May 19, 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.

We continue to see resiliency challenges with our supply chain, driven by ongoing global armed conflicts; geopolitical actions, including tariffs and negotiations; high interest rates to combat inflation; and economic/demand uncertainty. Prices remain volatile due to continued commodity volatility and tariff impacts. While wage growth, freight costs, and labor participation remain stable, we expect ongoing global inflation will continue to drive price pressures this year across each of our core markets.

The Federal Reserve (the Fed) left interest rates unchanged again during May's meeting, leaving the Fed's benchmark short-term rate at a range of 4.25%–4.5% for a third straight meeting, above their target of 2%.The central bank lowered rates by a percentage point last year as pandemic-related price surges eased, but has since paused cuts as they gauge the impact of the current administration's policy changes — notably, the impact of tariffs. Fed chair, Jerome Powell, said at a May 7 press conference, "We are comfortable with our policy stance. We think right now the appropriate thing to do is to wait and see how things evolve. There's so much uncertainty."

Tariffs can impact both elements of the Fed's dual mandate, which are to promote maximum employment and stable prices or predictable inflation. By raising the costs of goods, tariffs can contribute to higher inflation, making it harder for the Fed to maintain price stability. At the same time, if tariffs lead to trade disruption or reduced business investment, they can slow economic growth and job creation, putting pressure on employment. The Fed's next meeting is scheduled for Tuesday, June 17, and Wednesday, June 18, with many economists anticipating the Fed will maintain rates at this meeting. Market expectations suggest a potential rate cut later in the year, but rate change decisions are contingent on further economic developments.

Additionally, labor market trends appear stable and resilient, showing increased participation and sustained employment growth. Despite some positive trends, challenges persist, including the ongoing impact of trade policies and economic uncertainties. Some economists caution that this first jobs report post "Liberation Day" is too soon to reflect all impacts of tariffs, despite some pauses and reductions (additional details on "Liberation Day" can be found in the tariff section of the letter).

As of May 15, the U.S. Bureau of Labor Statistics released the April 2025 Producer Price Index (PPI) report revealing a 0.5% month-over-month decline in producer prices. The annual PPI stands at 2.4%, down from 3.5% in January, indicating a cooling in wholesale inflation. Despite the overall decrease, energy prices rose by 0.8%. The core PPI, which excludes food and energy, fell by 0.4%, indicating the decline was not solely due to volatile categories. The PPI measures the average change over time in the selling prices received by domestic producers for their goods and services. It reflects inflation at the wholesale level, which can signal future consumer price changes.

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 a rise of 0.2% on a month-over-month basis, according to the Bureau of Labor Statistics. The 12-month inflation rate, which is the year-over-year change in the CPI, was 2.3%, the lowest since February 2021. The core CPI, which excludes volatile food and energy prices, also increased by 0.2% month over month. Despite the decline, economists predict tariffs levied by President Trump will reignite inflation in the coming months.

On May 12, the United States and China agreed to significantly reduce tariffs for 90 days, aiming to ease escalating economic tensions and potentially stabilize markets, fostering economic growth. The United States will reduce total tariffs on all goods from China to 30% from 145%, and China will reduce tariffs on goods from the United States to 10% from 125%. The reasoning and expected impact of these tariff pauses and reductions include, but are not limited to:

- Strategic negotiations: The agreement serves as a strategic move to pave the way for more comprehensive negotiations, with another meeting scheduled for June 2025.
- Market confidence: The tariff reductions have the potential to positively impact financial markets, with the S&P 500 increasing by 3.3%.
- Economic growth and stabilization: The reduction in tariffs is anticipated to mitigate the risk of a recession, with some analysts projecting a decrease in recession odds from 90% to 30%.
- Supply chain adjustments: Businesses are using the 90-day reprieve to move inventory and diversify their supply chain, but the risk of ongoing disruptions remains.

Prior to this agreement, the United States had implemented the “Liberation Day” tariffs on April 2, imposing 10% baseline tariffs on all imports, with additional country-specific ranges and reciprocal tariffs targeting approximately 60 nations. While some “Liberation Day” tariffs remain in effect and long-term uncertainties persist, these pauses and reductions to reduce tariffs may offer some temporary relief.

