

## IN THE SPOTLIGHT

## The Rising Drumbeats of Trade War: Protect Your Supply Chain from Surprises in the Face of New Tariffs

A new set of tariffs on products of Chinese origin was enacted as of July 6 and many electrical products are affected. Any products on the list that are imported from that day forward are subject to a 25% tariff. Any existing inventory in the USA is unaffected. This enactment of the first list of tariffs on Chinese-made machinery and high-tech components is one of the first volleys in what has already become a complicated trade battle, and a second and third list have already been announced and are marching toward enactment as well. Stiff tariffs imposed on imported steel (25%) and aluminum (10%) earlier this year were followed by an additional list of roughly 1,300 Chinese products – including wire – that the U.S. has hit with a 25% tariff. These tariffs can affect OEM, fabricator, wire harness, telecom and other purchasers of wire and cable products.

### Alphabet Soup of Trade Compliance: HTS, WTO, HTSUS, CBP, etc.

The Harmonized Tariff System (HTS) – maintained by the World Trade Organization (WTO) – is an international system of product nomenclature for 17,000 different types of items sold around the globe. The associated codes are used by WTO member nations to categorize products and assess duties as products flow across borders.

The [Harmonized Tariff Schedule of the United States \(HTSUS\)](#) is the American version of this list of goods as well as their associated duties. Duties change regularly and it is United States Customs and Border Protection (CBP) that makes the final ruling as to what the correct duty rate is for all products entering the country. All companies that import or export goods across the US border can be subject to duties based on HTS codes.

Determining what duties apply to a product is done through code determinations. Companies like IEWC that consistently import and export a significant volume of products use online references to the HTSUS to determine the appropriate HTS code for each product and any associated custom or excise duty. For example, if IEWC's trade compliance specialists cannot determine the proper code, they work closely with the CBP to determine the appropriate code and duty rate. It is imperative to get determinations right the first time as improper code determinations can delay shipments and result in higher than expected duty assessments and fines, causing surprises that no purchaser wants to deal with.

### Wire Products in the Cross-hairs

While the list of Chinese-made items that is to be subject to additional duties is extensive, the following HTS codes are of particular interest to those who purchase wire and cable. These are wire HTS codes found on List 1 that are subject to the additional 25% duty:

- 85441100: Insulated (including enameled or anodized) winding wire, of copper
  - 85441900: Insulated (including enameled or anodized) winding wire, other than of copper
  - 85443000: Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships
- 49 HTS subheading Product Description



- 85444930: Insulated electric conductors nesi, of copper, for a voltage not exceeding 1,000 V, not fitted with connectors
- 85444990: Insulated electric conductors nesi, not of copper, for a voltage not exceeding 1,000 V, not fitted with connectors
- 85446020: Insulated electric conductors nesi, for a voltage exceeding 1,000 V, fitted with connectors
- 85446040: Insulated electric conductors nesi, of copper, for a voltage exceeding 1,000 V, not fitted with connectors
- 85447000: Optical fiber cables made up of individually sheathed fibers

### **How to Mitigate Risk to Your Company**

So how can you mitigate the risk of increased costs due to tariffs? Be sure to work with suppliers like IEWC who have dedicated, experienced trade compliance specialists on staff. These individuals provide a wealth of knowledge and can reduce your exposure to additional costs through careful review of both products and suppliers as you quote products. These experts can calculate your approximate landed cost — the complete cost that includes base cost of the product, transportation fees, customs duties, all taxes, currency conversion and other expenses — and help you determine if there are more cost-effective solutions. Their broad supplier bases can help blunt the effects of potential disruptions to you, while the deep product expertise of their salesforce allows them to provide alternatives that you may not be aware of or have considered.

It is unclear if or when additional duties will be imposed on these new lists of Chinese-made products. But regardless of how these additional tariffs shake out, evaluating and working with supplier partners who maintain robust import/export compliance resources is a smart move for industrial consumers as even regularly-assessed duties can make or break profit margins. Take advantage of this time of uncertainty to source alternative products now, in order prepare for any cost increases or supply chain disruptions caused by a trade war.

*While the effects these tariffs will have on manufacturers are still being analyzed, IEWC continuously monitors and quickly advises all affected parties as the company learns more details. IEWC created this [online resource](#) for customers and suppliers to provide the latest developments about tariffs.*



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## WIRE INDEX

General Cable has been removed from the Wire Index due to their recent sale. As a result, the Wire Index has decreased by 30.1% since the beginning of the year and but has increased by 9.9% since the beginning of June. It is now down 22.1% over the past 12 months. Belden's stock price increased by 16.4% and Anixter's stock price increased by 7.8% since the beginning of June.

The Index tracks the weighted stock price of four publicly-traded wire and cable manufacturers and distributors based in the US and is benchmarked such that the average value during the second half of 2006 equals 100. The Wire Index has five publicly traded wire and cable manufacturers and distributors.



## COPPER FUTURES

Comex copper prices decreased by 13.1% since the beginning of June and sit at \$2.69/pound as of July 20, 2018. Year-to-date, copper is down 17.5% and is down 0.1% over the last 12 months.



