



## NAFTA Negotiations: Will the U.S. Throw Punches at Canadian Manufacturers?

### Description

According to sources with knowledge of the NAFTA renegotiation, which began on August 16, the United States did not open with specific details of the extent to which it wanted to increase national content for auto manufacturing. Robert Lighthizer, the top trade official for the Trump administration, stated that the White House was seeking tougher rules of origin for automobiles.

The current rules of origin require that automobiles must meet 62.5% North American content, and components must meet 60%. In the last year, the United States had an auto and parts trade deficit with both Canada and Mexico (though a much more substantial deficit with the latter). The subject of trade deficits has been a significant focus in the rhetoric of the Trump administration. Still, leaked conversations between President Trump and the Mexican President Nieto seemed to indicate that Canada was not in the cross-hairs of the administration.

The stock for **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) was mostly stagnant throughout the week of August 14-18, rising 0.16%. The company released its second-quarter earnings on August 11 and posted record results, but investor response was lukewarm due to a 3% drop in North American production. Magna has diverse global demand and is aggressively moving into fast-growing markets in China, eastern Europe, India, and South America. An attempted shift to grow North American content relative to its global competitors may produce a change in strategy.

**Wipak Ltd.** ([TSX:WPK](#)) is a Winnipeg-based company that manufactures and distributes packaging materials and various products used to protect perishables and healthcare applications. The company released its second-quarter results on July 27. It reported net income of \$25.7 million, or \$0.40 per share, compared to \$25.2 million, or \$0.39 per share, in Q2 2016. Over a three-month period, the stock has fallen 9% as of August 18, and it has been in a steady decline since reaching a peak in late June.

**Linamar Corporation** ([TSX:LNR](#)) is the second-largest automobile parts manufacturer in Canada. The company released its second-quarter earnings on August 2 and reported sales of \$1.77 billion, which represented a 6.6% increase from Q2 2016. The stock offers a dividend of \$0.12 per share, representing a 0.71% dividend yield. Chief executive Linda Hasenfratz remarked in an interview in April that the protectionist rhetoric of the Trump administration would not come to fruition. The company has

been more aggressive with its push into Asia since she took control in 2002.

Input from representatives of these sectors reveal a common skepticism regarding the benefits of protectionist policies, even from the perspective of an economic Goliath like the United States. From the moment the negotiations were announced, it was presumed that much of the harshest rhetoric was simply a starting negotiating position from which the United States could extract concessions.

When it comes to manufacturing, the intricacies of the economies in the NAFTA agreement make it very difficult for a heavy-handed policy to prove its effectiveness. Expect cooler heads to prevail by the time the negotiations end and bet on the global strategies of Linamar and Magna International.

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1. Editor's Choice

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2. TSX:LNR (Linamar Corporation)
3. TSX:MG (Magna International Inc.)
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aocallaghan

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