

U.S. trade war with China has brought pain, uncertainty

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U.S. trade war with China has brought pain, uncertainty for most R.I. manufacturers but also hope for others

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TARIFF IMPACTS: Rhode Island Manufacturers Association Executive Director David Chenevert said the impact of tariffs and the slowing of the world economy has affected businesses differently in Rhode Island. Manufacturers focused on the aerospace or medical-industry markets are doing fine, he said, because defense spending has increased and the medical industry is growing. Companies producing products for the automotive industry, however, are seeing an impact because auto sales are down nationally. [PBN PHOTO/RUPERT WHITELEY](#)

The initial tariffs imposed in 2018 on imports from China didn't affect Cooley Group, a Pawtucket-based company that manufactures an array of engineered materials, used in waterproof liners, inflatable boats and oil containment booms.

But when the trade dispute between the U.S. and China spiraled beyond aluminum and steel imports, a second set of tariffs in August 2018 hit two of the divisions within Cooley, according to CEO and President Daniel Dwight.

One was a direct strike – a 25% tax on a technical product he imports from China, which is used in outdoor advertising. Dwight said he can't find the same thing from another source, in another country.

Another impact was indirect. The RV industry has been whacked by the cumulative effect of tariffs imposed over the past 18 months. And Cooley manufactures the liner for their roofs. Orders for the material are down, because recreational vehicle unit shipments in the U.S. are down by 20% through August of this year, compared with last year, according to the Recreational Vehicle Industry Association.

"This has nothing to do with our membrane," Dwight said. "It's 100% American. But they're simply ordering less roofing membranes because there [are] less roofs."

As trade tariffs imposed on China by President Donald Trump's administration have played out, many manufacturers in Rhode Island are trying to dodge the fallout. Some are looking to switch suppliers or swapping out materials. Others are passing at least a portion of the taxes to their customers. Many are frustrated by the uncertainty of volatile costs.

"We now live in a world of global sourcing," Dwight said. "It's all interconnected." But not all manufacturers in Rhode Island are having problems. Some report a boost in sales and demand, because competing Chinese products have become more expensive.

Michael Woody, CEO of Trans-Tex Inc., in Cranston, said sales orders are up at his company, and have inspired him to hire five people this year. The company, which employs 85, produces custom-printed materials, including lanyards.

"China tariffs have been good for us as a company. Our major competitors are manufacturers in China," he said.

A year or more ago, the price difference was significant on large orders, say of 100,000 items. Chinese companies could produce those items at a price as low as one-third of Trans-Tex, Woody said. With the new tariffs, the price difference has narrowed, and he's had more business coming his way. "I can tell you it was double-digits," he said of the sales boost.



INVERSE IMPACT: Cooley Group CEO and President Daniel Dwight said as a U.S. manufacturer Cooley should be benefitting from the tariffs imposed by the Trump administration, but instead they are having "a direct, inverse impact." Dwight said Cooley had to pass on some of the costs of the tariffs to its customers, who are now seeking cheaper products from Chinese competitors. PBN PHOTO/MIKE SKORSKI

'PAINFUL HIT'

The 25% tariff on the polymer technology Cooley imports from China, however, was too much for the company to absorb. The company ate some and passed on a portion, but that's only encouraged customers to try to seek out other suppliers.

"The challenge we're having is our customers have been unable to pass it on to their customers," Dwight said. "So, this has become a painful hit to both us and our immediate customers."

Because it is eating into margins, his customers have sought out cheaper sources, who make a lesser product, but also a less-expensive one, Dwight said. These competitors are Chinese.

“So, we should be benefiting from these tariffs as a U.S. manufacturer?” he said. “It’s actually benefiting Chinese companies. It’s having a direct, inverse impact from what one would expect.”

Nationally, the cumulative impact of the trade tensions has contributed to recessionary conditions for U.S. manufacturing. For the past two quarters, the Federal Reserve measurement of factory output has declined in the U.S., according to Bloomberg News.

U.S. factory activity contracted in August for the first time in three years, according to a production index produced by the Institute for Supply Management.

In mid-September, Moody’s Investors Service revised its outlook for global manufacturing to negative, to reflect lower earnings forecasts. It reported that earnings were likely to sink further, and cited trade friction, the widening scope of tariffs and slowing economic growth worldwide.

The segments within the manufacturing industry are softening, Moody’s said, with only aerospace and defense segments expected to have consistent growth through 2020.

In Rhode Island, where manufacturing jobs have declined ever so slightly through 2019, manufacturers are not calling it a recession just yet. But executives say they are increasingly frustrated by unpredictable conditions.

According to the R.I. Department of Labor and Training, which tracks employment in the state, manufacturing employment fell below 40,000 in the state in October 2018 and has continued to decline this year. Manufacturing lost 900 positions in the state from January through July of 2019, including full- and part-time employees.

At the same time manufacturing has dropped, the state’s labor force in private and public workplaces has increased, leaving manufacturing with a smaller share of the whole.


The state’s nonagricultural related employment, seasonally adjusted, grew by 7,100 in the 12 months ended July 2019, to 503,900, according to the DLT figures. Manufacturing makes up about 7.7% of the total, compared with 8.1% last year.

