February 17, 2025

Valued Customer,

Border States is committed to keeping you updated on current supply chain trends, including material constraints, inflationary price pressures and other market trends. We continue to work diligently to provide you with the most current information possible, knowing this information could change at any point.

Our supply chain remains unpredictable with consideration to ongoing labor disputes, global armed conflicts, geopolitical actions, including the threat of additional import tariffs, demand volatility and economic uncertainty. Prices remain volatile due to ongoing commodity uncertainty and import costs. While wage growth and labor participation are normalizing, we expect ongoing global inflation will continue to drive price pressures this year.

The Federal Reserve (the Fed), which last met January 28–29, decided to pause the rate-cutting cycle initiated in September 2024 and hold rates. In its post-meeting statement, the Fed said it was maintaining the target range in its continuing effort to lower inflation. “The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid,” the Fed said in a statement. In January, the U.S. labor market showed continued signs of resilience as the unemployment rate fell, wages grew more than expected and December’s monthly job gains were revised upward. The Fed meets again on Tuesday–Wednesday, March 18–19, and many economists are currently predicting rates will remain unchanged.

The Consumer Price Index (CPI), which measures price changes across commonly purchased goods and services and the average change over time in the price paid for those goods, has declined significantly from its high of 9.1% in June 2022; however, it remains above the Fed’s target of 2% as it rose 3% for the 12 months ending in January. This marks the fourth consecutive month of increases in the annual inflation rate, when it was 2.4% in September. Economists also predict that President Donald Trump imposing broad tariffs on trading partners would raise prices for consumers. The Producer Price Index (PPI), which measures the average price changes seen by producers and manufacturers, rose 0.4% last month, offering more evidence of inflation picking up again and further strengthening estimates that the Fed will not cut interest rates before the second half of the year.

As of February 13, President Trump has implemented significant tariff measures affecting international trade (summarized below). While developments are still emerging regarding tariffs, impacts are expected, but not limited to:

- Increased costs for components and finished goods coming from impacted countries.
- Tariffs may cause companies to seek alternative suppliers in countries not subject to tariffs, which increases the risk of supply chain disruptions as demand increases and increased logistical complexities potentially enter the supply chain.
- Tariffs can also drive further onshoring. While both onshoring and nearshoring build a more resilient supply chain over time, they also require significant investments in infrastructure and workforce training, which can drive up costs in the short term.

- Retaliatory tariffs on U.S. goods from countries responding to additional tariffs could also add additional costs and challenges to the supply chain.

Tariff summary, as of February 13:

- Tariffs on steel and aluminum Imports: On February 10, President Trump announced a 25% tariff on all steel and aluminum imports, aiming to protect domestic industries.
    - **Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs – The White House**.
- Reciprocal tariffs: The administration is also preparing to introduce reciprocal tariffs, ensuring that if another country imposes a tariff on American products, the United States will apply the same tariff to that country's goods.
- Tariffs on Canada, Mexico and China: On February 1, President Trump signed executive orders imposing additional tariffs on China (10% on imports) and Canada and Mexico (25% on most imports, with a 10% tariff on energy resources from Canada). Tariffs on China took effect on February 4, while those on Canada and Mexico were delayed until Tuesday, March 4, after agreements were reached.
- China's retaliatory measures: In response, China announced retaliatory tariffs of 10% and 15% on select U.S. natural resources and machinery, effective February 10.

For additional information on tariffs, please read the **Fact Sheet** on our website.

The U.S. government has undertaken several legislative initiatives to enhance supply chain resilience and prevent disruptions. In December, a bipartisan bill was introduced to strengthen American manufacturing, maintain stocked store shelves, and reduce costs for consumers. The legislation aims to bolster manufacturing jobs and ensure availability of critical goods. Also, in January, proposed legislation was reintroduced focusing on collaboration between the federal government and private entities to identify and address supply chain vulnerabilities, thereby strengthening economic security. These legislative efforts are focused on strengthening U.S. supply chains across various sectors to mitigate future disruptions and enhancing economic resilience. Additional impacts will be provided once/if enacted and more specifics for our industry are known.

