DEPARTMENT OF ECONOMIC
DEVELOPMENT
AND COMMERCE
GOVERNMENT OF PUERTO RICO

The Economic Spotlight

Policy Brief

The Impact of Trump's Proposed Steel and Aluminum Tariffs

March | 2025

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POLICY BRIEF

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Executive Summary

On February 10, 2025, President Donald Trump announced a 25% tariff on steel and aluminum imports, aiming to protect U.S. industries. The policy mirrors similar tariffs from 2018-2019 and is expected to disrupt global trade and domestic industries reliant on these metals.

Impact on Puerto Rico

- In 2024, over $191 million of steel and iron were imported ($124 million from outside the U.S.), and $252 million of aluminum ($117 million from outside the U.S.).

- The 25% tariff on steel and aluminum will increase construction costs, impacting FEMA and CDBG-DR-funded projects that rely on these materials for critical infrastructure, public buildings and energy systems. Many reconstruction projects were obligated under outdated cost estimates, meaning higher costs will now require additional funds, scope reductions or cost-saving measures to remain feasible. The longer these funds remain unspent, the more purchasing power is lost due to inflation, making it critical to accelerate the deployment of federal reconstruction funds before further cost escalations threaten project viability.

- While the direct impact of the tariffs on Puerto Rico may be isolated in the island's reconstruction efforts, construction industry and local manufacturers, the indirect effects could be significant. Industries that import steel-dependent products (such as machinery and vehicles) may see rising costs, impacting infrastructure, manufacturing and consumer prices. One must keep in mind that while Puerto Rico imports most of its steel and aluminum from the U.S., a disruption in international trade could cause that U.S. domestic producers raise their prices to match the new, higher prices of imported goods after tariffs are imposed, even if their own costs haven't changed.

- Tariffs present Puerto Rico with an opportunity to attract corporations looking to access the U.S. market without having their products subject to tariffs. This makes the Island a more attractive location to place high-value added production facilities for businesses like medical equipment and pharmaceuticals.

- In the case of Puerto Rico there is also an opportunity to increase the processing and recycling of aluminum on the Island through the use of Act 172 of 2020 and its incentive to lower the cost of aluminum. Subsidizes to the tune of $0.06 to $0.065 per pound.

Market & Economic Implications

- Declining U.S. steel imports since 2018, while aluminum imports have risen, meaning the tariffs may disrupt industries unevenly.
- Revenue boost for the U.S. government, following $1.4B collected in 2018-2019.
- Higher consumer prices due to increased costs for steel-dependent goods.
- Inflationary pressures, though difficult to separate from other economic factors.
- Reduced trade volumes and retaliatory tariffs affecting U.S. exporters.
- Job protection in the steel and aluminum industries, but job losses in sectors dependent on imports.
- Possible inflationary effects and retaliatory tariffs from trade partners.

The tariffs protect U.S. steel and aluminum sectors but risk higher costs for manufacturers and consumers. Puerto Rico's main concern is the rising cost of imported goods, impacting infrastructure, reconstruction efforts and key industries. **The DEDC will continue to monitor economic effects and explore mitigation strategies.**

The Impact of Trump's Proposed Steel and Aluminum Tariffs

On February 10, 2025, U.S. President Donald Trump announced plans to impose a new set of tariffs of 25% on steel and aluminum imports. This action, mirroring a similar policy from his first term, is expected to have significant repercussions on both domestic and international markets.

Local Impacts

Impact of Steel and Aluminum Tariffs on Puerto Rico's FEMA & CDBG-DR Reconstruction Efforts

- Increased construction costs – The 25% tariff on steel and aluminum will significantly raise the cost of construction materials, affecting FEMA and CDBG-DR-funded reconstruction projects. Infrastructure projects that rely on steel for reinforcements, bridges, electrical grids and public buildings will see higher costs than originally planned. Per Act 172-2020 Puerto Rico could provide a partial cushion to price increases experienced by aluminum manufacturers in the Island.

