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## Tariffs on Steel and Aluminum and its Impact on the Construction Industry

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On March 8, 2018, a proclamation authorizing the imposition of tariffs on steel and aluminum imports was signed. Left in current form, the action would impose a 25% tariff on steel imports and a 10% tariff on aluminum imports. Since the announcement, economic, trade and industry experts have been assessing the anticipated impacts of these tariffs, the forecasts of which are unclear for a number of reasons. First, the action explicitly excludes Canada and Mexico from the tariffs due to their standing as key allies and members of the North American Free Trade Agreement. It has been suggested, but not verified, that other allies may be excluded as well. Additionally, although administration officials suggested the tariffs would take approximately 15 days to take effect, the timing remains uncertain because much of the implementation strategy is unknown.

### What This Could Mean for the Construction Industry

Many in the design and construction industry believe these tariffs will ultimately translate into higher costs for industry consumers. The design and construction industry accounts for 43% of all steel shipments in the U.S., according to the American Iron and Steel Institute. It is anticipated the increased costs of these raw materials will be passed on in the form of higher construction costs for businesses, developers and public entities procuring construction services.

Projects currently or soon to be procuring materials directly derived from steel and aluminum, such as structural steel and interior framing, should anticipate experiencing this impact almost immediately. The fundamental underpinning of the tariff model is higher near-term costs on international supply will drive consumer behavior to divert demand to more easily accessible domestic supply. This increased demand should allow domestic producers to increase volume, thereby lowering the overhead and burden per unit. In theory, this dynamic would lower per-unit costs for the consumer. However, given the decline of the steel and aluminum production in the U.S. over recent decades, it stands to reason it will take months, if not years, for domestic producers to scale up to meet the renewed demand. The near-term anticipation is consumers will incur the higher cost regardless of whether the supply is domestic or international.

Materials that use steel and aluminum as a sub-component will also be impacted. Pricing for building elements such as concrete with rebar or post-tensioning wire, ceiling grid, door frames, lighting fixtures, HVAC equipment and fasteners would be directly impacted. We anticipate cost increases on these materials in the near future.

Applying this concept one step further, materials produced from machinery made from steel and aluminum will eventually be impacted. This includes everything from carpet and drywall to electrical cabling. Perhaps not immediately, but as the equipment used to produce these materials becomes outdated or new technologies are introduced, the cost of doing business for these product manufacturers may increase. This higher cost of doing business will likely increase costs to the consumer rather than reduce margins.

The same concept applies to construction equipment and tools. Everything from hammers to tower cranes will become more expensive to produce. While it is likely to take years before these costs translate to higher costs for the construction consumer, large projects in the early phases should consider the potential impact. General contractor conditions and subcontractor overhead costs will almost assuredly increase as a result of higher costs to procure the necessary equipment and tools.

## The Impact on Project Management Clients

Having fiduciary responsibility, CBRE is best positioned to investigate, articulate and mitigate the near and long-term impacts to our projects. CBRE Project Managers will guide clients through options, ranging from early procurement to alternative specifications. Given the uncertainty of the tariffs, the industry may see delays and other suboptimal structuring of bids and contracts among both buyers and sellers of steel and aluminum

### Recent History

*Former President Barack Obama's administration placed a tariff on Chinese tires in September 2009, which according to many economists, resulted in a negative impact on other sectors. President Obama cited the 1,000 jobs directly saved within the domestic tire industry, but the Peterson Institute for International Economics estimates that **the total cost to the American consumer resulting from these tariffs was \$1.1 billion in 2011.**<sup>1</sup>*

*In 2002, President George W. Bush placed a 30% temporary tariff on imported steel. Estimates on the job losses due to this tariff in industries that use steel as an import range from 26,000 to 200,000.*

*Approximately one year after the imposition of the tariffs, the U.S. International Trade Commission concluded that the tariffs were resulting in a net loss within the country's GDP. **The estimated beneficial gain of \$65.6 million was experienced against a loss of \$110 million, meaning consumers were paying significantly more for the product.**<sup>2</sup> The Wall Street Journal reported in September 2002: "The U.S. price for hot-rolled steel, a basic item that bears a 30% tariff, has jumped to around \$350 a ton from \$210 late last year."*

*In April 2017, President Trump imposed the first tariffs of his presidency on five Canadian lumber companies, ranging from 3% to 24%. The tariffs were in response to Canada's restrictions on the import of U.S. dairy products. **Lumber prices have gained 31% since then, according to Bloomberg data.***

products. Rest assured, we will continue to monitor the implementation strategy associated with these tariffs along with their downstream impacts. Throughout this change open dialogue is encouraged with all project leaders and stakeholders as the industry works to further understand and anticipate the effect this will have on the broader design and construction industry.

Lastly, be sure to review our [U.S. MarketFlash](#) on this topic. We will continue to monitor and update our clients on the impact of the tariffs on the commercial real estate industry.

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## About the Authors

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