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Businesses bemoan tariff hikes

South Florida companies fret over Trump's potential tariffs on key trading partners

By Brian Bandell
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Tariff woes have been a fact of life for U.S. companies since Donald Trump's first presidential term. But the threat of substantial hits to businesses' supply chains has intensified as the president-elect is poised to take office.

During his recent campaign, Trump advocated for a 60% tariff on China and a 20% across-the-board tariff on all imported goods. And after his election win in November, he called for introducing a 25% tariff on all products from Mexico and Canada.

If Trump ramps up tariffs on just those three countries, it would impact a massive amount of trade. That's because Mexico, China and Canada were the top three importers of goods to the U.S. through the first 10 months of 2024, accounting for 42% of all imports by value, Miami-based WorldCity reported.

Tariffs are absorbed by companies that import the goods. So, this would raise costs and reduce profits for a host of businesses that rely on products and raw materials from overseas. To make up for those losses, businesses typically pass those costs onto consumers through price increases, which can reduce demand for their products.

Kevin Maloney, president and CEO of Miami-based developer Property Markets Group, said many building materials used in its high-rise projects are imported, such as glass and concrete from Mexico, wood from Canada, and rebar from China. Paying higher tariffs would drive up building costs and erode profit margins. In response, PMG could raise condominium prices, or decide a future project isn't worth pursuing.

"There is no question that if tariffs are imposed in the full force at the amounts being advertised that we will have inflation and our costs will go up," Maloney said. "They will go up in just about every manufacturing business."

Yet, there are ways for businesses to avoid higher tariffs.

That's why PMG, developer of Miami's tallest tower, the Waldorf Astoria Residences, is ordering far ahead in bulk from subcontractors to lock in favorable pricing. Maloney said it bought 48 elevators at a bulk discount for 10 of its projects nationwide. He also seeks long-term agreements with suppliers to lock in materials prices for two to four years.

Yet, not every construction expert is convinced tariffs will be a big deal.

Peter Dyga, president and CEO of Associated Builders and Contractors in South Florida, said tariffs didn't cause a problem for construction during Trump's first term and, in fact, inflation was relatively low during those four years. He suspects Trump will use tariffs as a negotiating tool to win concessions from other countries to accept U.S. goods, without actually imposing tariffs on U.S. imports, he added.

"The supply chain will be improved when European, South Asian and Central American markets open up to more of our products," Dyga said.

China trade already shrinking in the U.S.

Tariffs on China would accelerate a trend that started with Trump's first term and continued during the Covid-19 pandemic: less reliance on imports from China.

Since Trump's first term, China is no longer the U.S.'s largest trading partner, said Ken Roberts, president of WorldCity, which tracks trade data. He added that, despite assertions that increasing tariffs would reduce the nation's trade deficit, it hasn't happened. Instead, countries such as Mexico, Canada, Vietnam and Taiwan saw their imports to the U.S. boom.

Still, China dominates certain product categories such as toys, computers and phones, so tariff hikes would hit U.S. buyers hard, Roberts said.

“If Trump puts a 60% tariff on China, I would be astonished,” he said. “The repercussions would be hard to imagine. Prices would have to adjust immediately.”

So much of what we eat and use in the U.S. is made overseas, and it’s not always feasible to manufacture all of it domestically at competitive prices, said attorney Peter Quinter, chair of the U.S. customs and trade law group at Gunster in Miami. More tariffs on China would likely cause manufacturing to move to other low-cost countries, not the U.S., he said.

“You’re not going to make clothing and footwear in the U.S.,” he said. “And the same with auto parts. We assemble cars in the U.S. We don’t really make them.”

In some cases, a product could start the manufacturing process in China, be shipped to a country like Mexico for final assembly, and then be imported to the U.S. without paying the higher tariffs placed on Chinese products, Quinter said.

Many companies have been looking outside of China, which has made Vietnam a huge player in manufacturing – often in factories owned by Chinese investors, said Joseph Firrincieli, sales manager at New York-based freight and logistics firm OEC Group. Yet, Vietnam doesn’t have the vast infrastructure and population that China has, so it can’t replace China’s output for U.S. buyers.

“If these tariffs go through, every sourcing manager out there will be traveling like crazy to find other countries to make their commodity on par with China,” he said.