- Inflationary pressures on the construction industry – Puerto Rico's construction sector is already experiencing labor shortages and rising material costs. These new tariffs exacerbate inflationary pressures, making it more expensive to complete federally funded projects within their original budgets. Moreover, the current inventory tax limits businesses flexibility, as maintaining higher inventory levels results in an added tax burden.

- Projects obligated at past cost estimates will need adjustments – Many FEMA and CDBG-DR projects were obligated under cost assumptions from years ago, before these tariffs and recent inflation spikes. Now, higher material costs will require either additional funding, project scope reductions or cost-saving measures to remain viable.

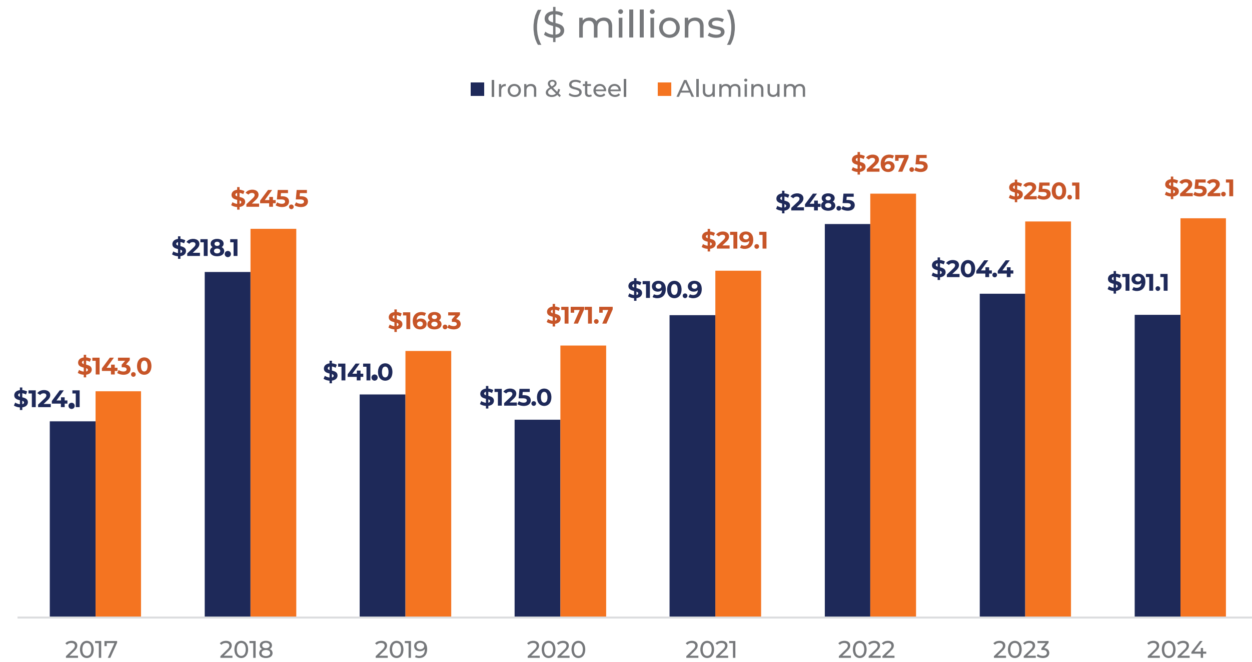
- Delays in federal fund deployment lead to lost value – Every day that passes without the deployment of obligated FEMA and CDBG-DR funds, the real purchasing power of those funds decreases due to inflation. This underscores the urgent need to accelerate the execution and expenditure of reconstruction funds to maximize impact before further cost escalations make projects infeasible.

- A real-life example of why speed matters – The longer these funds sit unused, the less they can accomplish. **This situation highlights the importance of cutting bureaucratic delays and ensuring that Puerto Rico's reconstruction efforts move swiftly to protect against inflation-driven cost overruns and maximize federal investment in the island's recovery**.