Donna Murray, DLT assistant director for labor-market information, said the long-term projection is growth in manufacturing, despite the recent losses.

“While the number of manufacturing jobs has decreased slightly, we view this as a temporary setback,” she said. “In our 10-year projections, we are actually anticipating growth in manufacturing jobs, led by transportation-equipment manufacturing.”

The DLT does not collect reasons for cutbacks in employment, a spokeswoman said. The agency said it would be speculative to say whether the tariffs contributed to the trend.



DIVERSIFIED PRODUCTS: Pictured is the Cooley Group manufacturing plant in Pawtucket. The company, which manufactures an array of engineered materials used in waterproof liners, inflatable boats and oil containment booms, said diversification has helped it weather tariffs, some of which it has had to pass on to customers.  / PBN PHOTO/MIKE SKORSKI

LOOKING FOR A SIGN

Among manufacturers in Rhode Island, the tariffs have hit larger operations the hardest. Companies such as heating, ventilation and air conditioning manufacturer Taco Comfort Solutions in Cranston and Cumberland-based textiles manufacturer Hope Global are directly impacted by the tariffs, according to David Chenevert, executive director of the Rhode Island Manufacturers Association.

It has 1,600 members, he said, and many of the larger companies are doing business with China and have had to adjust to tariffs on materials or products that reach up to 25%.

The price increases are at a scale that the companies can't just absorb them, Chenevert said. But neither can they simply pass them on, because they have to think about their competitiveness. "The larger corporations have already indicated to us that they're looking at a

25-30% increase in their costs," he said. Prices are rising, as a result, on their products.

Will companies, or consumers, pay those increased prices being passed on? Manufacturers say it depends on the part, or the product.

"That's the \$10,000 question," Chenevert said. "What it comes down to is that either they raise the prices, or they lose money. For them to keep their company viable, they have to make adjustments."

The movement toward a trade deal between the U.S. and China – the world's largest and second-largest economies respectively – has been unpredictable for business.

In March 2018, President Trump imposed a 25% tax on steel and a 10% tax on aluminum imported into the U.S. Following those tariffs, in July 2018 he imposed a 25% tax on \$50 billion of Chinese imports, after he said China had engaged in unfair trade practices.

This prompted a reciprocal action by China, aimed at U.S. agricultural products such as soybeans and corn, as well as automobiles and other products.

Several months of additional rounds, updates and lists of product exclusions followed.

This year, with the failure of a trade deal between the countries' leaders, more than \$111 billion in tariffs on Chinese goods took effect in September, aimed at consumer goods, such as tools and apparel, for the first time, according to the Wall Street Journal.

Another U.S. round aimed at consumer electronics produced in China, such as smartphones, as well as toys and apparel, is to take effect Dec. 15.

In recent weeks, Trump agreed to delay the imposition of \$250 billion in tariffs that had been set to take effect Oct. 2 – by two weeks – as a gesture of good will to China, which was to begin a national holiday.

Managing the unpredictability of the process is challenging for manufacturers, said Chenevert. He says Rhode Island is not experiencing recessionary conditions in manufacturing – orders are still coming in, companies are expanding facilities, buying equipment – but he has spoken with many who are holding back on major decisions.

“We don't know what's going on relative to tariffs,” he said. “We don't know what's going on with NAFTA. Everyone is in uncertainty mode.”

Are companies pulling out of China, as Trump indicated via tweet that he would like to encourage? Neither Chenevert nor Christian Cowan, director of Providence-based Polaris Manufacturing Extension Partnership, said they were aware of any.

They also said they were not aware of any companies that had to lay off employees.

The tariffs are hitting a lot of manufacturers in Rhode Island, Cowan said. “However, some of them are being positively impacted, and some of them are being negatively impacted, depending on the types of products they manufacture and where they fit in the supply chain.”

For companies with a physical presence in China, the decision to pull back is difficult, because of the expense, he said.

“A lot of the companies are still trying to figure out the whole landscape,” he added.

Hasbro Inc., one of Rhode Island's largest companies, has been pulling its operations from China gradually since 2012, CEO Brian Goldner told CNBC in August. Interviewed after the acquisition of Entertainment One, Goldner was asked about the diversification of the company away from China.

Globally, about two-thirds of the revenue for the company is coming from China-produced products, but that's down from the 90% in 2012.

At that time, Goldner said, the company made the decision to move to diversify “for enterprise-risk reasons. [We're] being smart and strategic about where we make our product.”

Other Rhode Island executives, also concerned about the global economy, are growing more cautious, Chenevert said.

“A lot of companies right now are considering just holding off,” he added.

The impact of the tariffs, as well as the slowing of the world economy, has affected businesses differently in Rhode Island, depending on their segment. If a manufacturer is focused on the aerospace or medical-industry markets, they're doing fine, Chenevert said, because defense spending has increased, and the medical industry is growing.

As for those suffering, Chenevert said any Rhode Island company producing products for the automotive industry is seeing an impact. Nationally, auto sales are down and projected, by Moody's, to soften further in 2020.

In Rhode Island, any company that remembers the Great Recession can apply lessons learned during that downturn to what may happen next, Chenevert noted.