Material Lead Times

In January, lead times varied only slightly from the previous month, where we continued to see overall downward trends across all core markets. Political actions, such as tariffs and other regulations, could impact the downward/stable trends but, for now, most markets are at or below prepandemic lead times.

Key areas we continue to observe are noted below.

Construction and Industrial

- Distribution equipment: Circuit breakers, load centers, panels, switches
- Fuses
- Meter sockets and hubs
- Automation products controls
- Strut
- Cable tray

Utility – Electrical, natural gas, communications

- Wire and cable: 600V aluminum, bare overhead distribution and transmission, primary underground
- Transformers, capacitors and voltage regulators
- Pad-mount switchgear
- Fiberglass box pads and enclosures
- Transmission insulators and related hardware
- Underground cable accessories
- Gas regulators
- Excess flow valves
- Meter risers and meter set assemblies
- By-pass meter valves and bars
- PE pipe, tap tees, and line stoppers

Logistics and Freight

- **Ocean freight** – Global container prices have softened an average of 18% over the past 30 days, driven primarily by the tentative ceasefire deal reached between Israel and Hamas. Due to the conflict and ongoing attacks on shipping vessels by Houthi rebels in Yemen, more than 60% of all trade through the Suez Canal has been routed around Africa's Cape of Good Hope, adding an average of 10–15 days and over $1 million in fuel cost per sailing. The Suez Canal Authority expects traffic through the Egyptian waterway to gradually return to normal by late March and fully recover by midyear, as long as a ceasefire remains in place. This will have a positive impact on global ocean container costs and transit times. U.S. imports remained strong in January as many shippers looked to move goods prior to tariff actions and get ahead of the Chinese Lunar New Year. January 2025 saw the highest import levels on record into the United States and 10% higher volumes over prior year. Despite high volumes, the top 10 U.S. ports are reporting little to no impact on dwell and transit times. Despite softening post pandemic, container rates remain elevated 60% higher than historical averages.
- **Trucking market** – The U.S. trucking market appears to have hit an "equilibrium," where availability truck capacity appears to be aligned with current demand. While U.S. trucking volumes continue to soften — December volumes were down 3.2% over prior year — available capacity continues to exit the market. In 2024, over 13,000 small-/medium-sized carriers existing in the U.S. market represented a loss of more than 4% of total capacity. While available capacity is tightening, seen in rising DAT load-to-truck ratios for vans and flatbeds, spot and contract freight rates per mile remain flat and at historical lows. Diesel fuel prices remain stable over the past 30 days through the transition to the new administration, ongoing strong U.S. oil production and easing tensions in both the Israel/Hamas and Russia/Ukraine armed conflicts, which have disrupted strong global oil-producing areas. It is believed the U.S. trucking market will see a rebound in mid-2025, driving up per-mile rates, tightening capacity and driving more carriers back into the market.

Raw materials (commodities)

The anticipation of and response to the impacts of tariffs were a key driver of almost all commodities seeing price increases month over month. While the full scope and impact of tariffs are still not fully known, pricing and availability of commodities will likely continue to see an impact in the near term (notably as additional details and impacts are known regarding the March implementation of tariffs on steel and aluminum). Other factors, including the Chinese economy (which saw inflation hit its highest rate since August 2024), the Fed's interest rate decisions and other policy decisions (such as the sanctions in Iran) will all play a role in future raw material pricing and availability.

