Situation Report:

Trade War: April 2025 Update

April 11, 2025

Trade War: April 2025 Update

1. General Outlook

- A climate of **potential shortages** may grip the U.S. as new import tariffs collide with hostile trade tensions. Retailers could experience panic buying by consumers.
- Fresh developments on April 4 may raise the stakes further: **China's Ministry of Commerce has imposed new export controls on critical rare earth metals**, explicitly targeting U.S. industries already strained by high tariffs.
- Some analysts fear that, without access to these materials, sectors from electric vehicles to aerospace might see significant production disruptions.

2. Key Product Shortage Risks (Focus US)

Category	Examples	Risk	Drivers
Food & Agriculture	Eggs, chocolate (cocoa)	Medium	Avian flu & West African drought potentially impacting supply, ~70% of cocoa is sourced from Africa
Consumer Staples	Canned goods, household basics	Low–Medium	Panic buying could drive local outages similar to early Covid waves
Electronics & Tech	Smartphones, chips, gaming devices	High	Tariffs and lingering chip constraints, consumer rush for devices
Automotive & Parts	New cars, OEM components, tires	Medium	Tariffs on Canadian/Mexican inputs, partial chip deficits may linger
Pharma & Medical	IV fluids, generic drugs	Medium	Heavy reliance on Chinese/Indian APIs, hurricane-damaged North Carolina saline plant
Energy & Raw Materials	Fuel, metals, paper pulp	Low–Medium	Tariffs on Canadian energy, expanded Chinese rare earth export controls could tighten availability
General Retail	Apparel, appliances, home goods	Medium	10–100%+ tariffs on broad imports, surging demand for big-ticket items potentially stressing inventories

- Notable Flashpoints:
  - **Rare Earth Metals & Specialty Minerals:** China's new export limits could choke advanced manufacturing.
  - **Electronics & Pharma:** May be the most exposed to extended shortages due to complex foreign supply networks and limited domestic backup.

3. Consumer Panic Buying: Drivers & Potential Effects

- **Tariff Anxiety:** Some Chinese goods now face over 100% duty, prompting shoppers to buy items pre-price-hike. Grocery shelves for staples like canned beans, flour, and oil may empty quickly in regions prone to panic.

- **Flashbacks to 2020:** Social media images of bare aisles could amplify the fear cycle. Each "panic post" may drive more hoarding. Retailers may attempt to ration but might not always keep up with surging demand.

- **Rapid Sellouts & Limits:** Electronics retailers could occasionally observe 24-hour wipeouts on TVs, smartphones, and gaming consoles whenever a new tariff or scarcity rumor emerges.

---

4. Corporate Inventory & Resilience

- **Retailers:** Hold moderate buffer stock. This may be adequate for brief surges but could be insufficient for sustained weeks of panic buying.

- **Tech/Electronics:** Companies stockpiled semiconductors after the 2020–22 chip crunch, but new Chinese rare earth export controls might hobble EV batteries, advanced chips, and more. No inventory is likely to compensate for a long-term ban on essential raw materials.

- **Automotive:** Dealerships have partially recovered from the 2022 chip drought, but many EV and hybrid parts (magnets, advanced semiconductors) rely on Chinese-sourced rare earths. Production lines might stall if these metals are cut off.

- **Pharma & Medical:** Roughly 57% of drug ingredients are reportedly sourced from India/China. Further retaliation banning pharmaceuticals or APIs could immediately strain U.S. hospitals, already grappling with an IV fluid shortage following a North Carolina plant closure.

---

5. Broader Supply Chain Vulnerabilities

5.1. Transportation Bottlenecks

Ports and trucking routes appear more stable than during the height of Covid-related disruptions. However, **tariff-induced re-routing** (away from China to other Asian nations) might overwhelm lesser-equipped ports. A labour strike or infrastructure failure (e.g. a rail corridor shutdown) risks **major shipment delays**.

Recent data indicates a significant decline in ocean container bookings from China to the United States, with a 25% drop compared to the same period last year. This downturn is largely attributed to the Trump administration's recent tariffs, including a 125% tariff on Chinese imports. The opportunity for importers to advance shipments and avoid these tariffs has passed, leading to a reassessment of supply chain strategies. The decline suggests potential disruptions in trans-Pacific trade and may have broad implications for global trade and supply chains.

- **Impact of Panic Buying on Shipping Flows:** As consumers stockpile, manufacturers and retailers often place larger orders to replenish shelves, potentially causing shipping volume spikes. This volatility, reminiscent of the pandemic era, could strain port capacity and container availability. If consumers abruptly pull back on spending due to high prices or fatigue, containers might languish in certain regions, creating equipment shortages on other routes and further disrupting maritime flow.

- **Houthi Attacks & Capacity Constraints:** Conflict in Yemen has seen periodic Houthi attacks on vessels in the Red Sea corridor. Although new ships were built after Covid to bolster global capacity, some carriers could avoid risky regions or face steep insurance premiums, effectively limiting overall throughput. A sudden surge in U.S.-bound orders, combined with security-related shipping detours, may magnify congestion and prolong transit times.

- **Potential Levies on Chinese-Built Ships:** The current administration has threatened **levies or fines** on shipping companies operating Chinese-built vessels, or on **Chinese-flagged ships** themselves. As many lines rely on Chinese-built fleets, carriers may opt to avoid U.S. ports or pass along extra fees if these measures take effect. Either scenario would likely push freight rates higher and inject further scheduling uncertainties, exacerbating existing vulnerabilities tied to tariffs and rare earth restrictions.

