Background

U.S. President Donald Trump is proposing many tariffs against the country's closest trading partners. As of writing, his proposed ad valorem tax of 25% on all aluminium and steel imports is due to take effect from 12th of March 2025.

The primary focus of this piece will be on Trump's steel tariffs, given that steel is a crucial component of construction sectors globally, but note that there are also proposals for other critical construction materials such as copper.

According to the World Steel Organisation, 63% of total steel usage in 2023 was used at some stage of the construction industry supply chain, most significantly in mechanical equipment and buildings and infrastructure (World of Steel, 2024).

Trump imposed similar tariffs on crucial construction goods in 2018. The difference today is that these proposed new tariffs will not exempt the U.S.'s two closest trading partners, Canada and Mexico. This is significant, as both countries account for the largest source of steel imports for U.S. companies, accounting for 32% of total U.S. steel imports in 2019 (U.S. Department of Commerce, 2020).

Economic Theory of Tariffs

We can demonstrate the impact an ad-valorem tax has on steel demand in the U.S. and internationally using a model outlined by Krugman, Obstfeld, and Melitz (2018).

Figure 1:

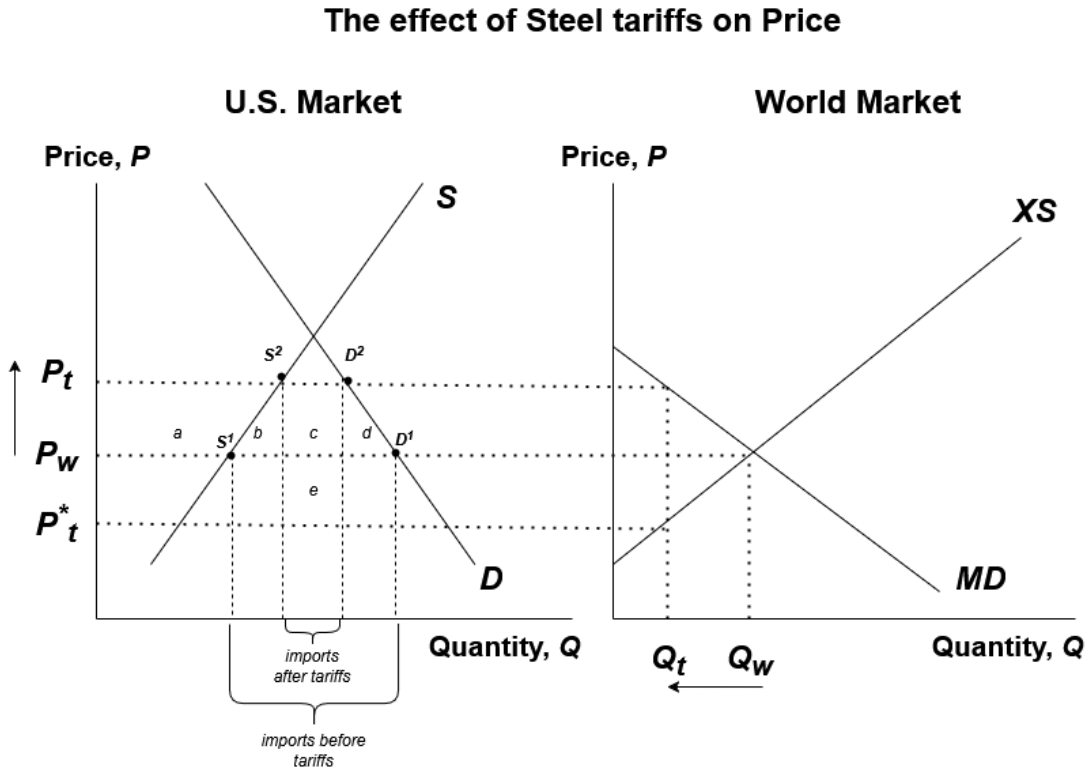

Figure 1 visualises the impact a tariff has on both the importers and the world's prices. At the free-trade price P_w, U.S. steel demand is greater than U.S. steel supply. This surplus demand is fulfilled by imports from foreign countries, as illustrated on the X-axis of the U.S. market. Tariffs increase the price of steel in the U.S., shown by the increase in price from P_W to P_t.