Puerto Rico imports both steel and aluminum. In 2024, over $191 million of steel and iron and over $252 million of aluminum. Of these amounts, almost $124 million of steel and $117 million of aluminum is imported from outside the US. Although the island will be impacted, most of the impact should be indirect, as it affects industries that import products derived from those affected by the tariffs. It is unknown if the imports of steel and aluminum from the US are produced in the US and, if so, whether they would be indirectly affected by the tariffs. Overall, the value of imports according to the US Census and US Trade is presented in Figure 1, while Figure 2 presents the value of imports excluding the US.

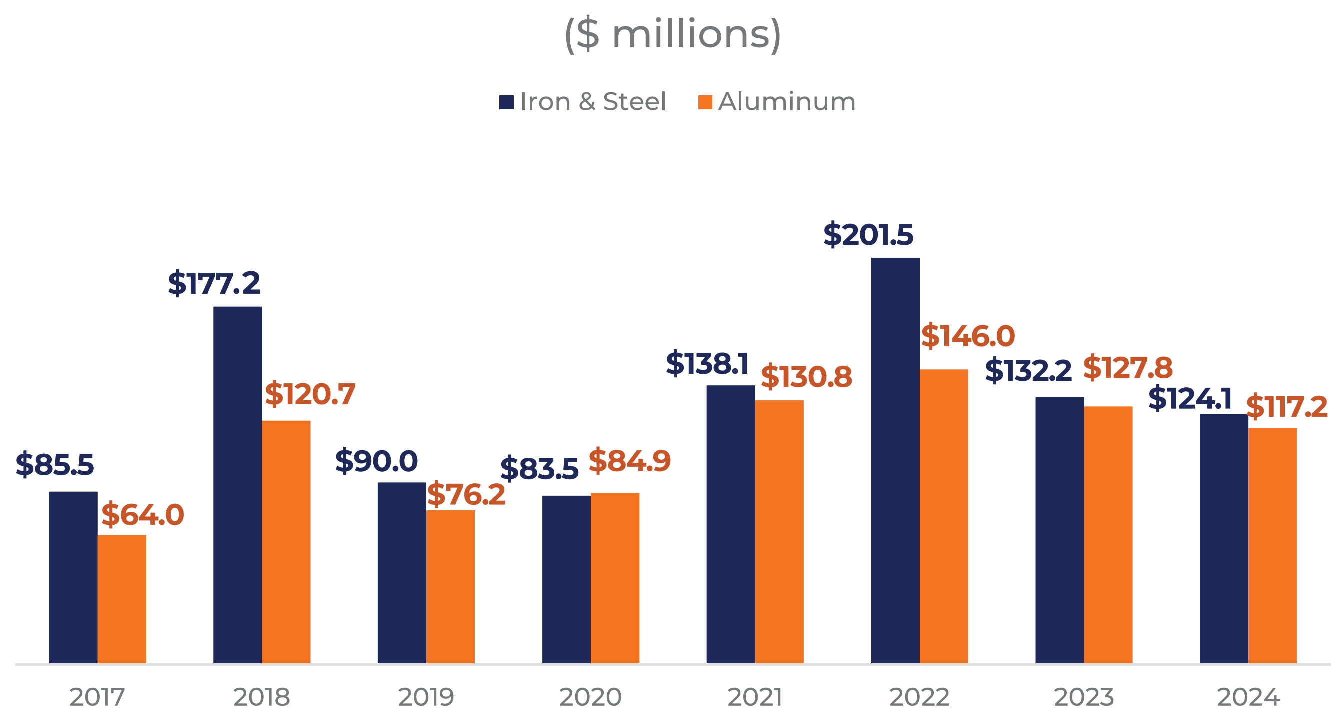
In Figure 3, imports by value of steel and aluminum in 2024 are presented according to the region of origin. The US supplies almost $135 million of aluminum and $67 million of steel & iron. These represent 54% and 35% of imports by value, respectively. These imports could be indirectly affected by the imports if overall prices increase, as they did in 2018-2019, or if they were originally imported into the US from another port and then transferred to P.R. In any case, the implementation of tariffs will likely lead to an increase in the import of goods from the US in the short to medium term, as supply chains allow.

