

From Wisconsin to Connecticut, Small Businesses Feel Pain of Tariffs

Business owners take steps to blunt higher prices; ‘It’s hurting our suppliers. It’s hurting us.’

Ruth Simon April 15, 2018 8:00 a.m. ET

The potential for a trade war with China is already rippling through the U.S. economy as leaders of the two countries [continue to threaten new tariffs](#) on hundreds of items, from dishwashers to soybeans. Small-business owners aren’t waiting for either side to make good on their saber rattling. They are taking steps to blunt the pain of higher prices or potential supply disruptions.

Kelli-Marie Vallieres, owner of Sound Manufacturing Inc., says the cost of the aluminum sheets her firm shapes into housings for generators, leaf loaders used by commercial landscapers and other products jumped in March to \$1.99 a pound for large orders, from \$1.73 in February, amid discussions of a trade war.

“We just have to have a conversation” about increasing tariffs, “and it upsets the apple cart,” said Ms. Vallieres, who recently added 10 workers because of strong sales. Her firm now employs 76 people.

Since February, her Old Saybrook, Conn., firm has been stocking up on aluminum and steel, instead of buying materials two or three days before they will be cut and bent for just-in-time manufacturing. Higher inventory and storage charges have pushed material costs to roughly 25% of revenue from 20% a year ago, said Ms. Vallieres, who has asked suppliers to increase the company’s credit lines. Some customers are shifting to thinner gauges of metal to reduce costs, she said.

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Kelli-Marie Vallieres, president and CEO of Sound Manufacturing Inc., says the cost of [aluminum sheets has jumped to \\$1.99 a pound in March from \\$1.73 in February](#). Photo: Jessica Hill for The Wall Street Journal

President Donald Trump said in March he would impose duties on aluminum and steel [and later threatened stiff tariffs](#) on \$150 billion in Chinese imports, in an effort to protect U.S. manufacturers from what the U.S. claims is unfair competition. China vowed to set its own tariffs on a variety of high-value U.S. exports.

More than one-third of small-business owners said tariffs will hurt their businesses, while just 5% said they would benefit, according to an April survey of [923 business owners](#) for The Wall Street Journal by Vistage Worldwide Inc., a CEO peer-advisory organization.

Some companies that make steel and aluminum in the U.S. support the tariffs and say any inflationary effects would be small.

“It seems like it’s just for the good of the steel producers,” said Ken Murray, president of Huth Ben Pearson [International](#), a [Hartford](#), Wis., maker of pipe- and tube-bending machines with 24 employees. “It’s hurting our suppliers. It’s hurting us. It’s hurting our customers.”

If all the tariff increases announced by Mr. Trump and U.S. trading partners were implemented, it would increase inflation by 0.2 percentage points and cut real gross domestic product growth by 0.4 percentage points the year after levies were implemented, Moody’s Analytics estimates.

The dispute is creating fresh headaches for small firms, [which typically have less bargaining power](#) than large companies and fewer resources to direct toward developing new business relationships or relocating production. Many small-business owners are already dealing with rising costs and a tight job market.

Dale Lemmons, owner of two trucking companies in Kelso, Wash., is paying an extra \$1,500, or 2%, for trailers that will be delivered in September. “We will ultimately have to pass it along,” said Mr. Lemmons, whose 100 employees haul sawdust shavings, wood chips and other products in Washington and Oregon.

Jacob Azevedo, owner of Carports and More Inc. in El Dorado Hills, Calif., said he lost a dozen sales after one supplier notified him on a Friday that prices would increase the following Monday and it would no longer honor outstanding quotes.

“There were quite a few very angry customers,” said Mr. Azevedo, whose 15-person company sells metal carports and RV canopies. “They would almost think we were being shady, which we weren’t.”

A sudden jump in prices is unsettling because it follows a long stretch of relatively stable costs. “It’s probably been eight to 10 years since we’ve seen much fluctuation in commodity prices,” said Roger Brubaker, president of Wilco Electric Inc., a third-generation electrical contractor with 39 employees in Lancaster County, Pa.

Wilco’s contracts typically allow the company to charge customers for storing materials but don’t carry escalation clauses. Mr. Brubaker, who supports the tariffs, figures he saved about \$60,000 on a \$1.2 million project by purchasing in advance PVC pipes, steel conduits and other materials in March.

He could be on the hook on other projects if prices continue to climb. “We are stuck with what we bid,” he said. “If all of the sudden these tariffs come in and prices skyrocket, we will have to eat the difference.”

Some entrepreneurs are also looking for ways to shave costs. Wahlen Corp. is purchasing concrete sealer and other chemicals in returnable 275-gallon steel totes instead of disposable 50-gallon steel drums. During peak season, the

Waunakee, Wis., company employs about two dozen workers who pressure wash, seal and stripe parking lots.

“We have to figure out efficiencies in how we buy and transport,” said Jim Wahlen, whose grandfather founded the business in 1971. “The way we apply the product, there’s really no wiggle room there.”

Daniel Rogge, chief executive of Tormach Inc. in Waunakee, is delaying plans to build a new headquarters and training facility and has put on hold a revamp of the company’s e-commerce site.

Tormach, a 45-person company that designs and sells computer-controlled lathes and milling machines, had a record January, but sales in March fell 37% compared with the same month a year ago.

Adding to his worries: the Chinese-made machine tools Mr. Rogge sells are among the 1,300 product categories targeted in April for higher tariffs by the Trump administration.

“One of our reactions to this will be to develop more robust export markets,” said Mr. Rogge, who is now looking to translate the company’s website into Spanish and is **booking** sales trips to [Mexico and Germany](#). “Instead of helping entrepreneurs and startups create jobs in the U.S., we will help entrepreneurs and startups create jobs outside the U.S.”

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