With tariffs in place, U.S. steel producers supply more as the price is greater than before, but U.S. steel consumers demand less for that same reason. This is shown by the movements of S^1 to S^2 and D^1 to D^2 respectively.

As the U.S. is also a large country, in that it consumes a significant portion of global steel supply (9.6% in 2019 (World of Steel, 2024)), U.S. steel tariffs will reduce the price of steel for exporters below the free-trade price. This is represented by P_t^* being lower that P_w, and forms area e, which represents the welfare gain the U.S. experiences for its terms of trade (ToT).

Building Material Consumers

We can split the materials used by construction sectors in to two broad categories: 'heavyside' and 'lightside'.

Heavyside consists of material such as steel, concrete, and asphalt, whereas lightside are items including lighting, heating, and ventilation (Grunberg and Francis, 2019). If Trumps proposed tariffs are implemented, they would increase the price for goods used in both of these categories. Taking what we learnt from Figure 1, U.S. construction projects would become more expensive, whereas construction outside of the U.S. could become more affordable, *all else being equal*.

We can denote this increase in construction costs by describing the consumer loss as areas $a + b + c + d$.

Terms of Trade

Using the data provided from the US trade balance data, we can estimate what impact these steel tariffs will have on the U.S. ToT for Industrial supplies and materials. Graphs for each country's terms of trade with the U.S. are shown in the Appendix.

Across all the countries listed, theory would suggest that we should expect the U.S. ToT to improve with each of them. However, we should expect an outsized impact on Canada and Mexico given that for the last 30 years, the three economies have been very highly integrated, and supply chains that have matured for almost 30 years almost tariff free will now be disrupted.

Home and Abroad: Inflation, consumer sentiment, and labour

As outlined in Figure 1, we would expect tariffs on critical construction materials to raise prices in the U.S. market, while lowering them for foreign markets. If we only viewed construction industries through the lens of the cost of materials, then we would also expect the demand for construction to follow this pattern: lower construction demand in the U.S., and higher demand in material exporting countries.

However, a critical component of construction demand is the general outlook of the economy, given the industry's role in increasing the productive capacity for the economy.

Even though exporting countries may benefit from cheaper building materials, Trump's broader tariffs threaten them with recession. For example, Canada is projected to suffer a permanent 2.5% reduction in output relative to pre-tariff projections (Macklem, 2025). This, coupled with lower consumer spending and a huge reduction in investment of 12% by early 2026, spell bad news for the Canadian construction sector.

Trump's tariffs may raise the price of construction materials in real terms, but another critical impact they are having is in eroding consumer confidence. As of writing, U.S. consumer confidence declined by its sharpest rate since August 2021 (Conference Board, 2025). U.S. inflation remains a concern, with the Federal Reserve maintaining interest rates at 4.5% in January (Trading Economics, 2025). Furthermore, economic growth has stalled, with tariff related concerns at the forefront of explanations (S&P Global, 2025).

This, coupled by measures to curb undocumented migrants whom comprise a significant portion of labour that construction SMEs are reliant on (Construction Dive, 2024), are contributing to a very gloomy outlook for the construction industry, both in the US, and in countries directly affected by tariffs.

