The Home Country Bias

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Sionna Investment Managers®

While auto original equipment manufacturers and suppliers have been at the center of discussions, other major industries are also feeling the effects of tariffs. In this installment of The Home Country Bias, we will look into the U.S. agriculture sector – and on multiple fronts.

How could broad import tariffs and steel/aluminum tariffs impact U.S. farmers? Can the U.S. function without Canada's potash?

On March 12, 2025, 25% general import tariffs were imposed by the U.S. government on products from Canada and Mexico that do not satisfy USMCA rules of origin.

Potash, a key ingredient in fertilizer, is now subject to 10% tariffs. According to industry data, approximately 85% of potash used by U.S. farmers is imported from Canada and the remaining 15% is sourced mostly from Russia and Belarus, making this mineral difficult to replace in the medium term. Farmers may be able to miss one season's application of fertilizer but likely not two without significant consequences to crop yields, making it difficult for U.S. farmers to function without Canadian potash.

Also on March 12th, 25% steel and aluminum tariffs were imposed on all imports to the U.S. These tariffs are additive to the other general import tariffs. The U.S. supplements about 25% of its steel needs from other countries, including Canada[1]. Steel is the best metal for the agriculture industry, which is why most manufacturers still rely heavily on it for the critical components of agriculture equipment. The U.S.-based Association of Equipment Manufacturers issued a statement outlining its concern that these tariffs would raise the price of manufacturing agriculture equipment by as much as 7% and put American jobs at risk[2]. Industry reports suggest volumes of large agriculture equipment manufacturing is expected to be down 25% in 2025 and flat globally – this is after a 15% decline in the U.S. last year and 8% decline overall. Short-line agriculture equipment producers like Linamar believe that improving productivity for the farmer wins all the time. All manufacturers will likely push through pricing increases onto their customers, the U.S. farmer.

What does history teach us about the aftereffects of tariffs?

With the benefit of history, we can reflect upon President Trump's implementation of tariffs in his first term back in 2018. Specifically, let's examine the case when the U.S. placed tariffs on various imports from China. When China pushed back with retaliatory tariffs up to 25% on U.S. agricultural products, it simply reduced U.S. exports as other nations did not take up China's share. The unintended consequences? Using U.S. soybeans as an example, China reduced U.S. imports and U.S. inventories pushed to new highs, prices fell, China imported soybeans from other nations (mainly Brazil) and U.S. farmers scraped by with U.S. aid. For the next few years, China continued to reduce its reliance on the U.S. market turning to other nations for imports while providing support to expand its capital investments to these nations. This time will likely be somewhat different. As of March 20, 2025, China has announced 10-15% tariffs on U.S. agricultural products with the largest impact on soybeans at ~US$12.8 billion. Although nations typically focus upon supply, demand and inventories, what is certain is that nations will scrutinize security of supply, stability of trading partners and where incremental capital investment will flow.

For Canada, potash is an important example to consider. President Trump initially placed a 25% tariff on Canadian potash, which was quickly reduced to 10%. Nutrien, a Saskatchewan-based producer of potash, continues to signal that it is prepared to pass the full tariff on to the end consumer and initially readied a large price increase before pulling it back. What could one expect if these retaliatory measures continue? Initially, prices could react, demand may decline if profitability is not present for the U.S. farmer, supply of agricultural crops may decline, and there is uncertainty if U.S. aid would come once again given this DOGE era of spending cuts. In the medium-term, supply chains would have to adjust, but would the U.S. desire increased potash trade with Russia and Belarus while Canadian potash moves into new markets? This does not seem like the logical course of action to reduce costs, and keep supply secure and trading partners stable. Is it inflationary? Very likely. U.S. farmers are now contemplating their economics for this next crop season, which along with weather, will shape their decisions and inventories in autumn, thus impacting pricing.

Stay tuned...

Politics are influencing investment decisions more so than in recent history. At Sionna, we remain committed to navigating through these uncertain times.

-The Sionna Team

References

[1] https://www.reuters.com/markets/commodities/where-does-us-get-its-steel-aluminum-2025-02-10/#:~:text=Roughly%20a%20quarter%20of%20all,is%20small%20by%20global%20standards.

[2] https://newsroom.aem.org/equipment-manufacturers-concerned-by-tariffs-on-aluminum-and-steel/

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