March 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 impacts. 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 and 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, freight costs and labor participation are normalizing, we expect ongoing global inflation will continue to drive price pressures this year.

At the end of January, the Federal Reserve (the Fed) announced an interest rate hold, maintaining the federal funds rate at its current level. That paused a three-meeting run of rate cuts between September and December 2024, which had lowered the benchmark rate by one full percentage point. It is currently predicted the Fed will hold its benchmark rate again when they meet Tuesday–Wednesday, March 18–19. The Fed will hold six more rate-setting meetings in 2025 after March's meeting, and economists are anticipating up to two rate cuts of 0.25 points each being announced before the end of 2025, with anticipated cuts not starting until June. Rate predictions are subject to change, as the Fed makes each of its rate decisions meeting by meeting based on the latest economic data available, and there is now heightened uncertainty due to the Trump administration's implementation of tariffs, which could impact inflation rates.

February's labor market remained relatively strong but gave mixed indicators with steady job growth and wage increases versus a slight uptick in unemployment and the drop in labor force participation. These mixed results reflect underlying uncertainty in the economy. Factors, such as government workforce reductions, trade policy changes and immigration restrictions,   labor trends.

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, showed inflation pressure easing in February, declining to 2.8% on a yearly basis (down from 3% in January). The reading came in below market expectations of 2.9% and marks the lowest yearly increase in core CPI since April 2021. The Producer Price Index (PPI), which measures the average price changes seen by producers and manufacturers, rose 3.2% from the year prior, down from the 3.5% seen in January, and below the 3.3% increase economists had projected. The combination of easing inflationary pressures help reinforce the potential for rate cuts later this year but, again, uncertainty regarding policy changes and the impact of tariffs will impact future decisions.

While the exact impacts of tariffs on inflation are still unknown, there are a few potential impacts worth noting. On one hand, tariffs generally contribute to higher costs, which can increase inflation, potentially prompting the Fed to maintain or raise interest rates. On the flip side, tariffs can contribute to economic slowdown as costs rise, which could also push the Fed to hold or lower rates.

Since taking office, President Donald Trump has implemented tariff measures affecting international trade (summarized below). While developments are still emerging regarding tariffs, impacts are expected, but not limited to, the following areas:

- 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 March 6:

- Canada and Mexico: The United States announced a 25% tariff on all imports from Canada and Mexico with a reduced rate of 10% on Canadian crude oil and energy products. These tariffs were set to take effect on February 4 but were postponed until March 4 following negotiations. Goods under the U.S.-Mexico-Canada agreement have been postponed until Wednesday, April 2.
- China: An additional 10% tariff on all Chinese imports was announced on March 3, increasing the existing tariff rate from 10% to 20%.
- Retaliatory measures: In response to U.S. tariffs, Canada imposed a 25% tariff on $30 billion worth of U.S. goods with plans to extend these measures in the coming weeks. China also announced retaliatory tariffs on U.S. goods.
- Reciprocal tariffs: An executive order was signed on February 21 to enforce the reciprocal tariff policy, allowing the United States to impose tariffs equivalent to those other countries apply to the United States.
- 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**.
- 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.
- Proposed universal and sector specific tariffs: President Trump proposed a universal tariff ranging from 10%–20% on all U.S. imports

from every country. A 25% tariff on automobiles, chips and pharmaceuticals has been floated, potentially starting in April.

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

Material lead times

Lead times for February varied only slightly month over month, with all categories showing lead time improvements over the past year. The utility market lead times continue to run higher compared to prepandemic levels, with all other markets and categories returning to below prepandemic levels on most categories. We are closely watching how the recently imposed tariffs will affect the supply chain. We anticipate there may be some vendors who consider changes to their sourcing strategies over time. Current data shows stability in the lead times.

Key areas we are observing

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
- Communication cable: loose tube and ribbon
- 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 shipping prices have continued to decline over the past 60 days. According to the **Drewry World Container Index**, the average shipping rates across all freight lanes have declined more than 20% in the past 30 days and nearly 40% since the beginning of the calendar year. The Israel and Hamas ongoing ceasefire talks give optimism that shipping through the Red Sea and Suez Canal will resume later this year. Reopening this shipping lane will significantly reduce transit times and shipping costs for many sailings and result in increased global capacity. There are also signs of demand softening in the freight market as many shippers preloaded their imports ahead of proposed tariffs by the Trump administration on China and other countries. Container rates remain 25%–50% above prepandemic rates, depending on freight lane. February U.S import volumes saw a 10% decline over January but are up 5% over prior year. Chinese import volumes remain strong (up 8% over prior year); however, enacted tariffs on finished goods, steel and aluminum are expected to impact these volumes going forward.

