3 Industries Feeling the Effects of U.S. Tariffs on Steel and Aluminum

Description

Despite reaching a new trade deal with Mexico and Canada, the U.S. has insisted that the country's 25% tariffs on steel and aluminum are not going anywhere anytime soon.

This has only meant that Canada's tit-for-tat tariffs on American imported steel will continue until further notice, along with additional surcharges that have been levied on foreign imports to stop other countries — like China — dumping their cheap steel into the Canadian market.

The result is lower steel production on the part of manufacturers and higher prices for consumers and businesses.

At least three industries stand to be directly impacted by the punitive tariffs — truth be told, the real number a lot higher — but let's start by taking a look at how higher steel prices will trickle down to the auto sector, the housing market, and even the beer markets.

One of the most inexplicable aspects of the U.S. and Canada's steel tariffs is that a steel or aluminum product that is imported to Canada and then exported back to the U.S. is effectively dinged twice with tariffs.

It's hard to say how many goods will be affected by this — and to what length businesses will go to circumvent it — but one industry that has historically been characterized by a back-and-forth supply chain where different suppliers will work together, each specializing on a narrow aspect of the production process, is the auto sector.

It probably shouldn't come as much of surprise then that a company like **Martinrea** (TSX:MRE), a relatively small auto parts manufacturer (when you compare it to the likes of **Ford** or **General Motors**) has seen its share price slump by 29% since the beginning of October.

Higher steel and aluminum prices will almost inevitably increase the cost of a North American vehicle. How these things tend to work out is that to keep prices as low as possible for consumers, the big manufacturers will try to squeeze every last possible penny out of the smaller players like Martinrea.

Another industry that is not expected to fare well from the new tariffs is the housing market.

Jesse Goldman, a trade lawyer whose clients include the Canadian Coalition for Construction Steel, says that he expects the cost of the average condominium could rise by as much as $10,000 as a result of the new steel tariffs.

That not only stands to raise the cost for builders to develop new projects, but it also bears the threat of forcing some developers to delay projects already under construction.

Not only is that bad for those who work in the construction industry, but it stands to reduce the available supply of new condos in the market, which should, in theory, lead to even higher prices still.

And given that interest rates are already on the rise and the federal and provincial governments have taken steps to make it more difficult for first-time buyers to purchase a home, it doesn't bode well for a company like **Home Capital Group** (TSX:HCG).

Owing to the nature of the type of clientele that Home Capital tends to focus on, it would be most vulnerable to a setback in the Canadian real estate market.

Last but not least are North American beer brewers.

Unfortunately for them, beer sales were already off to a rough start at the beginning of the year, as consumers have been shifting their drinking habits toward wine, spirits, and smaller craft brewers.

And there's still no telling how last week's legalization of recreational cannabis in Canada will threaten beer sales either.

But on top of all that, the cost of aluminum is a key input into the cost of the packaging of beer cans.

Brewers like **Molson Coors Canada** (TSX:TPX.B)(NYSE:TAP) are likely to see their manufacturing costs rise when they order more inventory in the second half of the year, which will either eat into their profits or be passed on to consumers.

Bottom line

Supply-cost inflation, as economists call it, is a daily part of life.

The natural response for businesses that have to deal with it is to try their best to pass the cost increases along to consumers.

Sometimes this strategy works; other times it doesn't.

But the reality is that it's never a "good thing," and so in light of recent events, until the U.S. and Canada can start to make some headway on their ongoing negotiations, these are three sectors that you may want to steer clear of for the time being.

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