

Memorandum

To: Ashley Anderson, P.E.
Forecasting and Project Cost Engineer

From: Valerie Seidel

Date: 3/04/2025

Subject: TBG Summary of Tariff Impacts



TBG has prepared a preliminary assessment of the current tariff environment. This includes impacted and potentially impacted materials, expected rate of tariffs, contractor feedback, and reasonable assumptions regarding potential impacts to FDOT in terms of cost and supply. **A high-level summary is provided at the end** of this document, showing the current status of tariffs that have been announced, contractor feedback and reasonable assumptions FDOT may make about their impacts on supply.

As you know, TBG performs econometric modeling for FDOT price forecasts relating to key highway construction materials. These models develop coefficients for a number of variables that have been found to impact FDOT's bids, like crude oil prices, Florida construction employment, GSP (Florida's macroeconomic output) and others. To develop preliminary estimates of potential impacts to FDOT costs, we applied factors to these variables based on published research that has attempted to quantify the broader effects of the tariffs over the next three fiscal years.

While inputs and commodity prices are expected to rise, some economic factors may contract. For example, overall employment effects of the policy change have been estimated to decrease in FY 2025 by .06% then decline by 1.4% (FY 2026) and 1.3% (FY 2027); these factors have been used to adjust projected employment levels from the previous data sources. Because many of the materials that would be used in the current fiscal year would already be in production or on order, the expectation is that most impacts would be felt in Fiscal Year 2025-26 and 2026-27.

The results in **Table 1** estimate a range of tariff impacts to FDOT bid prices. Some materials are influenced more by declines in construction employment and GSP, and others by increases in input costs and commodities.

Table 1. Estimate of Impacts on FDOT Weighted Average Price from March 2025 Tariff Increases

Material	2025	2026	2027
Asphalt	2% - 4%	1% - 4%	0% - 1%
Concrete	3% - 9%	0% - 8%	0% - 3%
Structural Steel	0% - 3%	0% - 7%	0% - 10%
Reinforcing Steel	4% - 9%	2% - 7%	1% - 3%
Aggregate	0% - 2%	-1% - 1%	-1% - 0%

Earthwork	0% - 9%	-1% - 9%	-1% - 9%
-----------	---------	----------	----------

In the event of a significant recession, which is not considered here, FDOT could expect prices to fall, but also for the pool of potential bidders to contract, reducing competition.

Past efforts to model FDOT impacts of tariffs have generally been restricted to tariffs that were material- or country-specific. **In the current setting, the tariffs are broad-sweeping, and as a result the impacts are more dynamic.** For example, assume that the steel tariff effectively increases the price of imported steel by 25% and shifts demand for steel production back to the U.S. The primary reason most of the imported material was purchased was its lower price. Once tariffs are enacted, the market price may increase by all or a portion of the 25%. If most of the increase becomes market price, an increase of this magnitude would dampen demand. Then, a combination of factors – likely materials substitution and absorption of the repatriated demand into domestic plant capacity - would counteract the increase over time. The timing of such effects is key. If the purchasing market cancelled projects or found an alternative material that becomes the preferred, less volatile option, the demand may not increase enough for plants to ramp up significantly. Most U.S. steel plants are less efficient than their foreign counterparts, which is partly why imported materials were less expensive. Coupled with the broader tariffs that most economic models anticipate having an upward influence on inflation, an economic slowdown could further dampen demand. In this scenario, steel prices may fall, but suppliers may shrink also, reducing competition and ultimately increasing, or at least not decreasing, costs for FDOT’s specific steel products.

Note, for context, in May, 2021, similar policies were briefly considered as an expansion of Buy America provisions, (which were targeted to specific materials rather than broader tariffs as in the current proposals). At that time, modeling results found that the impacts to FDOT were likely to occur over a period of 12-24 months from effective date, and potentially increase bid prices for aggregate, asphalt and structural concrete by 28%, 9% and 25%, respectively, all other factors being equal. Fortunately for FDOT, these provisions did not come to pass as highway construction was exempted and, for the most part, already complied with the intended objectives.