Since taking office, President Donald Trump has implemented significant tariff measures affecting international trade. While the landscape continues to change 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 May 13:

Active tariffs:

- Total of 30% on all imports from China.
- 10% baseline tariff on all U.S. imports, except for energy, gold, copper, pharmaceuticals, semiconductors, lumber and other products.
- 25% on automobiles and certain automotive parts (overrides other active tariffs rather than stacking on top of them), plus an additional 25% tariff that includes most automotive parts.
- 25% on imports from Mexico and Canada, excluding USMCA-compliant goods.
- 10% on energy products from Canada.

- 25% on all steel and aluminum imports.
- 25% on countries that import Venezuelan oil.

Upcoming tariffs:
- Early July: 90-day pause on reciprocal tariffs for all countries, except China, will expire.
- Tariffs on copper and lumber imports: Rate and effective date are yet to be determined by the Department of Commerce's investigation.
- Tariff on the semiconductor imports, rate and effective dates are yet to be determined by the Department of Commerce's investigation.
- The U.S. period for the United States' and China's temporary 90-day reduction in tariffs will conclude on Sunday, August 10.

Counter tariffs:
- China: Total of 10% tariff on U.S. goods after negotiations.
- Canada: Initial 25% on certain U.S. imports and a separate 25% on automobiles that don't comply with USMCA.
- European Union (paused): Initial set of tariffs on certain U.S. goods.

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

Material Lead Times
Overall lead times decreased slightly in April, with current data showing overall lead-time stability, despite the potential downstream impacts of imposed tariffs. The construction and industrial markets continue to see lead times above prepandemic levels. Utility market lead times remain higher than prepandemic levels but are significantly lower than what was experienced over the past four years. Lead times in data categories have slowly seen extensions as the construction season is in full swing. Data suppliers have noted they are seeing increased demand, driving the change in lead time trends. We continue to closely monitor lead time changes and potential impacts from imposed tariffs going forward.

Key areas we are observing include:

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 continue to decline, even as import demand into the United States remains strong. According to the **Drewry World Container Index**, container shipping costs across all freight lanes are down 8% over prior month and down 34% over prior year. Across most lanes, freight costs have reached or are near historical average levels seen pre-pandemic. April U.S. container imports increased 1% over prior month and 9% over the prior year. This was the second month this year where the United States surpassed the 2.4 million TEUs (20-foot equivalent containers) for import volumes — the typical benchmark used to signify excess strain on the U.S. maritime supply chain. Year-to-date 2025, imports are up nearly 9% over the same period in 2024. While imports appear strong at face value, importers continued to pull shipments forward ahead of new U.S. tariffs last month, specifically the 145% tariff on Chinese goods implemented April 9 (which has since been reduced for 90 days) being the new tariffs did not apply to goods already in transit. We anticipate the next quarter will be the real test for the impact tariffs and ongoing trade negotiations will have on demand and import volumes. The shipping disruptions in the Red Sea and Suez Canal continue, driven by ongoing attacks on container ships by Houthi rebels in Yemen. There have been conflicting claims on the progress being made on a ceasefire agreement between the Trump Administration and the Iranian-backed Houthi rebel group. As long as the Red Sea shipping lane remains constricted, shippers will continue to route vessels around the Cape of Good Hope, adding considerable time and cost to ship sailings.
- **Trucking market —** While capacity is tightening, the U.S. trucking market remains soft, continuing a nearly three-year recessionary period. **DAT Load-to-truck ratios** — which represent the number of loads available to the number of trucks on the road — softened in May over the prior month, but remain elevated, particularly flatbeds, over the prior year. Even as capacity appears to be tightening, spot rates remain at or below historical averages, and our freight brokers are seeing little impact in their ability to match carriers with available loads timely. Class 8 (semi) truck sales in the United States are declining, down 9% year over year, a continued sign of market softness and continued carrier exits. Softening diesel fuel costs is also creating lower transportation costs for shippers. Diesel fuel has softened for five consecutive weeks, and the national average is down 37 cents per gallon over the prior year. 2025 average fuel costs are at the lowest level since 2021, when pandemic lockdowns created excess supply. Softening oil prices, ongoing demand and economic uncertainty and the resolution of potential energy tariffs with several trade partners has kept prices low in 2025.

