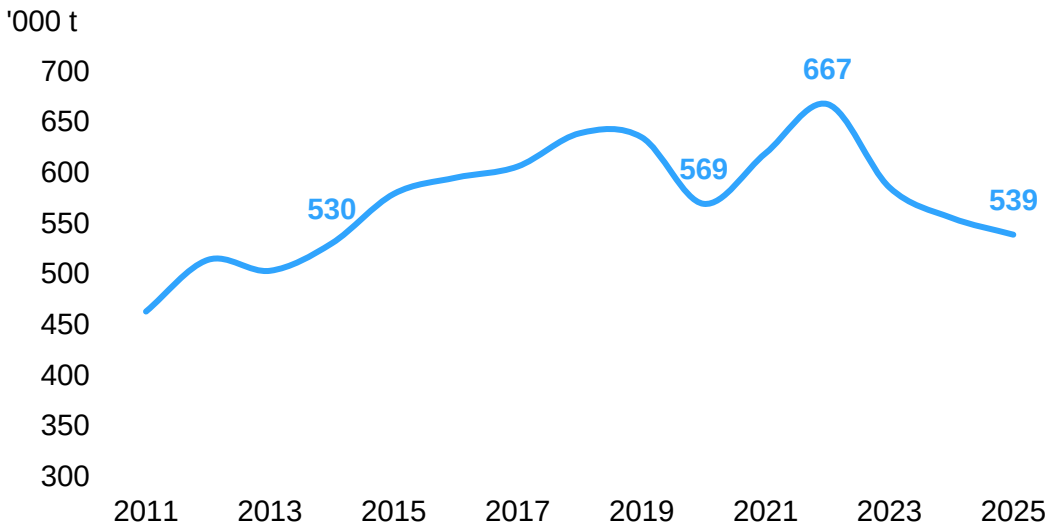
Tariffs create opportunities and challenges for extruders

Shipments of extruded products in the US & Canada grew 2.5% y/y but were still down almost 20% m/m in 2024 December. Shipments declined 3.1% annually. 2025 is also expected to get off to a slow start as macroeconomic pressures flare up again related to the host of new tariffs that have been enacted to start President Trump's term.

Figure 1: US & Canada domestic consumption in Q1 since 2011



DATA: CRU

Total consumption in Q1 is now expected to fall 3% y/y. A slowdown in auto production and weakness in commercial trailer builds is driving this decline. If this comes to fruition, Q1 demand will be at its lowest level since 2014. While demand is still faltering, domestic extruders could see a bump in shipments in the near term as more production is shifted on shore in response to recent tariffs.

Section 232 changes set to take effect 12 March

While there is ample uncertainty pent up in the market, there are some things that are known. As of now, Section 232 is set to rise to 25% up from 10% on 12 March. All exclusions are also to be removed including country wide exemptions, such as Canada, and product specific exclusions, such as most extrusions. HS code 7610 was also added and is an important distinction for domestic extruders.

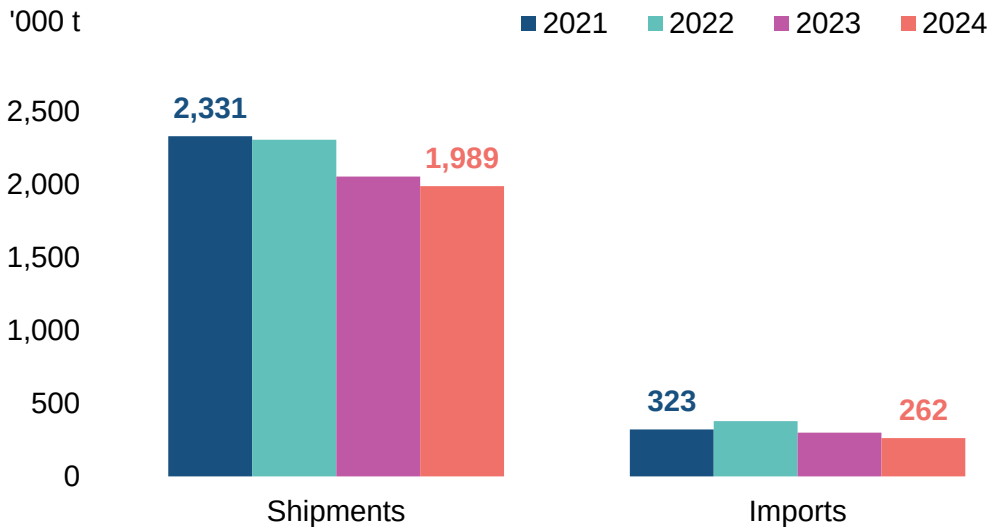
The tariffs will have an immediate effect on the domestic market. On the demand side of the equation, there will be an onshoring push similar to what was once expected from the trade case late last year. Concern for the trade case going through in 2025 could have pushed further downstream extrusion consumers to be more flexible. As such, there will likely be some slack in supply chains to allow this onshoring as less volumes were locked up contractually than in previous years.

