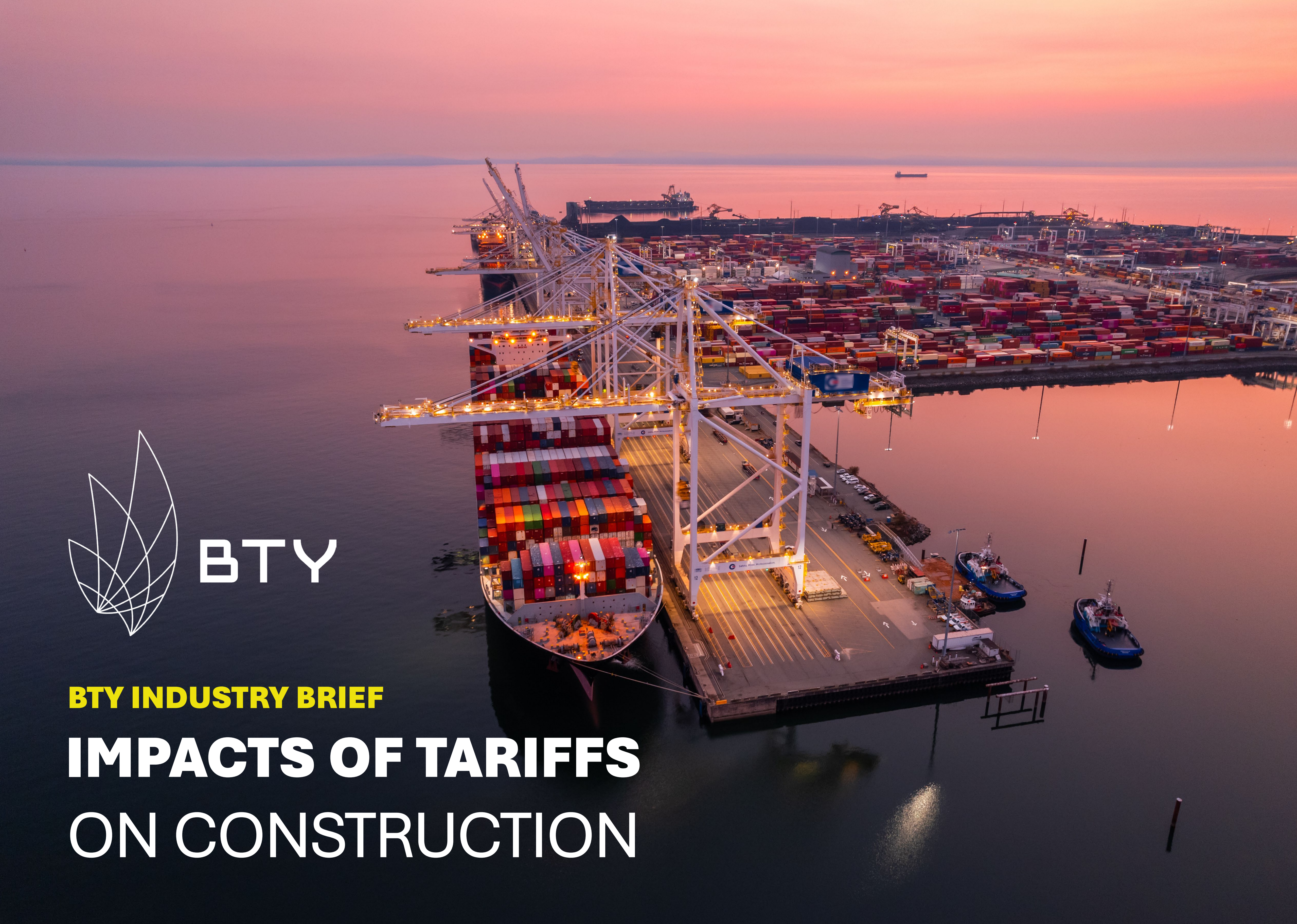


BTY

BTY INDUSTRY BRIEF

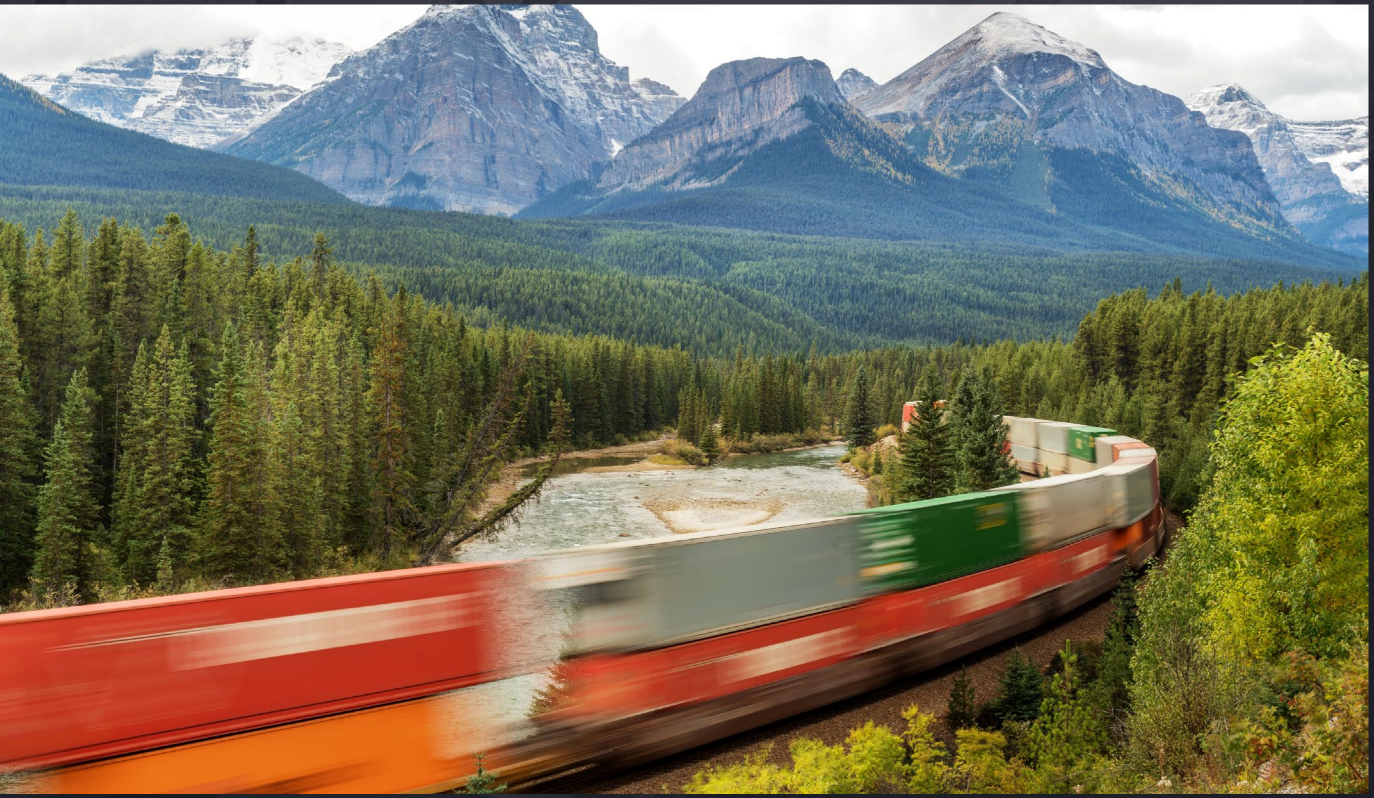
IMPACTS OF TARIFFS ON CONSTRUCTION

Threats of Increased Tariffs Create More Uncertainty in Markets

If enacted, tariffs will lead to long-term changes in construction costs, contracts, and supply chains.

Although inflation decelerated beginning midway through 2024, a new challenge in the form of tariffs may hamper economic growth. If imposed, US tariffs on Canadian exports would affect domestic industries such as lumber, steel, and aluminum producers. The Canadian Dollar could also continue to weaken, inflation may rise, and jobs could be lost.

Key industries such as housing may struggle as costs continue to rise. Canada imports a wide range of goods from the US, including appliances, glass, and hardware; all of which could fall under retaliatory tariffs.



Trade Between United States and Canada

Each country is a key trading partner of the other. Figures below break down the trade profiles between the two countries in their currencies for 2024.

