US manufacturers see higher metal prices as tariffs near

By Timothy Aeppel

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Feb 24 (Reuters) - The price of the steel Glen Calder buys for his small machinery factory in South Carolina has spiked over 15% in the last two weeks, while Brian Nelson's factory halfway across the country in Illinois can't get its suppliers to quote him current prices at all.

"They're waiting for the tariffs," said Nelson.

While President Donald Trump's 25% tariffs on steel and aluminum are only slated to start on March 12, the action is already reverberating through the network of producers and builders that rely on the metals to make their goods. And not in a good way.

Trump campaigned on a promise to use tariffs to boost domestic manufacturers and also eyes the added revenue as a way to offset lost inflows to federal coffers from his planned tax cuts. But levies on imported steel and aluminum, while aiding U.S. mills by allowing them to raise their own prices, quickly translate into higher prices for the layers of producers who buy and process those metals into refrigerators, cars and combines.

Steel prices in the U.S. have surged in recent days, adding to gains since Trump became president. Hot rolled coil prices in the Midwest have jumped 12% to $839 per short ton during the two weeks to Thursday and climbed 20% since Trump took office on January 20, according to data provider Fastmarkets.

By contrast, the price of that type of steel has risen only 6% in northern Europe and was barely changed in eastern China since January 20.

A new survey by Bain & Co. found 40% of chief operating officers and other top executives are anticipating double-digit increases in their input costs due to tariffs, while about 80% are either revising or considering revising financial forecasts to account for the added costs. Forty-five percent of respondents to the survey were in the U.S.

Leon Topalian, CEO of top U.S. steelmaker Nucor, early this month praised Trump's tariff plans, calling it the first steps in "his America First Trade Agenda." Nucor last week raised hot rolled coil prices for the fourth time since the start of the year.

'MIDDLE GUY IN THE SANDWICH'

Buyers typically acquire metals either straight from mills or through so-called service centers, smaller businesses that buy in bulk from mills and process metal into forms needed by buyers, such as cut to specific lengths.

Nelson, the CEO of HCC in Mendota, Illinois, buys both ways. But at the moment, he hasn't been able to get price quotes from his usual sources. His senior buyer told him the mills have canceled orders, put orders on hold, and increased lead times due to tariff uncertainty. "Lead times are getting pushed out," he said, "because now customers are going crazy, panic buying."

He likens his business to being the "middle guy in the sandwich" - squeezed from above and below.

HCC produces harvesting reels for combines, some over 30 feet long, and other parts for the big reapers. HCC is caught between steel producers and its customers: large farm equipment producers like Deere and AGCO.

Nelson said he just spoke to one of those big manufacturers, who asked him how much of the anticipated tariff-related price increase on steel he intended to absorb. "I said, 'We'll pass it all on to you - and it's up to you if you want to pass it on to your end customers.'"

Factory input prices are already on the rise. A survey released Friday by S&P Global showed a gauge of the prices paid by businesses for inputs increased to 58.5 this month from 57.4 in January. It was boosted by the manufacturing gauge, which jumped to 63.5 from 57.4 last month, "overwhelmingly blamed by purchasing managers on tariffs and related supplier-driven price hikes."

A White House spokesman said tariffs are just one part of the administration's economic agenda, which includes cuts to regulations, getting energy costs down, as well as reining in inflation and spending cuts that will lower interest rates and eventually make U.S. steel and aluminum producers more competitive.

"The intent of these tariffs is to give breathing room to domestic producers of steel and aluminum—and to get them back up to their fuller capacity," the White House spokesman said. "The price of steel and aluminum going up is a natural result of that."

Glen Calder says he's resigned to absorbing the costs. Calder Brothers, in Taylors, S.C., produces $200,000 paving machines that are sold to asphalt contractors and municipalities for tasks such as paving parking lots and subdivision streets.

His steel prices already jumped in recent weeks, and he’s been warned to expect more soon.

"As of this morning, my steel prices are up 15.2%" since the beginning of the month, he said, in an interview with Reuters on February 17. "My machine pricing isn’t up 15.2%, I can tell you that." Calder’s 100-employee factory competes with four larger domestic firms, and he said business is soft, something he attributes to customers hesitant to invest in new machines amid still-elevated interest rates.

"This is not a good time to even think about raising my prices," said Calder.

MORE THAN METAL

Steel isn’t his only tariff headache. He buys heavy-duty engines from Cummins, the large U.S. producer, and the model designed into his machines is produced by that Indiana-based company in China. The Trump administration raised tariffs on China by 10% at the beginning of this month.

Many manufacturers rely on memory of the last time the U.S. levied new tariffs on basic metals - in 2018, during the first Trump administration - as they gear up for what’s coming.

"Absolutely it will raise prices," said A.H. "Chip" McElroy II, chief executive of McElroy Manufacturing in Tulsa. He noted that in the past the domestic suppliers didn’t exactly match the higher import prices. "They raise it to just below," he said.

McElroy’s company makes machines that weld plastic pipe. Raw steel is a relatively small part of their overall cost, he said, but many of his suppliers use the metal as well as aluminum in the components they provide to him.

To get a better picture of their exposure, the company spent the past week surveying its top 15 suppliers of raw materials. They received a range of responses to the poll, from "zero impact anticipated" from tariffs to "full certainty that our costs will increase as domestic demand increases and producers raise their prices."