SPOTLIGHTS

APRIL 4, 2025

Forest Economic Advisors

NEW TARIFFS WILL HAVE MASSIVE EFFECTS ON US ECONOMY; NORTH AMERICAN WOOD PRODUCTS SECTOR WILL SEE FEW DIRECT EFFECTS

The trade restrictions announced on the Trump Administration's "Liberation Day" mark a sea change in US trade policy. Here are a few of our initial thoughts:

- First, the North American wood products sector has been spared. Tariffs on Canadian and Mexican products that are USMCA-compliant will remain tariff-free. These include wood products. Softwood lumber imports from Canada will have the same 14.4% duties that were being charged before President Trump took office. Moreover, most European wood products have been exempted from the 20% tariff on EU imports. The exception to this is structural engineered timber products such as glue-laminated timber (glulam) and cross-laminated timber (CLT).
- The new tariff regime will affect the North American wood products sector via the macro channel, and on balance the effect will be negative, though that is not a certainty. If the announced tariff regime remains in place, we will likely see lower economic growth, lower long-term interest rates, and a significant increase in consumer price inflation that may or may not be durable.
- The tariffs will represent a major tax increase at a time when the economy is already slowing (2025Q1 real GDP growth was already on track to contract or stagnate at best). Various administration officials have floated the ideas of lowering income taxes or issuing rebate checks to households based on DOGE savings. The income tax cuts would have to be approved by Congress, and that process will likely take up to a year. Rebate checks could potentially happen more quickly.
- Mortgage rates and other long-term interest rates run off 10-year government bond yields, which are in turn largely based on the expected rate of economic growth as well as medium-to-long-term inflation expectations. The former have clearly been declining, and the equity market's reaction to the tariff announcement points to a sour growth outlook. While short-term inflation expectations have clearly risen, longer-term expectations remain anchored. The ten-year bond yield has declined by 40 basis points over the past two months. If the spread between mortgage rates and 10-year Treasuries holds, lower mortgage rates will boost housing demand, all else being equal.
- The threat that tariffs posed to housing affordability was always overblown. By our calculations, even if lumber and wood panel prices increased by a full 25%, the mortgage payment on a median-priced new single-family home would increase by only $15 to $30 per month. On the margin, building materials will be cheaper than expected in the new tariff regime. In fact, we've already seen a sharp drop in lumber futures. Moreover, the decline in mortgage rates resulting from the new tariffs will further boost affordability. The $64,000 question for the housing sector is whether lower income growth and uncertainty regarding job security will offset the modest gain in affordability occasioned by lower building materials prices and mortgage rates. If we see a job loss recession, then the effects will be unambiguously bad for housing demand.

(978) 496-6334 blowney@getfea.com getfea.com

- On first reflection, we thought that the tariffs would represent a one-off increase in the price level rather than a sustained increase in inflation. Upon further reflection, the odds of a sustained increase in inflation are elevated. Of course, the direct effects would be a major one-off increase in consumer prices. The second-order effects could also be severe. The current unemployment rate for manufacturing is 2.9%. If the US is to substitute domestic goods for imports, it will need to lure workers to the manufacturing sector. This will be expensive. In the near term, there will also be supply shortages of critical inputs, and that will be inflationary as well.
- In short, the tariffs will almost certainly cause a one-off increase in consumer prices, likely noticeable within months as import costs rise. Whether this marks the beginning of sustained CPI inflation depends on the scope of the tariffs, how entrenched inflation expectations become, the Fed's reaction, and the speed of substitution or retaliation. A one-time price-level rise of 1–3% is plausible based on the scale implied, but sustained inflation would require those additional dynamics to kick in. Historically, tariffs alone haven't driven long-term inflation without broader economic pressures amplifying them—so the jury's still out on persistence.

We will present a more detailed analysis of the effects of the tariffs in our April Advisors.

BRENDAN LOWNEY
PRINCIPAL, MACROECONOMICS

Brendan Lowney is a Principal of Forest Economic Advisors LLC, the top choice for North American wood products analysis. As Principal, Brendan develops and implements FEA's business strategies.

(978) 496-6334 blowney@getfea.com getfea.com