USA – Canada Trade
2024 in USD

EXPORTS: $349 BILLION

IMPORTS: $413 BILLION

Canada - USA Trade
2024 in CAD

EXPORTS: $596 BILLION

IMPORTS: $376 BILLION

Source: Statistics Canada International Trade Explorer, US Bureau of Economic Analysis, International Trade Centre Trade Map
All figures from 2024 in the respective currency of each country

Cost Increases Caused by Higher Tariffs Are Passed Down to Domestic Consumers

Tariffs are a form of taxation. As he has in the past, President Trump and his Administration are looking to impose Ad Valorem Tariffs, which are calculated based on a percentage of the item's value.

President Trump utilized tariffs in his administration's previous term (2017 – 2021). A case study published by the Journal of Economic Perspectives in 2019 concluded that cost increases associated with tariffs were ultimately passed down to domestic consumers.

Supplier / Importer
Pays the tariff at the border, passes cost to material buyer

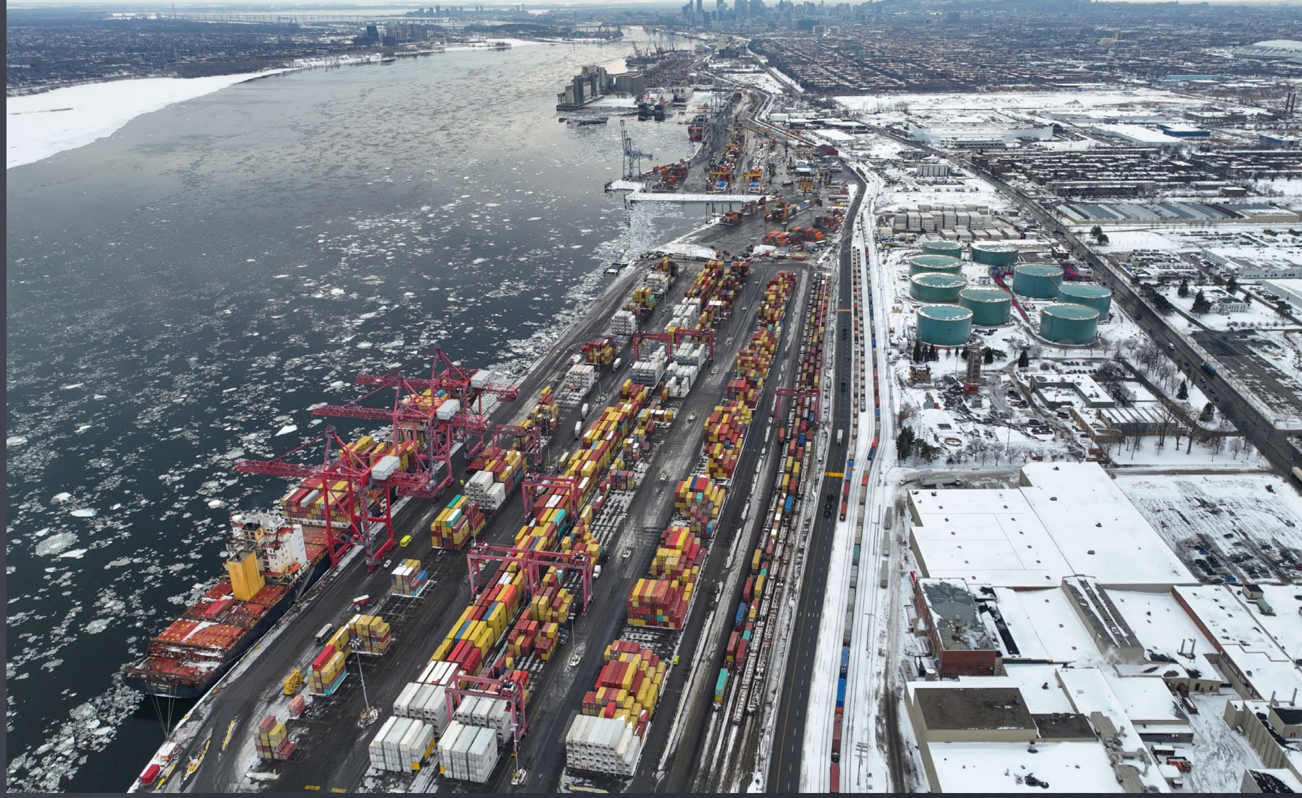
Project Owner
Material cost increases passed down to final consumer

End User
Pays a higher purchase price

"We find that the US import tariffs were almost completely passed through into US domestic prices in 2018, so that the entire incidence of the tariffs ***fell on domestic consumers and importers*** *up to now, with no impact so far on the prices received by foreign exporters."*

Source: Source: Journal of Economic Perspectives, The Impact of the 2018 Tariffs on Prices and Welfare (Mary Amiti, Stephen J. Redding, David E. Weinstein)

In the Short to Medium Term, Higher Tariffs will Adversely Impact GDP Growth



In the medium to long term, higher tariffs have the potential to spur growth in domestic industries, and the search for new trading alliances. Both trends can significantly reshape economies.