Figure 1 – Value of Imports from Iron & Aluminum into Puerto Rico (Air & Sea ports) Total



Source: US Census USA Trade HS 72 and 76 Puerto Rico Statistics Institute

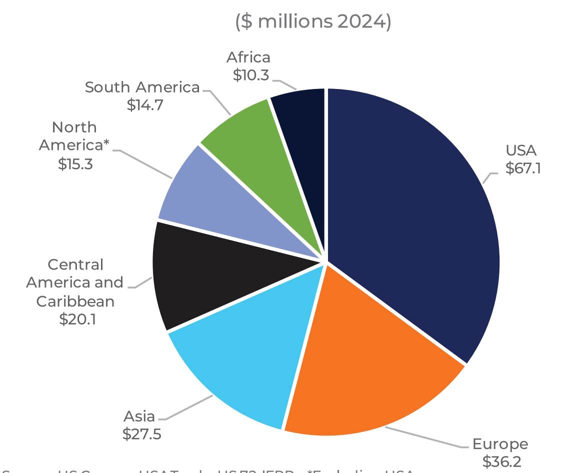
Figure 2 – Value of Imports from Iron & Aluminum into Puerto Rico (Air & Sea ports) Excluding USA



Source: US Census USA Trade HS 72 and 76 Excluding Imports from USA

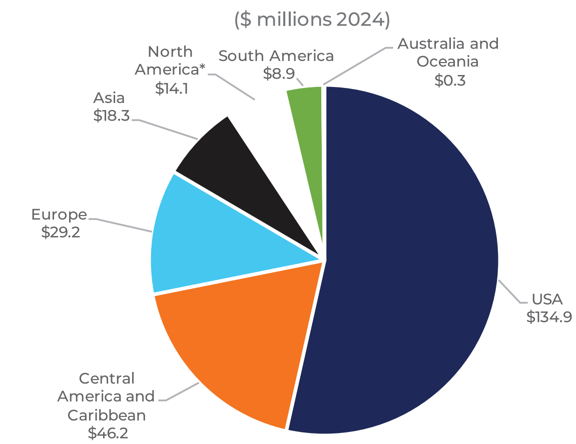
Figure 3 – Value of Iron, Steel and Aluminum Imports into Puerto Rico by Region (Air & Sea Ports) in 2024

Iron & Steel Imports



Source: US Census, USA Trade, HS 72, IEPR. *Excluding USA

Aluminum Imports



Source: US Census, USA Trade, HS 76, IEPR. *Excluding USA

U.S. Mainland Impacts

Potential Winners

- The United States: While initially causing a potential dip in demand, the long-term impact is projected to boost domestic investment in the steel and aluminum sectors. This is supported by the significant decline in U.S. steel imports over the past decade (35% between 2014 and 2024), despite a recent uptick. This previous decline is largely attributed to tariffs implemented during Trump's first administration. This suggests that the new tariffs could further stimulate domestic production.

Potential Losers

- Canada, Mexico and Brazil: As major exporters of steel and aluminum to the U.S., both countries are likely to be significantly impacted. Despite previous temporary reprieves from blanket duties, the new tariffs could distress their economies.

- Germany and Asian Exporters: Germany, a significant steel exporter to the U.S., is also expected to experience the direct impact of the new tariffs. Similarly, Asian exporters, particularly South Korea, Vietnam and Japan, are likely to experience decreased sales to the U.S.

