chassis market, said Stoughton Trailers President and CEO Bob Wahlin.

The five-year tariffs have lessened the nation's reliance on China and have given U.S. trailer manufacturers time to rebuild their chassis business, according to Wahlin.

Some Chinese companies moved production for the U.S. market to Thailand. The strategy, called "country hopping," is a tariff avoidance that's difficult to counter.

"Unfortunately, that's the game they play," Wahlin said.

## **Companies are stockpiling to get ahead of tariffs**

While some U.S. companies, like Stoughton Trailers, have benefited from tariffs on foreign competitors, others are worried about higher costs of imported goods, lost export sales from retaliation, and broken supply chains.

“It’s top of mind for most executives,” said Per Hong, senior partner in the strategic operations practice of Kearney, a global management consulting firm based in Chicago.

“I think there will be winners and losers very quickly in terms of companies that are prepared and those that are not,” Hong said.

Economists say the negative consequences outweigh any benefits.

Tariffs can last a long time, overlapping presidential administrations, said Marko Bastl, director of the Marquette University Center for Supply Chain Management.

Wisconsin’s large manufacturing sector makes the state especially vulnerable to tariffs and protectionist policies, according to Scott Niederjohn, director of the Free Enterprise Center at Concordia University Wisconsin.

He's also a visiting fellow of the Milwaukee-based Badger Institute, a nonprofit policy research organization which supports free markets and limited government.

"With more than 480,000 jobs in the sector, Wisconsin ranks seventh among the U.S. states in manufacturing employment," Niederjohn wrote in a Badger Institute column.

"Against this background, a recent study by two Federal Reserve Board economists found that the U.S. tariff increases of 2018 and 2019 led to significant reductions in manufacturing employment," he wrote.

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What should companies do to prepare for tariffs on the products they import?

"It depends on how much, how long, and how soon," said Brian Jacobsen, chief economist for Annex Wealth, a Brookfield-based investment management firm.

"Some companies are accelerating purchases to squeeze them in before tariffs might be applied, but that’s only a temporary solution if they think the tariffs will be a permanent feature of the next administration," Jacobsen said.

"It could buy them time to learn what the tariffs are and who they are applied to. That can allow them to explore sourcing from other countries or perhaps finding domestic suppliers," he added.

There are downsides to stockpiling.

"If everyone else is stocking up, it just drives up the price today or keeps it from falling. You also have to store the materials and that can be costly. Trying to front-run any tariffs can be self-defeating when looking at the all the costs," Jacobsen said.

## **Pandemic lessons may help companies deal with tariffs**

Some companies may choose to simply wait until Trump settles on specific actions.

"They might just try to roll with the punches the best they can. They can try to outsource, find alternative sources, enter partnerships, or do any number of things besides sinking a ton of money into building a manufacturing plant," Jacobsen said.

Lessons from the Covid-19 pandemic, when global trade was severely disrupted by shutdowns of factories and shipping ports, may be valuable during a period of new tariffs.

Covid "really sharpened the knife in terms of dealing with supply chain issues," said Nicholas Ariens, president and chief operating officer of Ariens Co., a Brillion manufacturer of snow throwers and other outdoor power equipment.

Ariens Co. imports components from China, Mexico, Canada and other countries. It also sells equipment all over the world, so exports are important.

The company has spent decades creating a reliable global supply chain and locating backup sources needed when there's a pandemic, a port strike, a natural disaster, or tariffs.

"We have worked hard on dual sourcing just because of supply chain issues," Nicholas Ariens said.

On average, manufacturing costs 30% more in the United States than China. Yet more companies are considering the total cost of production including tariffs and lost sales from trade wars and global instability.

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Southeast Wisconsin has a plethora of plastic-injection molding firms that would benefit from companies bringing work to the United States, according to Dale Kooyenga, president of the Metropolitan Milwaukee Association of Commerce.

“Some of these are products you would think were made in China,” Kooyenga said, while others are used in the medical industry where there's a preference for American suppliers following strict standards.

## **Mexico won't be bullied by Trump's threats**

China has invested heavily in Mexico to take advantage of duty-free trade between the U.S., Mexico and Canada, but it's a known backdoor for Chinese companies that Trump will likely close.

Still, Trump's threat of applying a 25% tariff on everything coming into the United States from Mexico wouldn't be a lasting or productive solution, according to Jason Wolfe, president and CEO of NovaLink, a contract manufacturer, or maquiladora, in Matamoros, Mexico.

Mexico has around 5,000 maquiladoras, which are factories that take raw materials and parts and assemble them into finished products for foreign-owned companies — most of them in the United States.

NovaLink's capabilities and products vary widely, from clothing and sporting goods to aircraft seating and fire extinguishers. Toyota, Patagonia and Turtle Fur have been among its many clients.

"We have everything in place for a company to relocate their operation, whether it's from China, the U.S., or anywhere else," Wolfe said.

Mexico is a proud country, and newly-elected president Claudia Sheinbaum Pardo won't be bullied by threats of tariffs, according to Wolfe.

"If she's pushed too far, my fear is she's going to say 'I can duke up the fist as well,'" he said.

Should the U.S. attempt to strong-arm American companies into leaving Mexico, those companies would likely just seek another low-cost country to manufacture their goods.

There will always be a need to manufacture low-cost consumer goods, like a \$10 toaster, whether it's in Mexico or Asia, Wolfe said. Time to market and available labor are advantages for Mexican factories in any kind of manufacturing.

"As far as I'm concerned," Wolfe said, "we are going to continue doing what we do and muscle through this, working with our clients to figure out the best course of action for

everybody."



Bob Wahlin, CEO and president of Stoughton Trailers in Stoughton, Wisconsin. *Mark Hoffman / Milwaukee Journal Sentinel*



Workers build an intermodal container chassis trailer at Stoughton Trailers near Madison. The company benefited from U.S. tariffs placed on a Chinese competitor. *Mark Hoffman/Milwaukee Journal Sentinel*