- **Copper** – In response to President Trump's 10% tariff on imports from China that took effect on February 4, China announced limited tariffs targeting energy and machinery imports, which took effect on February 10. As a result, copper prices have increased month over month by 6%. This increase is due, in part, to anticipated impacts of tariffs and as demand continues to grow. In addition, the Copper Development Association officially wrote to President Trump to add copper to the U.S. Geological Survey critical minerals list due to its essential role in national security, infrastructure and emerging technologies. Adding copper to their published mineral commodity report this year could help secure domestic production and support long-term economic and national security needs.
- **Aluminum** – Over the weekend of February 8–9, President Trump said he plans to announce 25% tariffs on all steel and aluminum imports to the United States. The U.S. aluminum industry urged President Trump to exclude Canadian aluminum from tariffs, aiming to safeguard jobs and domestic manufacturing. Canada provides two-thirds of U.S. aluminum annually, and 90% of aluminum scraps are from Mexico and Canada due to limited domestic production capabilities to meet demand. Aluminum prices rose 6% month over month.
- **Steel** – Steel suppliers announced a 10% price increase on February 3 in anticipation of the now paused 25% tariffs that could have impacted imported steel. Canada and Mexico are the largest suppliers of steel in the United States, accounting for 35% of imports. The pause provides temporary relief for companies grappling with the prospect of higher costs. However, if these tariffs are implemented, it could bolster domestic steel prices. More increases in steel pricing are expected throughout the year. Nippon Steel's purchase of U.S. Steel seems increasingly unlikely. The previous administration's block, new administration's stance, union opposition and legal challenges suggest the deal could be stalled indefinitely. However, President Trump said he would support Nippon Steel investing in U.S. Steel but not taking complete ownership, creating a new opportunity for negotiations.
- **Resins** – Despite suppliers' efforts to raise prices amid rising labor and transportation costs and growing demand, PVC prices are currently expected to fall throughout 2025. Oil and resin costs remain stable. Storm season had minimal impact on resin production; however, tariffs could influence oil prices in the coming months. Suppliers are also working to bolster inventory levels in preparation for construction season.
- **Lumber** – Lumber prices increased month over month as U.S. housing demand increased. Existing home sales in the United States increased by 2.2% to a seasonally adjusted annualized rate of 4.38 million units since December 2024, the highest since February 2024. The average 30-year fixed mortgage rate declined to 6.89% from recent highs of 7.04%. In addition, the United States relies heavily on Canadian imports, which make up roughly 30% of U.S. lumber supply. Despite a 30-day extension on Canadian tariffs, the potential impact has also driven lumber prices up.

- **Crude oil** – Crude oil prices have increased since the beginning of 2025 with WTI crude futures above $71 per barrel. The U.S. Treasury announced sanctions last week targeting individuals and tankers involved in transporting millions of barrels of Iranian crude oil annually to China. In addition, President Trump's announced tariffs on steel and aluminum could affect the U.S. energy sector, including oil drillers reliant on specialty steel not produced domestically.

Labor

In January, the U.S. labor market showed moderate growth, with total nonfarm payroll employment increasing by 143,000 jobs, slightly below the average monthly gain of 166,000 in 2024. The unemployment rate declined to 4%, a decrease from 4.1% in December. Average hourly earnings increased by 0.5% in January, contributing to a 3.8% rise over the last year. The labor force participation rate, which measures how many people are working or seeking work, remained stable at 62.8%. Overall, the January labor statistics reinforced the trend of a steady U.S. job market.

Summary

While our supply chain continues to improve, we anticipate seeing ongoing challenges and pressures across all core markets we serve through the balance of 2025 and, likely, will never return to a prepandemic state.

Even in the face of these ongoing supply chain resiliency challenges, we understand our customers' work cannot stop — you are unstoppable businesses, and we understand the importance of maintaining your operations while managing your costs.

At Border States, we continue to invest in working inventories, maintaining emergency and storm response inventories in core markets and working diligently to justify all price increases align with current market conditions. We are focused on more tightly integrating supply chains, improved forecasting and planning with customers and vendors and delivering better insights through technology to ensure your long-term success. Communication and partnership remain key in continuing to navigate the challenges.

Although we cannot control the global supply chain issues, we will continue to be transparent and straightforward with you about the challenges and work closely with our best customers and vendors to navigate these challenges together. If you have additional questions, please reach out to your Border States Account Manager for more information.

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