- **Trucking market —** The U.S. trucking market remains a "shippers' market," even as overall truck capacity tightens. More carriers are exiting the market than entering. **DAT load to truck ratios** are increasing for vans and flatbeds, highlighting tighter capacity; however, per-mile spot freight rates remain at or near historic lows. The American Trucking Associations' Truck Tonnage Index, measuring overall U.S. trucking volumes by month, remained flat over prior month and over prior year in January. While imposed tariffs on Mexico and Canada remain volatile, they will have significant impacts on the trucking industry. Trucking is the dominant mode of transportation for the movement of goods between the United States, Canada and Mexico, with an estimated 65,000 trucks crossing these borders each day. The 10% energy tariffs imposed on Canadian crude oil imports could result in rising diesel fuel costs with more than 25% of all U.S. refinery throughput and more than 50% of all U.S. crude imports coming from Canadian crude oil. Canada is the world's fourth largest crude oil producer and relies on the United States as the market for 90% of its exports. This likely would have a more immediate impact on fuel prices in the Upper Midwest and New England.

Raw materials (commodities)

In February, commodity pricing in the United States saw upward trends across many key commodities. These upward price trends were primarily driven by trade policy uncertainties as the Trump administration continues to impose tariffs and evaluate imposing additional tariffs on imports from other countries. 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. Other factors that impact the price and availability of commodities include, but are not limited to, supply and demand, geopolitical events, exchange rates, the state of the economy in the United States and other countries, supply chain disruptions, and energy and transportation costs.

Refer to the **Fact Sheet** for more on tariffs and a product category breakdown.

• **Copper** – President Trump is making copper the focus of his domestic minerals policy with an executive order to begin an investigation into potential tariffs on copper imports. These tariffs could impact Chile, Canada, Mexico and Peru. The Copper Development Association — a nonprofit that promotes the use of copper and its alloys in various industries through research, education and advocacy for sustainable practices — officially wrote last month to President Trump to add copper to the U.S. Geological Surveys' (USGS) critical minerals list to secure domestic production and support long-term economic and national security needs. While the executive order calls copper a critical mineral, it is not yet included on the USGS list. If enacted, the USGS would have to update its list within 45 days. This addition could lead to changes in the impact of copper-related tariffs. Copper prices have increased 20% from February 2024 to February 2025.

• **Aluminum** – The domestic aluminum industry faces turmoil as the United States continues to evaluate imposing tariffs on imports from Canada and Mexico. The United States relies heavily on Canada for aluminum imports, and 90% of U.S. aluminum scraps are from Mexico and Canada due to the lack of domestic smelter capabilities to meet demand. Unknowns and volatility surrounding the implementation and month-long exemption of tariffs are causing a spike in costs for buyers. Aluminum prices have increased over 30% from February 2024 to February 2025.

• **Steel** – Steel suppliers announced a 6% price increase on March 3 in anticipation of the rollout of U.S. tariffs. U.S. demand is already weak due to higher borrowing costs and slowing construction and manufacturing activity, analysts also note instead of strengthening the U.S. steel industry as intended, so far, the tariffs have led to price increases that are already straining buyers. In addition, Nippon Steel plans to discuss its proposed acquisition of U.S. Steel with U.S. government officials. President Biden blocked the sale in January. Cold-rolled steel has increased 18% month over month, and hot-rolled steel increased 25% during that same time.

• **Resins** – HDPE resin prices increased 8% month over month and PVC resin prices increased 3% month over month. Suppliers continue to work to bolster inventory levels in preparation for the construction season, but the outlook is mixed on future pricing and availability trends for resin. Tariffs will likely influence oil prices, which have a downstream impact on resin.

• **Lumber** – The threat of tariffs on Canada has fueled a surge in wood prices, with lumber increasing to $91.01/1,000 board foot, or 16.55%, since the beginning of 2025. President Trump initially announced a 25% tariff on Canadian goods but has since suspended this tariff until April 2 (originally suspended until March 4). If a 25% tariff on Canadian lumber was implemented, it would be added to the existing 14.5% lumber tariff already imposed by the U.S. Department of Commerce, bringing total tariffs on Canadian lumber to 39.5%. It is estimated that Canadian lumber accounts for roughly one-fourth of U.S. demand.

• **Crude oil** – The outlook for fuel consumption has been impacted as a result of the potential impacts of tariffs and retaliatory measures between the United States, China and Canada. Recent data shows the top fuel importer, China, saw consumer and producer prices fall more than expected in February, raising concerns of lower consumption despite higher stimulus and credit growth. Crude oil prices decreased 4.51% month over month but have increased slightly since hitting a near two-year low on March 6.

Labor

In February, the U.S. labor market added 151,000 jobs, which is slightly below the anticipated 170,000 but an improvement from January's revised numbers. Despite this job growth, the unemployment rate increased from 4% to 4.1%, and the labor force participation rate decreased by 0.2%. The 0.1% unemployment rate increase is partly due to federal government job cuts, which reduced the federal workforce by approximately 10,000 positions. Conversely, local and state governments expanded their payrolls, particularly in education. Sectors, such as healthcare and transportation, experienced notable job gains, while retail and food services saw declines. Average hourly earnings rose by 0.3% from January, resulting in a 4% year-over-year increase.

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 it 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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