

GRIFFIN CAPITAL MARKET RESEARCH NOTE

The Impact of Proposed U.S. Tariffs on North American Trade

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The Trump administration's tariff proposals, whether a negotiating tact or otherwise, if enacted, will impact the economy. While we await clarity on tariff implementation, it's important to consider how tariffs influence the economy and the housing market. As of February 3, here is what we know. The U.S. is proposing a 25% tax on a broad swath of products from Canada (except for Canadian oil imports, taxed at 10%) and Mexico and an additional 10% tariff on China.

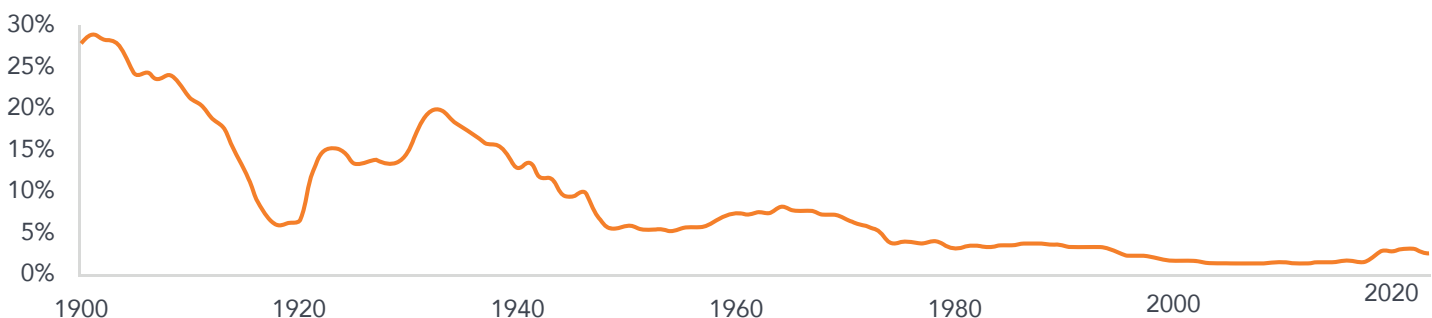
Key Points Focusing on our North American Trade Partners:

- The scale of the proposal is significant. Both the amount of imports affected and the costs paid on those goods exceeded the tariffs in the first Trump Presidency.
 - Impacted goods have a value of \$1.4 trillion, 3.5x the impact of similar moves during Trump's first administration.
 - The proposed tariff is a 4x increase to nearly 10% (duties collected / value of goods taxed) from about 2.5%.
- The historical perspective shows that tariffs have not exceeded 5% since the early 1970s and the tariff rate has not been in double digits since World War II.

EXHIBIT 1

Effective Tariff Rate on U.S. Imports Under Different Tariff Assumption

U.S. Import Duties as a Percentage of U.S. Imports



Source: Yale Budget Lab, Moody's Analytics.

Impacts to Macro Growth Assumptions

- Oxford Economics forecasts a 0.7 percentage point hit to U.S. GDP, taking the 2.8% forecast down to 2.1% growth. That magnitude does not produce a recession in the United States, but Mexico and Canada would move into a recession.
- Moody's Analytics models a 0.6 percentage point hit to GDP and expects a recession in Canada and Mexico.

Housing Construction Costs Increase

- NAHB estimates that \$184 billion worth of goods were used in the construction of both new multifamily and single-family housing in 2023.
- The NAHB estimates that \$13 billion in goods were imported as part of single-family and multifamily home building in 2023.
 - That is 7% of the goods used in construction.
- Costs for wood and drywall used in construction are expected to be the most impacted.
- Two essential materials used in new home construction, softwood lumber and gypsum (used for drywall), are largely sourced from Canada and Mexico, respectively.
- Of \$8.5 billion worth of sawmill and wood products imported in 2023, nearly 70% of these imports came from Canada. Many of these imports are already subject to a 14.5% antidumping and countervailing duties (AD/CVD) tariff.
- The U.S. imported \$456 million worth of lime and gypsum products in 2023, with 71% of these products originating from Mexico.

Higher Inflation

- Economic models suggest higher inflation that push up interest rates in the near term.
- Increases in interest rates will likely slow multifamily sales and construction activity.
- Reduced construction starts could dampen the impacts of inflation on construction costs.

Consumers Impacted

- The Budget Lab at Yale estimates that real household income will fall by about \$1,200 because of the proposed tariffs.
 - This could potentially make it harder for renters to get out of the rental pool.

The overall impacts to the economy are driven by what goods are affected.

Exhibit 2 captures the categories of goods and how much of each is sourced from Canada, China, and Mexico. At the top of the table are many consumer goods, illustrating potential impacts to households and consumers already stretched on housing affordability.

EXHIBIT 2
Tariffs Will Make Your Entire Life Expensive
 Affected Goods as a Percentage of Total Imports

Item	Canada	China	Mexico	Affected Goods	Rest of World
Fresh Vegetables	21%	1%	69%	91%	9%
Avocados	-	-	90%	90%	10%
Beer	1%	-	83%	84%	16%
Toys, games & sports equipment	1%	73%	4%	78%	22%
Berries	5%	-	67%	72%	28%
Poultry products & eggs	66%	1%	3%	70%	30%
Baked goods, cereals, & pastas	44%	1%	20%	65%	35%
Wood & wood products	49%	8%	3%	60%	40%
Pork & pork products	51%	-	9%	60%	40%
Mineral fuel/oil	51%	-	7%	58%	42%
Furniture, bedding, light fixtures, etc.	8%	28%	19%	55%	45%
Vehicles & parts	13%	4%	36%	53%	47%
Distilled spirits	5%	-	46%	52%	48%
Electric machinery	2%	26%	19%	47%	53%
Condiments & sauces	19%	6%	18%	43%	57%
Salt, sulfur, earth, stone, cement, plaster	26%	6%	10%	43%	57%
Nuclear reactors, boilers (big machinery)	6%	16%	20%	42%	58%

Source: Callie Cox Media LLC, USDA, Census Bureau.

Conclusion

It is challenging to accurately assess the impact of the tariff proposals without more detail, but we do not expect an administration focused on housing affordability and supply-side economics will make it significantly more expensive to produce housing and increase price levels, generally. We believe this is a negotiating tactic and/or will be coupled with domestic programs that provide significant incentives for the private sector to produce much needed housing supply. Those helping to shape policy come from the industry, understand these dynamics, and can see the forest through the trees (no pun intended).



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