Tariff Impacts on Equipment Finance

Equipment Finance Connect
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Tariffs 101

- Tariffs are a tax charged on imported goods. They can be used to
  - Raise revenue or
  - Protect domestic industries.
  - They are typically charged as a percentage of the good's value.
- Tariffs are paid by the importer of the US-bound equipment.
- That cost can be either passed to the consumer with a higher price or absorbed by the seller who charges a lower price.

In the round of tariffs implemented in 2018 and 2019, most tariff costs were passed to US firms and consumers.

See http://www.econ.ucla.edu/pfajgelbaum/rtp_update.pdf and https://www.usitc.gov/publications/332/pub5405.pdf?source=govdelivery&utm_medium=email&utm_source=govdelivery

Implications for Equipment Sourcing

- Current trade war seems to be about protecting (or creating) domestic industries. Onshore production can mean

+ More reliable supply chains

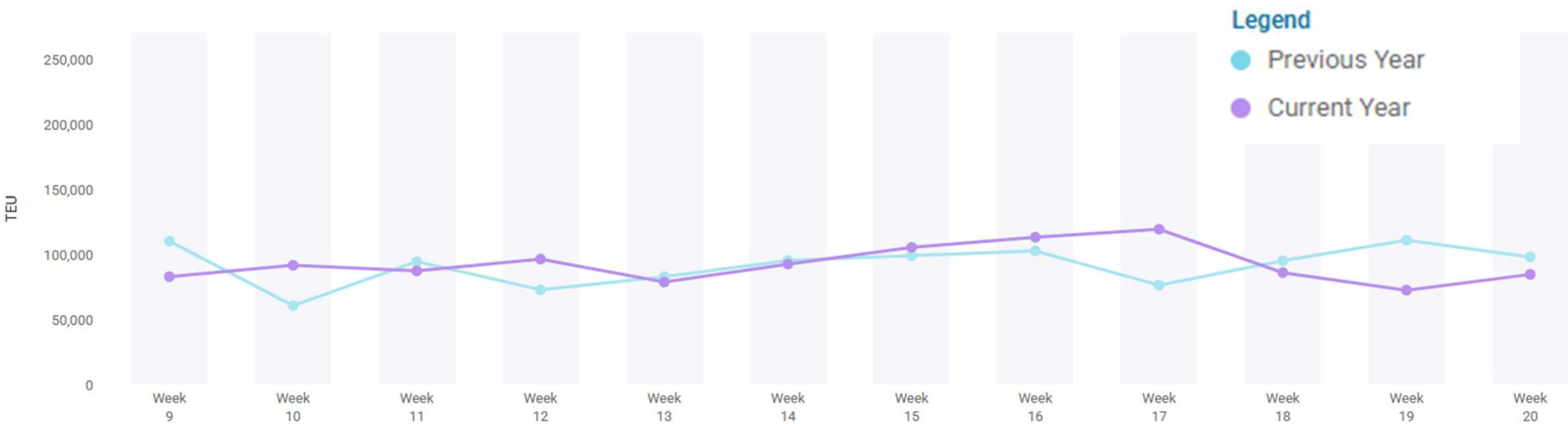
− Higher costs

− Adjustment period of 3-10 years

https://www.barrons.com/articles/trump-tariffs-manufacturing-onshoring-obstacles-a36686cb

Implications for Equipment Sourcing

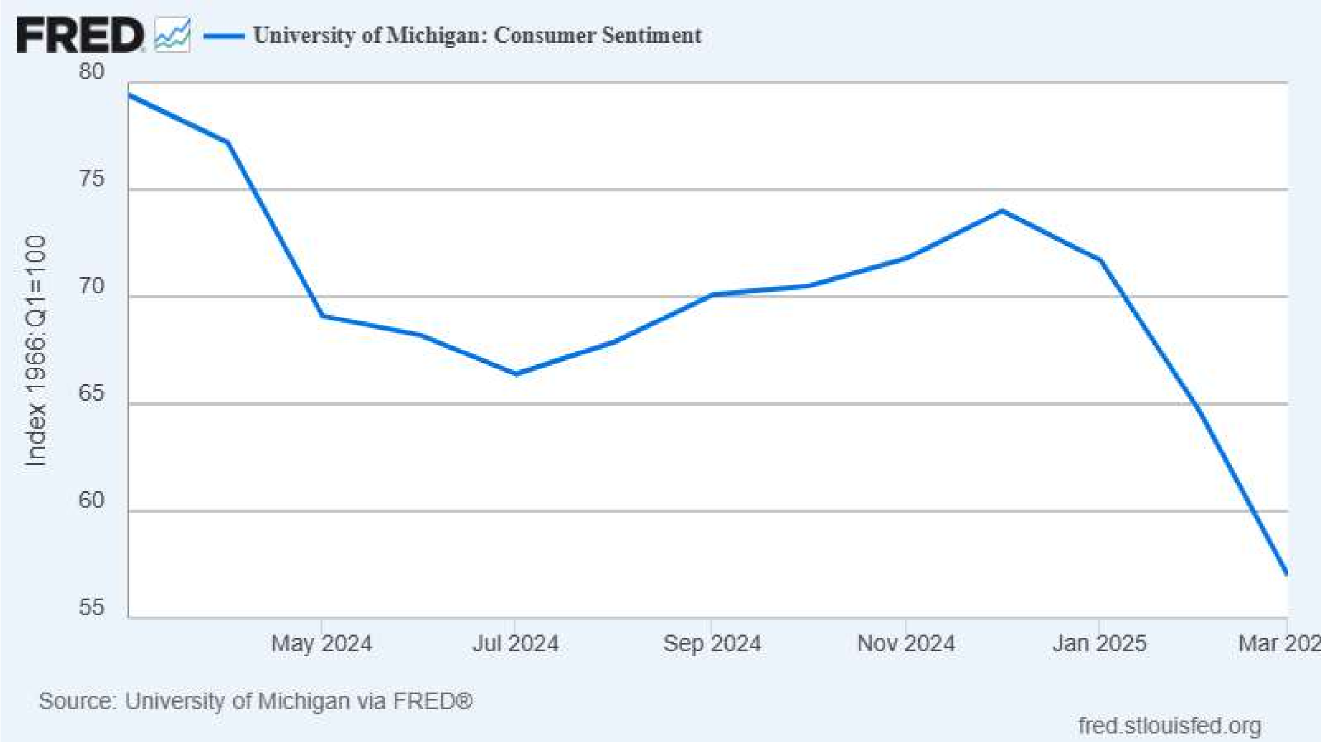
2025 Port of LA Weekly Volumes (TEU)



Shipping volume through LA ports was down 35% year over year for the first week in May (Week 19).

This data is available as a service of the Port of Los Angeles and available at https://www.portoflosangeles.org/business/operations.

Embracing Uncertainty



Surveys of Consumers, University of Michigan, University of Michigan: Consumer Sentiment © [UMCSENT], retrieved from FRED, Federal Reserve Bank of St. Louis, (Accessed on 5/13/2025)

Consumers and markets dislike **uncertainty.** Even McDonald’s saw a reduction in sales in the first quarter – citing consumer uncertainty!

Embracing Uncertainty

- Equipment buyers are likely to
  - defer decision-making.
  - seek to extend equipment lifespan - focus on repair rather than replace.
  - conserve liquidity in the structure of their financing.

- Plan for recession.
  - Buyers may struggle to meet payment obligations.
  - Equipment that supports non-necessities and luxury goods would face the most challenges.

What is [nearly] certain is that higher tariffs will lead to higher prices.