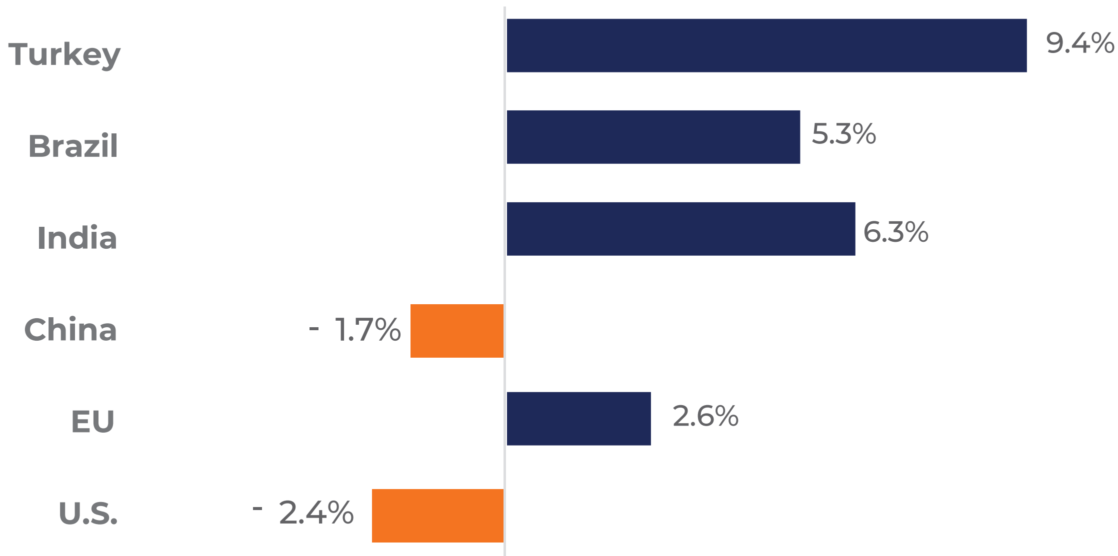
The impact could be worse in two countries that have seen significant growth in steel exports to the US in the last year: Vietnam (140% increase) and Taiwan (75% increase) in 2024. These increases suggest that the proposed tariffs could cause a substantial shock to these nations' steel export sectors.

Import/Export Dynamics

Determining the potential impact of tariffs can be complex and is often influenced by several external factors. Trump's 2018 and 2019 economic policies, for example, were implemented just prior to the pandemic. While U.S. steel imports have generally declined, aluminum imports have increased. This suggests a different level of impact, depending on the metal.

As can be observed in Figure 4, steel production declined in the U.S. and China in 2024. This suggests overall global market volatility that may need further investigation. The drastic increase of imports from Vietnam and Taiwan to the US market also needs further investigation, as the implication is that these nations have become increasingly dependent on the U.S. market and will be heavily impacted by the tariffs.

Figure 4 – Overall Steel Production Growth in 2024



Source: World Steel

Overall, steel production (world total) has remained relatively stable since 2020, meaning that other countries have replaced the US and China production. Therefore, the tariffs could be viewed as a way to protect and promote US industry. **Even if prices increase as expected, this could be a lifeline for companies like U.S. Steel. This company faced challenges in recent years and was almost bought by Japanese Nippon Steel.**