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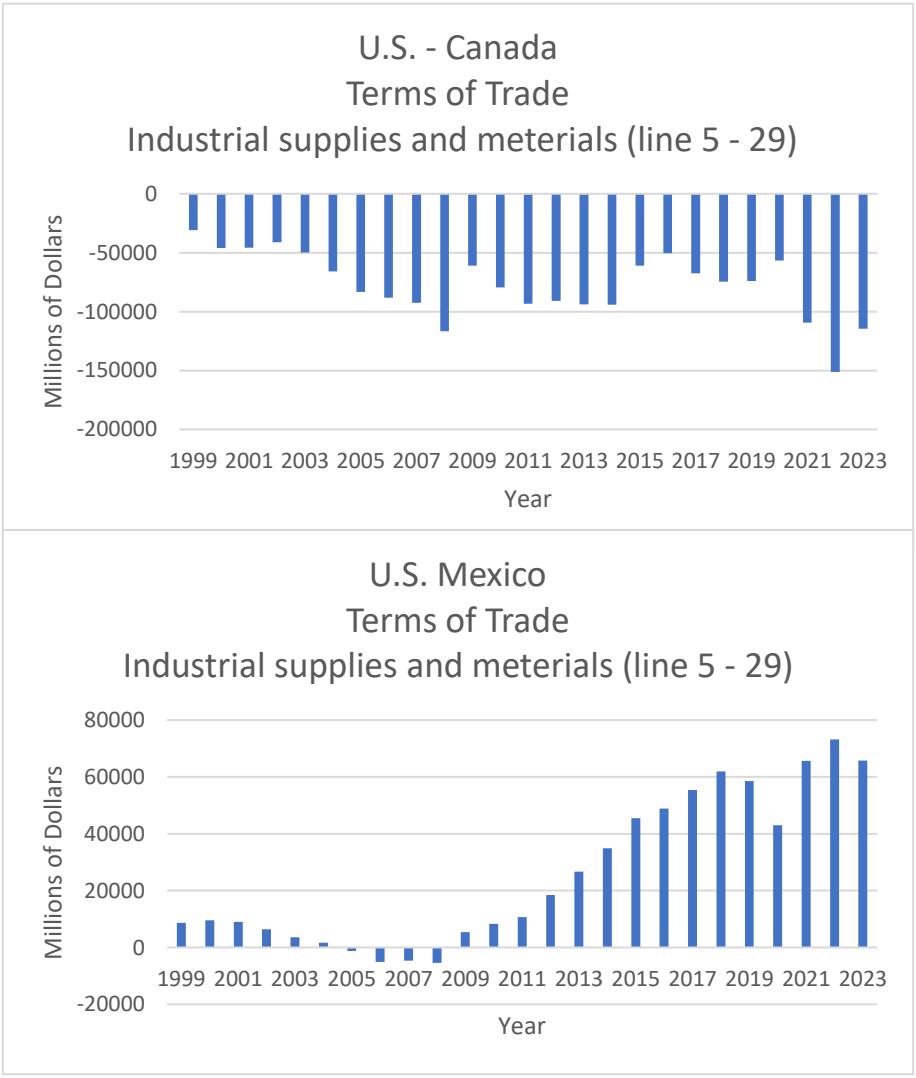
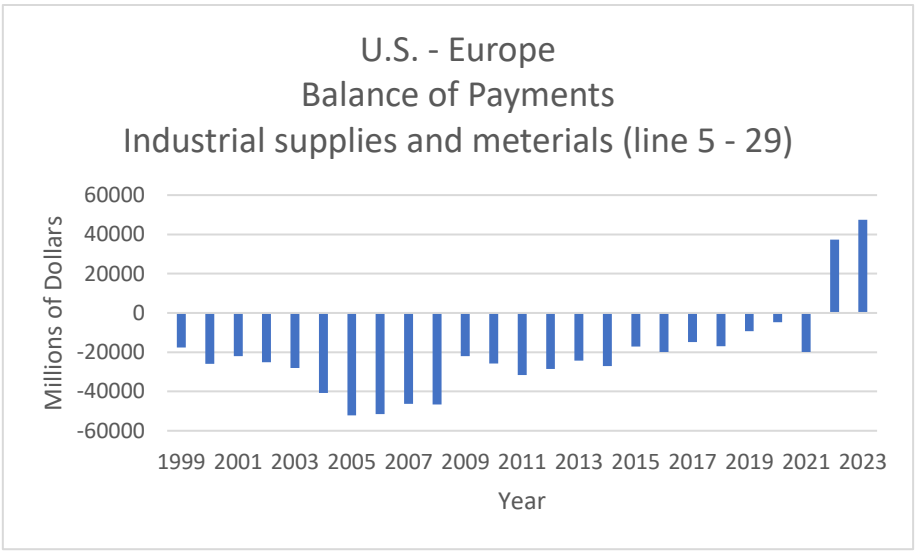
Appendix




U.S. - China
Terms of Trade
Industrial supplies and meterials (line 5 - 29)
Millions of Dollars
15000
10000
5000
0
-5000
-10000
-15000
-20000
1999 2001 2003 2005 2007 2009 2011 2013 2015 2017 2019 2021 2023
Year


U.S. - Europe
Balance of Payments
Industrial supplies and meterials (line 5 - 29)
Millions of Dollars
60000
40000
20000
0
-20000
-40000
-60000
1999 2001 2003 2005 2007 2009 2011 2013 2015 2017 2019 2021 2023
Year