CRU initially forecasted 3% growth in consumption for 2025 but delays in federal funds rate cuts and a slow start to the year for both automotive and commercial trailer markets will challenge that. If those markets continue to falter and multifamily residential construction slows, demand will fall short of expectations. However, due to the onshoring push mentioned

above, domestic extruders could still gain volume in this scenario as import volumes fall. As such, Lower than expected top line growth but higher domestic production is a real possibility this year.

How much do domestic extruders stand to gain volume wise? To start, extrusion capacity should not be a bottleneck. Shipments in 2024 were roughly 1 billion pounds lower than 2022's peak and there have been a handful of new presses that ramped up over that period. 262 kt of extrusions were imported last year and 360 kt of HS code 7610.

Figure 2: Shipments vs Imports trends since 2021



DATA: Aluminum Association

There has always been concern about further downstream capacity to onshore finished good production and it could be the limiting factor. Lead times in some instances have been extending slightly but this could also be due to shipments moving ahead.

Tariffs on Canada and Mexico will be a market disrupter

Following the higher Section 232 tariff announcement, the once on-hold tariffs targeting Mexico and Canada have been enacted as of 4 March. The tariff is 25% on all trade outside of energy and critical minerals which are subject to a 10% tariff. This distinction is an important one as aluminium is on both the critical mineral list and the critical energy material list. It is, however, on the lower end of the critical spectrum. As such, discerning which tranche of tariff rates aluminium falls in has been a difficult task.

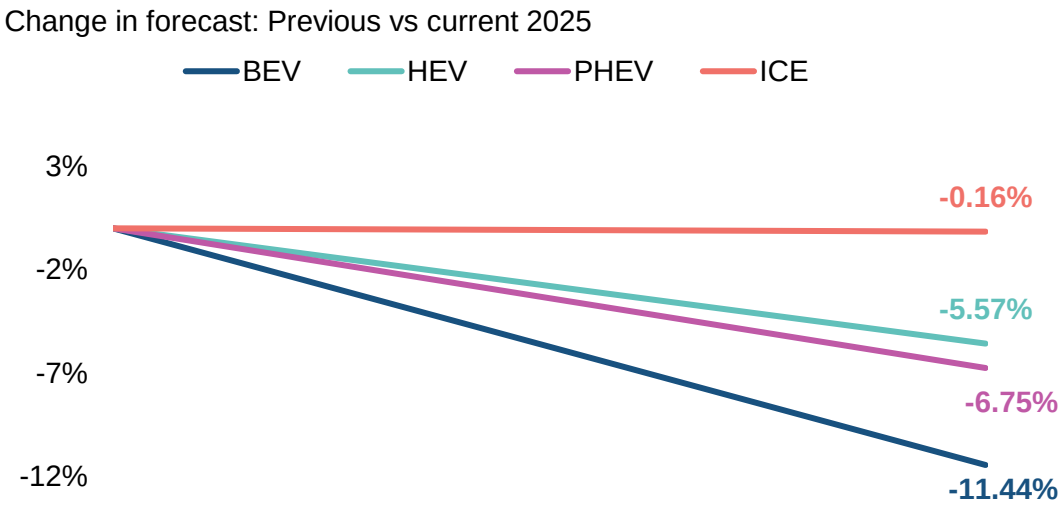
Either way they will be a major disrupter for the domestic supply chain. Not only could metal from Canada be subject to a 50% tariff, but there is also a very significant 25% delta opening between aluminium imports from USMCA partners and those coming from other regions. The Midwest premium will be supported at a higher level than initially expected but it will not account for the full extra 25%. If the tariffs stay in place long term, trade flows of primary metal will look significantly different by 2026.

More major tariff actions are on the way

In many ways, this could be just the beginning of a volatile 2025. There are currently two other major tariffs that could disrupt the industry further: tariffs upcoming on automotive and semiconductors, and reciprocal tariffs on other regions.