Seeking alternatives to Chinese imports

Coral Springs-based Aere Marine Group, which makes inflatable fenders for boats, has reduced its reliance on Chinese goods by a third in response to tariffs and supply chain challenges during the pandemic, COO Vicki Abernathy said. It sources more fabric from Europe now, and strives to obtain materials such as yarn from the U.S. as much as possible.

If Trump raises tariffs on China further, the company will do what it can to avoid them and manufacture outside of China, she said, but it's hard to avoid in all cases. Aere Marine Group can raise prices for its big fenders for large yachts and make them in the U.S. because those customers are less price-sensitive. But it's harder to hike prices on small fenders for boats 30 feet or under, which it has manufactured at a plant in China for 20 years, she said.

"It's just not cost-effective to build them here," Abernathy said. "I don't know what we would do."

More companies will consider sourcing their goods in the U.S. due to increased tariffs, said Matt Lekstutis, an Orlando-based supply chain leader for trade consulting firm Efficio. Increasing automation in domestic manufacturing and major federal investments, such as the CHIPS and Science Act for semiconductor facilities, should make it easier for more advanced products to be made in the U.S., he said.

"We've got a great environment for that investment in manufacturing in the U.S., and these kinds of disruptions, like tariffs, will only spur it further," Lekstutis said.

However, he said manufacturing lower-cost goods is less likely in the U.S., as opposed to Southeast Asia or Latin America.

Increasing trade with Latin America could be a boon for South Florida ports that are close to the region.

Miami-based Lennar Corp. (NYSE: LEN), one of the nation's largest homebuilders, started reducing its reliance on China during Trump's first term. During his fourth quarter conference call with analysts, Lennar co-CEO and President Jon Jaffe said it made a major shift from Chinese and other Asian manufacturing importers starting eight years ago to now source the majority of its supply chain from U.S. manufacturers. It also sources more timber from the U.S., but there would still be a financial impact from the tariffs.

"There remain some parts made in China, primarily electronic components used in the manufacturing of products that are assembled here," Jaffe said. "These components become subject to tariffs. We estimate the potential cost impact to be in the range of $5,000 to $7,000 per home."

Importers could seek an exclusion to avoid tariffs on certain products that aren't available elsewhere, but there's a limited window to do so, said Lori Mullins, director of operations in Houston, Atlanta and Virginia for custom broker Rogers & Brown. They have 90 days from the announcement of tariffs to seek an exclusion, and it only lasts a year or two before they have to apply again, she said.

Mullins said it would be a more complicated and lengthy process for Trump to impose tariffs on nations that have existing free trade agreements with the U.S., such as Canada and Mexico. Trump signed agreements with both countries in 2020.

It would be faster to increase tariffs on China because the U.S. already issued findings on China's alleged unfair trading practices, she added. Many of her clients still rely on China for goods from air-conditioning units to windows to furniture, and they would be hard-pressed to find them at low cost elsewhere. Plus, it's difficult to identify another supplier overnight.

"Americans want to buy cheap and not give up the quality," Mullins said. "But tariffs will impact how cheaply products get to the market."

Uncertainty looms for manufacturing businesses

The biggest challenge surrounding tariffs is it's uncertain how this will play out, so companies won't have enough time to react, said attorney James Cassel, chairman and co-founder of Miami-based investment banking firm Cassel Salpeter & Co. It's hard to acquire a company that relies on products from Mexico or Canada when a tariff could suddenly increase costs for that business and drive its value down, he added.

"When looking at any business importing its products or manufacturing, you have to examine its whole supply chain and determine how long it could take to reasonably move it [to avoid tariffs]," Cassel said.

That uncertainty will lead to more demand for warehouse space in the short term, he said. Many companies are rushing to import goods from countries that might be subject to elevated tariffs and stockpiling them in the U.S.

Smaller businesses are likely to be hit hardest by tariffs because few of them have the capital to preorder and warehouse a vast amount of goods, said

Margaret A. Kidd, program director and associate professor for supply chain and logistics at the University of Houston.

Additionally, higher tariffs on China are likely to result in inflated costs for consumer goods. That would disproportionally impact lower-income households, so companies that rely on those customers may deal with lower sales, she added.

“You don’t want to be caught flat-footed,” Kidd said. “So, if you weren’t already looking at supply chain diversification after Covid, then shame on you.”