### BY THE NUMBERS

**126.4%**

Conference Board Consumer Confidence Index

**4.0%**

June (2018) Unemployment

**0.3%**

Retail Sales (April to June)

**0.6%**

Mfr's New Orders for Durable Goods (April to May)

**0.1%**

Mfr's Shipments of Durable Goods (April to May)

**0.3%**

Durable Goods Mfr's Inventories (April to May)

**0.1%**

CPI Inflation (over prev. 12 months)

**3.8%**

US Industrial Production Index (over prev. 12 months)

**60.2%**

Purchasing Managers Index (June)

The global economy is firing on virtually all cylinders. Average world industrial production during the 12 months through April was up 3.8% from one year ago, the fastest pace of year-over-year growth in more than six years. However, declines in the JP Morgan Global Manufacturing Purchasing Managers Index and OECD Plus Six Non-Member Economies Leading Indicator rates-of-change suggest that slowing growth in production lies ahead. Plan for production to growth to begin to slow by late 2018. This slowing growth trend is likely to persist throughout 2019 as production avoids recession due to the growth rates of developing countries. However, many industrialized countries are likely to experience mild recessions next year. Avoid over-expansion at the top of the business cycle to remain profitable next year and conserve cash heading into 2019.

## NORTH AMERICA



All three components of US industrial production are growing at accelerating rates. With oil prices above \$70 a barrel, US mining production is increasing, up 9.9% year over year. US manufacturing production and US utilities production are up 2.0% and 1.7% on a year-over-year basis, respectively. Expect US industrial production growth to accelerate before transitioning to slowing growth in the fourth quarter of 2018. Plan for mild decline in annual average production throughout 2019.

The consumer side of the US economy is on the upswing, with the most recent 12 months of US total retail sales up 4.8% year over year. This is the fastest pace of growth in more than five years, but evidence suggests that US consumers may be overextending themselves; US personal savings averaged \$457.6 billion during the most recent 12 months, the lowest level of savings since 2008. A weakened consumer in 2019 will contribute to the mild decline expected in US industrial production and flattening US real GDP expected that year.

Like its southern neighbor, Canada industrial production is growing at an accelerating pace. However, declines in the Canada leading indicator and Canada Purchasing Managers Index rates-of-change suggest that slowing growth in production will likely take hold in the near term. Annual average Mexico industrial production ticked up with the latest month of data, although it is 0.3% below the year-ago level. Rise in the quarterly rate-of-change for the Mexico Manufacturing Business Confidence Index suggests that business cycle rise is likely to characterize production into at least late 2018. However, the recent tick down in the Confidence Index signals the upside potential is likely to be short-lived and relatively mild compared to previous Mexico industrial production business cycles.

## SOUTH AMERICA



South America industrial production was up 2.3% on a year-over-year basis through March. The quarterly rate-of-change edged down during the last two months, signaling that slowing growth will take hold around the third quarter of 2018. Annual average Brazil industrial production ticked down in May. Plan for further decline during the second half of 2018, as suggested by rate-of-change descent in the Brazil Purchasing Managers Index and the Brazil manufacturing capacity utilization rate. Industrial production in Argentina (up 3.2% year over year), Colombia (up 0.9%), and Chile (up 1.6%) were above their respective year-ago levels.

## EUROPE



Europe industrial production is approaching a business cycle peak. Data through April shows that the quarterly rate-of-change (2.6%) has passed below the annual rate-of-change (3.5%), signaling that slowing growth is imminent. The declining leading indicators pointing to slowing growth in production during the second half of 2018 include the Europe Economic Sentiment Index, the Europe Business Confidence Index, the DAX, the Europe Leading Indicator, and the Europe Manufacturing Purchasing Managers Index. Several have dipped below their year-ago levels, which supports an expectation of a mild recession in Europe industrial production in 2019. Furthermore, Europe's export-dependent economy is exposed to the adverse impact of a global trade war. Adopt a more conservative position with respect to European markets heading into 2019.

## ASIA



China industrial production was up 6.5% year over year. The lack of a defined business cycle trend (the annual growth rate has hovered between 6.4% and 6.6% for the last 15 months) makes it necessary to look at other indicators to determine the business cycle status of China's economy. Metrics such as China railway freight carried (up 8.0% year over year) and China power generation (up 7.0%) are in slowing growth trends, suggesting the same for the overall Chinese economy. The China leading indicator signals caution for businesses operating in China during the second half of 2018. Japan industrial production and South Korea industrial production are also growing at a slowing pace, while India industrial production is growing at an accelerating pace thanks to the highest level of capital goods production (annual average basis) in six years.

## MIDDLE EAST/AFRICA



Annual average Middle East and North Africa industrial production was up 1.3% from one year ago. Growth opportunities are available in Egypt industrial production, which was growing at a double-digit clip, up 23.0% year over year. Saudi Arabia GDP was up 5.9% year over year.



## CURRENCY TRENDS

	Current Value of \$1USD	Change Year-to-Date	Change Last 12 Months
<b>Brazilian Real</b>	3.77	0.43	-0.04
<b>Canadian Dollar</b>	1.31	0.07	0.02
<b>Chinese RMB</b>	6.77	-0.04	-0.36
<b>Euro</b>	0.85	0.03	-0.01
<b>Mexican Peso</b>	20.36	0.70	1.30
<b>Pound Sterling</b>	0.76	0.02	0.00

Current values as of 7/20/2018