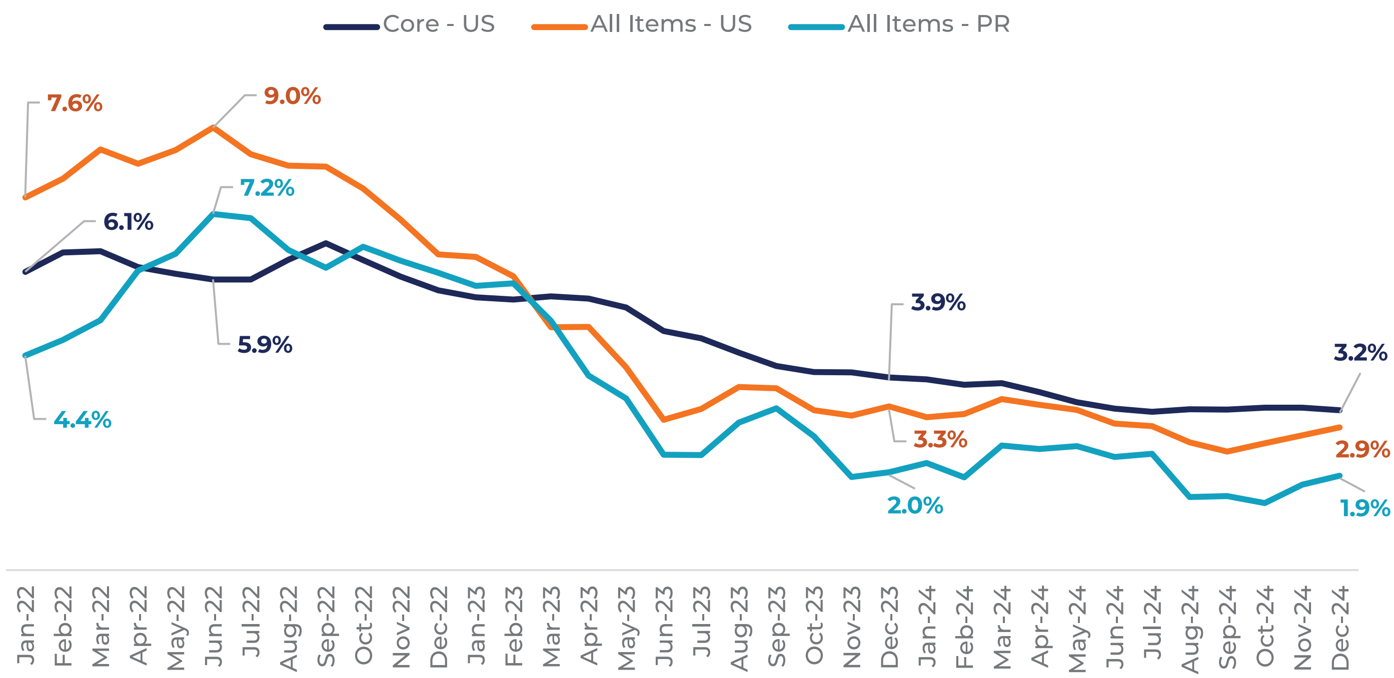
Purpose of Tariffs & Impact

The Trump administration's main goal could be an increase in revenues. Previous tariffs (2018-2019) generated over $1.4 billion in revenue within the first five months. While this demonstrates the potential for substantial revenue generation from the proposed tariffs, it should be considered alongside the potential to generate new productive capacity within the U.S. Nonetheless, international trade relationships and consumer prices will be disrupted.

The proposed 25% tariffs on steel and aluminum imports are likely to have significant consequences, benefiting the U.S. steel and aluminum industries in the long term, but at the cost of harming major trading partners. The impacts vary considerably across different countries and companies, depending on their existing market position and export profile.

The final structure of these tariffs is key, as in 2018-2019 a system of quotas was also implemented that minimized the impact on prices. Now, inflation is still higher than the Federal Reserve target, but significantly lower than in the post-pandemic peak when they reached almost 9.0%. See Figure 5 for the latest U.S. and P.R. inflation figures. The impact of tariffs and aluminum impact construction, manufacturing, and defense industries.

Figure 5 – US & PR Inflation Rates



Source: FRED, ST Louis Federal Reserve, PR Department of Labor & Human Resources

Previous Trump's Tariffs

In 2018 and 2019, Trump's administration imposed several significant tariffs, primarily targeting steel and aluminum imports but extending to other goods in various trade disputes. Here's a summary:

2018

- **Steel and Aluminum Tariffs:** These were the most prominent, imposing a 25% tariff on steel imports and a 10% tariff on aluminum imports from numerous countries. This action sparked significant international backlash and retaliatory tariffs from affected nations. Some countries received exemptions or negotiated quotas.