*"In the benchmark calibration, average annual GDP growth in the first year is about **2.5 percentage** points lower than it would otherwise be. In the second year, it is about **1.5 percentage** points lower."*

"Imports from the United States of final consumer goods and intermediate inputs used to produce final goods make up about 13% of the CPI basket in Canada."

Source: Source: Bank of Canada Monetary Policy Report January 2025

How will Higher Tariffs Impact Construction Projects in the US and Canada?

Cost Fluctuations

US imports from Canada could decline as tariffs increase the cost of materials.

Materials supply may increase in Canada, potentially heightening domestic competition for contracts.

Supply Chain Disruption

Alternative suppliers will take time to source and procure from. Raw materials being processed into finished goods often cross the border multiple times.

Lead times may be longer for materials depending on where alternative goods are sourced from.

Financing Risk

Tariffs will likely lead to overall cost increases. This may cause Lenders to adjust their models and projects may be put on hold or cancelled.

Scenario Review of Impacts on Construction Industry

Understanding the Variables

Scenario & Impact Area	Immediate Impacts	Short-term Impacts (~6 months)	Long-term Impacts (12+ months)
Input Costs	Some costs increase due to tariffs, including goods that cross the border multiple times through their manufacturing process. Labour costs could rise due to inflation.	Costs passed down to end user. Suppliers find alternative sources from different markets, such as Mexico, Asia, Europe, etc.	Costs mostly stabilize at a higher level / new "normal". More domestic suppliers, and suppliers outside of the US used for industry goods.
Project Schedules	Schedule delays as supply chains react to cost spikes. Capital projects with long-term schedules may slow due to uncertainty.	Schedules improve as supply chains adapt to circumvent tariffs.	Supply chains stabilize; potentially longer lead times for specialized materials.
Project Financing	Delays as contract terms are reviewed/ renegotiated.	Costs may increase as new financing terms are implemented by Lenders. Certain projects may be put on hold/cancelled outright.	Tariffs may contribute to inflation, reducing available capital for financing.

Which Building Materials are Exposed to Cost Volatility due to Higher Tariffs?

The cost impact of new tariff changes will be highest on projects in the procurement and contracting stages.

Projects in early planning stages could benefit from conducting due diligence and analysis for alternative sources for materials.

Building Materials Potentially Impacted:

- Softwood Lumber
- Wood-based building products (CLT, glu-lam, etc.)
- Aluminum building products
- Steel
- PVC
- Insulation products
- Gypsum, drywall
- Specialized machinery/equipment
- Appliances

