CONTAINER NEWS

# Trump Tariffs: Impact & Analysis by Freightos

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Late November is typically a slow season for transpacific ocean freight. But through last week transpacific ocean rates remained level and elevated at more than US$5,000/FEU since mid-October, with prices to the East Coast climbing past the US$6,000/FEU so far this week.

This rate strength probably reflects some frontloading ahead of both a possible renewed ILA strike at East Coast and Gulf ports after January 15th and anticipation of Trump administration tariff increases next year.

President-elect Trump threw some gas on the fire of shipper concerns over tariff hikes this week by announcing via social media, in response to illegal drugs and immigrants entering the US from Mexico and Canada, his intention to impose a 25% tariff on all imports from these countries on his first day in office in January. He also separately announced his intention to impose a 10% tariff on all Chinese imports with no date specified.

In terms of Canada and Mexico, this announcement is an escalation of earlier Trump campaign statements that proposed 10% – 20% tariffs on all imports from all countries, is a significant development in terms of the intended timeline, and would break with the first Trump presidency's USMCA trade agreement.

The trade acts that Trump relied upon for tariff introductions during his first administration stipulate processes that include initiations of inquiries, investigations by government offices like the US Trade Representative and periods of review, which can be expedited but are allotted up to a year. Trump's paths to those previous tariff increases may make it unlikely that new tariffs will go into effect on January 20th, but this proclamation is certainly increasing the sense of urgency for shippers on these lanes.

Just as transpacific shippers are already frontloading ahead of potential tariff changes next year, this statement will likely put pressure on importers from Canada and Mexico as well and could lead to increased cross-border volumes and road and rail rates ahead of the potential tariff rollouts.

Authorities in Mexico are already rushing to increase container port and cross-border rail capacity to keep up with the rapid growth in trade with the US and the accompanied surge in imported components and goods from China to Mexico over the last few years.

Just as the trade war with China since 2017 has led to some US importer diversification from China, these increases could slow the recent growth in Mexico-US trade. And in addition to higher volumes and transportation costs ahead of tariffs and lower demand just after, importers and ultimately consumers will likely face higher costs from the tariffs, especially for the top Mexico and Canada exports like vehicles, auto parts – which often go back and forth cross-border several times – and possibly fuel as Canada is the largest exporter of crude oil to the US.

In the meantime though, despite the ocean volume strength of the last few months to hubs like LA/Long Beach, congestion remains minimal.  In Canada, recent lockouts of port labor on both coasts resulted in some backlogs that will take another couple weeks to resolve completely.  Those disruptions were ended by government order, and the sides have agreed to enter mediation rather than government-ordered arbitration. But the unions have submitted a challenge to the legality of the back to work order, which will be heard by the Industrial Relations Board in December.

Asia – Europe ocean rates increased 30% on early November GRIs and have remained at about that level since then despite some attempted mid-month increases. Asia – Mediterranean prices did climb more than 10% in the last few days, and there are more reports of some rebound in demand possibly from an early start to the pre-Lunar New Year rush. Nonetheless, there is still a lot of skepticism that December GRIs aiming to push rates past US$6,000/FEU will stick even with recent increases in blanked sailings and an early LNY. Some carriers have warned shippers on these lanes that prices will increase next year as new EU emissions regulations go into effect.

In air cargo, despite anticipation that this year's peak season would be chaotic – as B2C e-commerce volumes have kept capacity tight and rates elevated throughout the year – ex-China prices have still not spiked and carriers report being busy but not overwhelmed even as December approaches. Capacity additions to these lanes and shippers who adjusted and planned ahead may prove to be enough to prevent extreme rate climbs and congestion through the end of the year.

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