Raw materials (commodities)
Throughout 2025, the commodity market has experienced heightened volatility driven by a combination of geopolitical tensions, trade policy shifts and shifting supply and demand. The U.S. administration's imposition of tariffs on key materials have impacted global trade flows, causing price increases in the metals and other sectors. At the same time, prices have declined in some areas, specifically, as increased output from non-OPEC producers placed downward pressure on oil prices. Continued geopolitical uncertainty, evolving environmental regulations and other factors are likely to keep commodity markets volatile, both in terms of pricing and availability.

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

• **Copper** – Copper prices have increased 7%, when looking at April 2024 to April 2025. Despite the year over year price increase, copper prices declined 5.5% at the end of April after data showed the U.S. economy shrank and export orders in China fell. Copper, which is known for its ability to indicate economic health and is essential across manufacturing and construction sectors, continues to feel price pressures resulting from trade tensions between the United States and China. The outlook for copper throughout the rest of 2025 is mixed. Some economists are predicting a surplus due to weaker growth in China and lower-than-expected demand in Europe, Japan and the United States. Others predict elevated prices due to strong demand from green technologies and infrastructure projects coupled with potential constraints as the Trump administration works to bring production back to the United States (recent announcements around the addition of 10 mining projects in the United States were recently shared).

• **Aluminum** – One aluminum producer reported nearly $20 million in costs from tariffs enacted in April, aligning with the 17% price increase when comparing April 2024 aluminum prices to April 2025, elevating concerns around the feasibility to boost domestic production short term. The United States would have to build at least five aluminum smelters to close its trade deficit, which could take up to a decade, cost billions of dollars and require additional energy production equivalent to seven nuclear reactors. Additionally, the Ukraine and the United States signed a critical mineral deal that will grant the United States preferential access to Ukrainian minerals and establish a joint investment fund in Ukraine's reconstruction. Ukraine is home to an alumina refinery that produced 1.3% of global alumina supply in 2021 before suspending operations due to the Russian invasion.

• **Steel** – Domestic steelmakers continue to see strong demand and a higher order backlog, suggesting robust health in the industry despite trade tensions, including the 25% tariff imposed on all steel imports. U.S. sales mirror those of foreign producer, ArcelorMittal, which saw first-quarter earnings beat expectations due to higher steel prices in the United States that offset tariff costs. However, ArcelorMittal's global sales were mixed, with sales down in parts of South America and slightly lower average prices in European countries, highlighting the varied impact of global trade policies.

• **Resins** – PVC prices in the United States remained unchanged month over month, with high stockpiles and subdued real estate demand limiting price increases. Overall, while supply was generally adequate, regional disparities and economic uncertainty have led to slightly fluctuating prices throughout 2025 and varying availability across markets (a trend many economists expect will continue). Global PVC markets also experienced varied pricing and availability due to regional supply-demand imbalances and economic factors.

• **Lumber** – Since the beginning of 2025, lumber prices have declined 1.25% as excess supply from winter restocking added to a decline in demand. U.S. single-family home construction dropped 14.2% and pushed new-home inventories to nearly eight months of supply. The 90-day rollback on new reciprocal tariffs eased immediate urgency for buyers to cover import risks. These factors, coupled with expectations of higher anti-dumping duties on Canadian lumber prompting mills to hold back supply, have added to the downward price pressure as domestic inventory and demand remains subdued despite the onset of the spring building season.

• **Crude oil** – U.S. crude oil prices fell to their lowest levels since 2021 after the Organization of the Petroleum Exporting Countries (OPEC) agreed to increase output by 411,000 barrels per day in June, following a similar boost in May. The two-month rise will bring over 800,000 barrels of surplus into the market — above original forecasts. Saudi Arabia, the group's de facto leader, also warned of further production increases in the overproducing members don't adjust their production strategies, adding to concerns that ongoing trade tensions could slow economic growth.

Labor
The April jobs report showed that the U.S. labor market remained resilient despite recent tariff announcements, specifically in the weeks after President Trump's "Liberation Day" reciprocal tariff announcements. The economy added 177,000 nonfarm payroll jobs — exceeding economists' expectations of 138,000 — while the unemployment rate held steady at 4.2%. Average hourly earnings rose 0.2% over the month and 3.8% year over year, slightly below forecasts of 0.3% and 3.9%, respectively. March job gains were revised down from 228,000 to 185,000, bringing the 12-month average to 152,000 new jobs per month. The labor force participation rate, which reflects the share of working-age individuals who are employed or actively seeking work, increased slightly to 62.6%.

Conclusion
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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