These are unknowns still as far as scope and severity, but they will cause some economic instability as supply chains are forced to adapt. The US Federal Reserve will likely hold out on further rate cuts until the full effects are more visible while consumer confidence has already started to trend lower. Atlanta's GDP now forecast has fallen into contraction and is down from an expected 2.3% growth just a month ago.

Figure 3: Declines in 2025 US automotive production forecasts



Data: CRU

It is worth mentioning that a sharper decline in economic activity was always a possibility due to the lag in higher borrowing rates working down to end consumer demand. This is particularly noticeable in automotive where production forecasts have been cut for hybrid and battery electric vehicles throughout 2025.

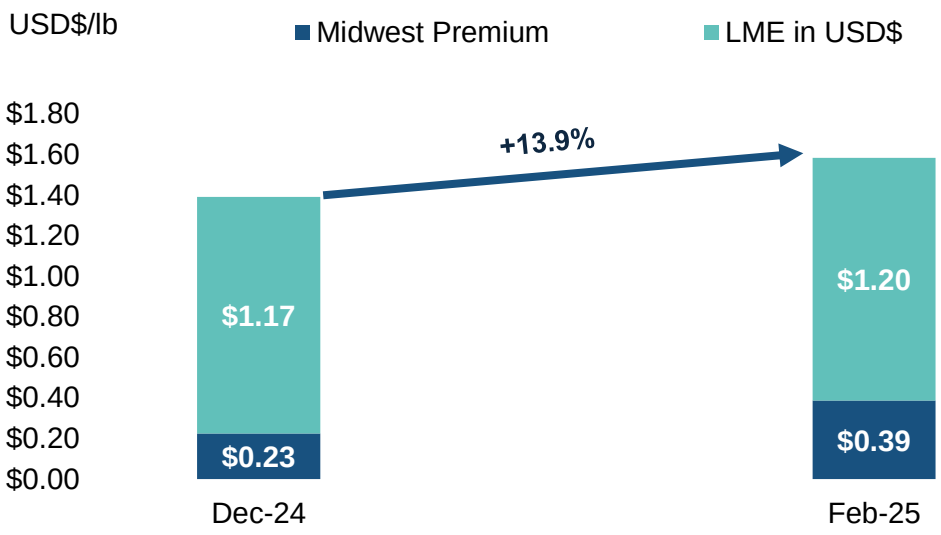
Metal supply will be a challenge and limit conversion fees

US extruders imported almost 700 kt of billet in 2024 and just over 1 million tonnes in 2022. This is on top of the roughly 2.1 million tonnes of primary imported each year which a portion of feeds into onsite casthouses. The domestic reliance on imports is a risk with the higher tariff but there should be some flexibility in the supply chain in Q1. Demand is still slow and there was some inventory built up to end 2024 and open 2025 and this should provide enough of a buffer for supply chain to adjust in the near term.

The percentage of total VAP imports that come from Canada is also an important detail. For ingot form, Canadian metal accounts for approximately 85-90% of all imports while it accounts for 96% of all slab imports. For billet, it looks much different. Canadian imports of billet into the US account for just 33% of all imported billet, or 225 kt. Smelters in other regions such as India and the UAE would be able to fill this need if the two tariffs stay in place long term.

Remelt capacity could be the release valve to take off some of this pressure. There were two remelt facilities that started ramping up in 2024 and more on the way over the next two years. Scrap seems to be included in the tariff on Mexico and Canada, however. As such, scrap will likely stay tight for the near term.

Figure 4: Midwest transaction price spikes ahead of tariff



DATA: LME, CRU

This Midwest transaction price will also limit any uptick in conversion fees. As of now, the all-in price is 13.9% higher than where it ended 2024 due to the meteoric rise in the Midwest premium. With the new tariffs, the premium could move as far as the mid to high 40¢ range. Conversion fees have held flat at $0.90-$0.95/lb and will need demand to pick up first before increasing.

Price does play a role in demand equation

Elasticity of demand is a famously difficult equation to estimate given the complexity of the causal relationships between supply, demand, and price. We have estimated a difference-in-difference model to attempt this estimation for extrusion demand's reaction to all in price change using smelter costs as an instrumental variable and IP as another independent variable to capture macroeconomic trends that could have influence demand.

The results show that price and demand do have a significant relationship with a parameter of -.33. This means that for every 1% price move higher, demand falls .33%. In comparison, this is more inelastic than elastic however with the all-in price jumping almost 14%, the model indicates demand could fall 4.6%. While this is not an exact science, the takeaway is that higher pricing will create demand headwinds in an already difficult macro landscape.