- **Tariffs on Washing Machines and Solar Panels:** Section 201 tariffs were imposed on imported washing machines and solar panels, aimed at protecting domestic industries. These tariffs were also tiered with higher rates imposed on certain countries and importers.

This had the most direct impact on the prices of the products that were targeted, as well as related products. Dryers for example, not included in the tariffs, saw a significant price increase.

2019

- **Tariffs on Chinese Goods:** A significant escalation of the trade war with China led to multiple rounds of tariffs on hundreds of billions of dollars worth of Chinese goods. These tariffs were often levied in stages, starting with lower rates and increasing over time. The targeted products spanned a wide range of sectors.

- **Continued Steel and Aluminum Tariffs:** The steel and aluminum tariffs remained in place throughout 2019, continuing to impact global trade relations. Negotiations and adjustments continued but the core tariffs persisted.

It's crucial to note that these tariffs were often subject to exemptions, exclusions and ongoing negotiations. The actual impact varied, depending on the specific product, country of origin and various legal challenges. Hence, the overall picture is complex and involves a dynamic set of trade policies and retaliatory measures.

Impact of 2018-2019 Tariffs

The impact of the 2018 and 2019 Trump's tariffs on prices and economic activity was complex and multifaceted, with varying effects across different sectors and countries. There's no single, universally agreed-upon conclusion due to the intertwined nature of global trade and the difficulty in isolating the tariff's' effects from other economic factors. However, several key impacts are generally recognized:

Price Impacts:

- **Increased Prices for Consumers:** The most direct impact was a rise in prices for goods subject to tariffs, particularly steel and aluminum. This increase in input costs was often passed on to consumers through higher prices for finished products containing these materials. This effect was amplified by retaliatory tariffs imposed by other countries, further disrupting supply chains and increasing costs.

- **Inflationary Pressure:** The price increases contributed to broader inflationary pressures in the U.S. and globally. The extent of this inflationary pressure is a subject of ongoing debate among economists, with some arguing the impact was relatively small compared to other factors, while others point to a more significant contribution.

- **Price Volatility:** The uncertainty surrounding tariff announcements and adjustments created price volatility in affected markets. Businesses struggled to predict costs and planned accordingly, leading to instability in some industries.

Impacts on Economic Activity:

- **Reduced Trade Volume:** The tariffs led to a decrease in trade volume between the U.S. and its trading partners. This reduction harmed businesses involved in international trade and disrupted supply chains.

- **Impact on GDP Growth:** Several economists have estimated the disruptive impact of the tariffs on U.S. GDP growth, although the magnitude of the effect varies depending on the study's methodology and assumptions. Generally, the consensus suggests a dampening effect, although other factors also contributed to economic performance.

- **Job Creation/Destruction:** The impact on job creation and destruction was debated. While some argued that the tariffs protected domestic jobs in the steel and aluminum industries, this effect was likely limited and offset by job losses in other sectors affected by higher prices and reduced trade.

- **Retaliatory Tariffs:** The retaliatory tariffs imposed by other countries harmed U.S. exporters,further impacting economic activity and trade balance.

- **Uncertainty and Investment:** The fluctuating and unpredictable nature of the tariff policies created uncertainty among businesses, leading to reduced investment and dampened business confidence.

The 2018 and 2019 Trump's tariffs resulted in a complex mix of positive and negative economic consequences. While they might have provided short-term benefits to some domestic industries, **the overall effect is generally considered to be disruptive due to higher consumer prices, reduced trade and increased economic uncertainty.** If they are used as a negotiating tactic, they might still have an inflationary effect as businesses huddle down and try to preempt any increase.

The full extent of the long-term consequences is difficult to measure due to the timing of the 2018-2019 tariffs. The pandemic of 2020 greatly increased prices beyond what any tariff likely would have. This makes any accurate estimate of the impact on prices almost impossible in the long term.