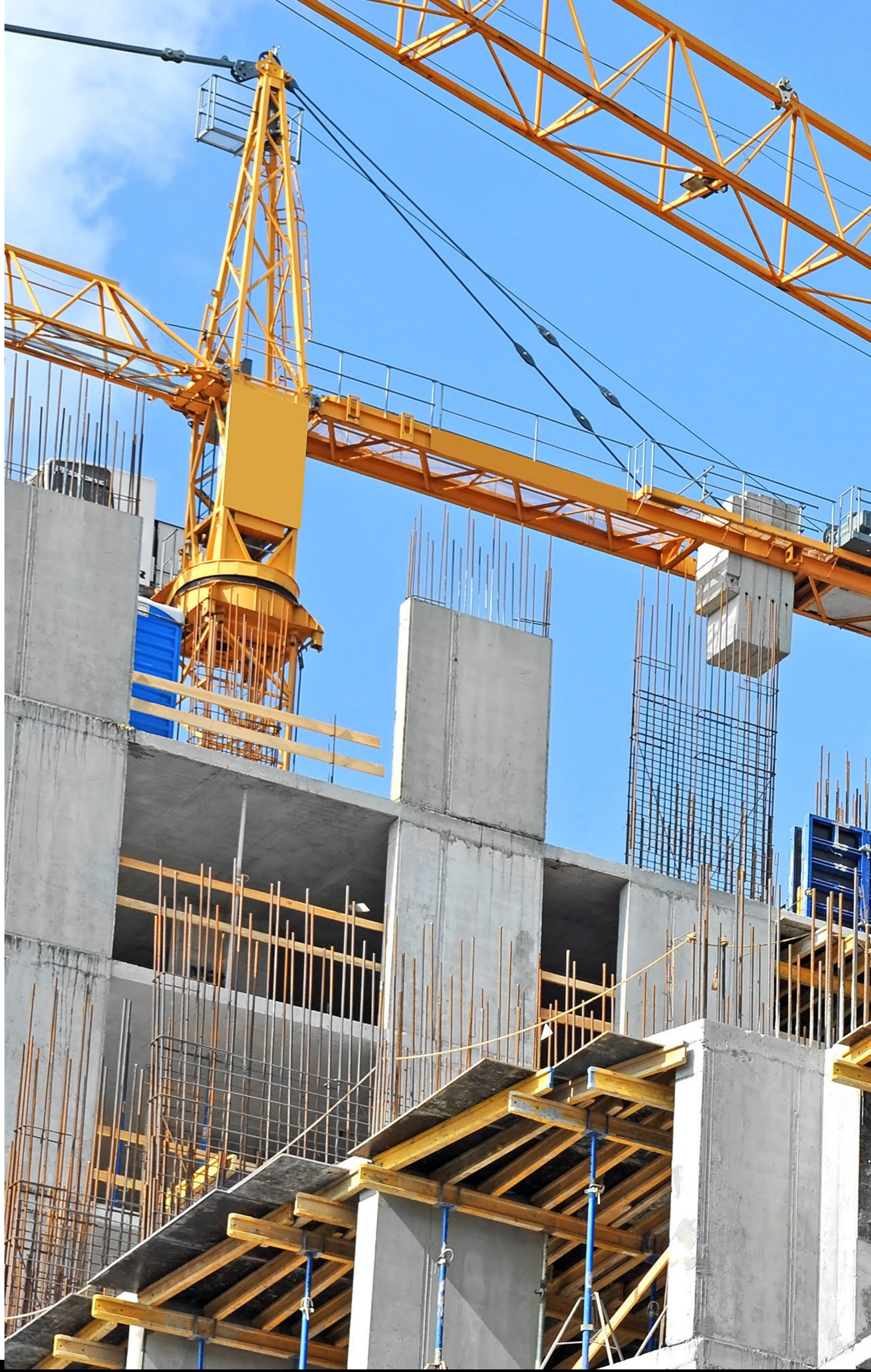
Project / Asset Types Potentially Impacted:

Housing
Schools
Manufacturing
Hospitals
Office
Transit

The Ripple Effects of Higher Tariffs go Beyond the Initial Tax Added

Construction, like all industries, will be impacted from the knock-on effects of increases in import / export taxes.

- Fuel and electricity prices could rise, adding cost to shipments of materials and construction operations.
- Suppliers may inflate prices to hedge against tariffs.
- Supply chain disruptions may cause delays, adding cost and complexity to a project.
- Existing contracts may need to be re-negotiated due to sharp price increases; new contracts may require tariff-related provisions.
- Projects placed on hold still incur carrying costs.
- Tariffs may cause job losses, reduce GDP, and negatively affect market demand and domestic consumption.



How Can You Manage Risks to Your Projects?

There are many variables to weigh that make this a highly complex web of uncertainties:

- Timing of Tariffs
- How Much is Added / Percentage Used
- Which Materials
- Are There Viable Alternatives
- How Changes Align with Project Timeline
- Implications for Project Contracts

BTY recommends conducting a tariffs impact assessment to determine potential issues on project budgets, schedules, and contractual terms.

Identifying the effects of supply chain shifts on the project schedule can help mitigate delays and keep the timeline on track.

Exploring alternative suppliers for affected goods can provide more flexibility and reduce dependencies on a limited sources.

Additionally, re-evaluating project contingency budgets will help maintain financial stability and preparedness for unexpected challenges.

BTY INDUSTRY BRIEF – FEBRUARY 2025

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