Critical Raw Materials

Specialized plants (semiconductor fabs, chemical refineries) are critical pinch points. A single accident, cyberattack, or natural disaster could cascade into nationwide shortages, especially if alternative production is limited.

Chinese Raw Material Restrictions

On April 4, Beijing reportedly expanded export controls to include a broader range of rare earths and specialty metals:

- **Neodymium** (high-strength magnets in EV motors, wind turbines, audio equipment)
- **Dysprosium** (permanent magnets for defense/aerospace applications)
- **Terbium & Praseodymium** (specialized alloys and magnetics for aircraft, EVs, electronics)
- **Gallium & Germanium Compounds** (semiconductors, fiber optics, 5G infrastructure)

The latest restrictions build on China's 2023 limits, but now formally link export licenses to U.S. "tariff aggression," suggesting Beijing's willingness to weaponize these materials.

Industries potentially affected in the U.S. include:

- **EV Manufacturing** (batteries, e-motors)
- **Aerospace & Defense** (missile systems, high-tech alloys)
- **Telecom & Consumer Electronics** (smartphones, 5G equipment, advanced displays)
- **Renewable Energy** (wind turbines, high-efficiency solar panels)

---

6. Global Interdependencies

Despite calls for onshoring, the U.S. remains deeply connected to international suppliers:

- **Semiconductors:**
  Dominant chip foundries sit in Taiwan, Korea, and China. Tariffs could raise hardware costs; new Chinese controls on gallium/germanium might threaten advanced production lines. Some executives estimate that U.S. fabs under the CHIPS Act will not meaningfully boost domestic output until at least 2026.

- **Pharmaceuticals:**
  India/China produce a large share of active pharmaceutical ingredients. If China extends export bans to certain APIs, drug shortages could arise quickly, given the lean nature of many supply chains.

- **Rare Earth & Specialty Metals:**
  China refines about 80% of global rare earths. With stricter licensing, supply chains for EVs, fighter jets, and more are at risk. Partial cutbacks in shipments could harm critical U.S. industries within weeks if alternate sources are not found.

---

7. Policy-Driven Escalation Risks

- **Historic Tariffs:**

U.S. duties now exceed 20% on average, and certain Chinese imports reportedly face rates of 125%, driving immediate inflation. Some economists suggest this might add roughly 2–3% to consumer prices in 2025.

- **Chinese Retaliation:**

Beijing's official statement cites "defending national interests" against U.S. tariffs. The new export controls may expand if tensions persist, potentially blocking advanced magnet metals or additional specialized minerals.

- **Inflation & Potential Recession:**

As prices rise and wages lag, consumer spending could drop by late summer, threatening economic slowdown or recession in Q4. This may reduce demand for certain goods, but could also harm overall growth and affect container shipping.

- **Further Flashpoints:**

Canada/Mexico, under tariff pressures, might respond with energy or auto-part restrictions. A major weather event (e.g., a Gulf Coast hurricane) or a significant port strike could compound supply chain risks.

---

8. Lessons from Covid-Era Shocks

- **Inventory Buffers:**

Post-2020, many companies acknowledged the pitfalls of lean, "just-in-time" supply. By 2023, holding costs and an apparent return to normal led some to reduce surplus stock—potentially exposing them to this year's dual threat of tariffs and raw material bans.

- **Consumer Panic:**

Social media and rapid news can spark fear-driven overbuying that vastly exceeds actual supply chain constraints. While retailers might impose limits, evidence from 2020 suggests these measures only modestly slow panic runs.

- **Production Gaps:**

Shifting to local manufacturing worked for simpler items like masks or sanitizer in 2020. Rare earth refining or advanced semiconductor fabrication, however, require years of investment and specialized knowledge. No immediate workaround exists if global trade channels seize up.

9. Scenario Outlook (April–October 2025)

- **Base Case (High Disruption, Gradual Cooling)**
  - **April–May:** Consumer stockpiling spikes, scattered shortages follow. Expanded Chinese rare earth controls may pinch manufacturers relying on timely shipments.
  - **June–July:** Inflation peaks, dampening discretionary spending. Retail shelves may stabilize for basic goods, but high-tech and industrial firms warn of possible supply gaps by late summer.
  - **August–October:** Electronics, EV production, and possibly defense/aerospace lines slow as critical minerals run thin. The economy weakens, though a total meltdown may be averted unless further shocks occur.

- **Optimistic (Tariff Relief, Limited Controls)**
  - Partial U.S.-China détente sees tariffs rolled back and export controls softened or licensed more freely. Shortage episodes remain contained to a handful of products, panic buying subsides, and inflation eases by fall.

- **Pessimistic (Escalation + Compounding Crises)**
  - China escalates restrictions on all key rare earth metals; the U.S. sees immediate production halts for EVs, advanced weaponry, and high-end electronics.
  - Simultaneous setbacks (port strikes, major hurricane) or retaliations from Canada/Mexico could trigger rolling shortages across multiple sectors.
  - A deep recession may loom as inflation persists and supply disruptions intensify well into late 2025.

---

10. Future Outlook

The April 4 announcement **may heighten** the precarious state of U.S. supply chains. While some firms hold limited buffers and have learned from the Covid era, the convergence of steep tariffs and **broadened Chinese export controls** on crucial rare earths could pose a fundamental threat to key industries if global tensions continue.