Table 2 provides a high-level summary of the current status of tariffs that have been announced, contractor feedback and reasonable assumptions FDOT may make about their impacts. Descriptions of the share of supply are noted throughout the Table.

Table 2. Summary of Current Tariff Status, Contractor Feedback and Reasonable Assumptions regarding FDOT Impacts

Country or Sector	Tariff Development	Contractor Feedback	FDOT Reasonable Impact Assumptions
China	A 10% tariff was applied to all Chinese imports on February 4, 2025.	Contractors report no anticipated impacts.	Chinese demand for U.S. products could be expected to decline, which would depress demand. While prices may fall for more consumer-oriented goods, economists expect greater harm from China's restrictions to critical minerals, which U.S. relies on for high-tech production.
	China responded the same day with a 15% tariff on coal and liquefied natural gas products and a 10% tariff on crude oil, agricultural machinery, and large-engine cars imported from the U.S. In addition, China restricted sale of critical minerals to the U.S.	Contractors report no anticipated impacts.	
Mexico & Canada	25% Tariffs on Canadian and Mexican goods effective March 4, 2025 on all imported products, except for Canadian "energy" or "energy resources" which will be subject to a 10% tariff.	Contractors report no anticipated impacts.	About 34% of aggregate and 20% of cement used in Florida is imported from Mexico. Per PCA, <i>"the industry believes 25% tariffs on cement imported from Canada and Mexico could adversely affect energy and national security while delaying infrastructure projects and raising their costs."</i>
Mexico	For Mexico, a flat 25% duty would be imposed on all imports.	Contractors report no anticipated impacts.	
Canada	Canada could retaliate by stopping crude oil exports to Midwest oil refineries, but this would also hurt Canada as the majority of their oil exports go to the U.S. and it will take time to find alternative buyers. In addition, stopping the flow of oil into the U.S. would impact the eastern half of Canada as the pipelines pass through U.S. territory; building new pipelines inside Canada's borders to cut out the U.S. would also take time and significant investment.	Contractors report no anticipated impacts.	The February 2025 EIA¹ Short-Term Outlook forecasts significant declines in crude oil prices in 2025 and 2026, which should help offset impacts for products like diesel fuel and asphalt binder. However, Canada provided 75% of U.S. heavy crude oil imports in 2024, and tariffs would be expected to impact diesel in particular. Recent analysis of tariff impacts on the North American fuel industry shows that the Canadian oil tariff of 10% (approximately \$6 per barrel), translates to

¹ U.S. Energy Information Administration

			an increase between 5-20 cents per gallon impact on gas prices. Impacts are expected to be mostly regional - Great Lakes, Midwest, Rockies, Northeastern U.S.- but these are <i>locations that much of Florida's tourism industry depends on.</i> Trump's Tariffs: Fuel Price Implications for North America
Steel & Aluminum	<p>A 25% tariff on all imports of steel and aluminum into the U.S. and end of exemptions for major trade partners including Canada, Mexico, Brazil, and the European Union.</p> <p>Order Language: "I have decided that it is necessary to terminate these arrangements as of March 12, 2025. As of that date, all imports of steel articles and derivative steel articles from Argentina, Australia, Brazil, Canada, EU countries, Japan, Mexico, South Korea, and the United Kingdom shall be subject to the additional ad valorem tariff....The Secretary shall publish a notice in the <i>Federal Register</i> to this effect." The latter note refers to the statement that the ad valorem applies only to the steel content of derivative goods.</p> <p>The Order also states: "Key reforms include eliminating all alternative agreements, applying strict "melted and poured" standards, expanding tariffs to include key downstream products, terminating all general approved exclusions, and cracking down on tariff misclassification and duty evasion schemes."</p>	<p>Contractors report no anticipated impacts. Some mention of extended lead times for specific items was considered a likely outcome – mast arms, signal posts, and similar.</p> <p>Contractors interviewed over the last quarter did <u>not</u> report stocking up on construction materials in anticipation of tariffs. Companies unable to absorb increased import costs will likely pass them on through higher prices.</p>	<p>Ahead of the original implementation date of February 1, 2025, Canadian and Mexican steelmakers were reportedly refusing new orders and suspending sales quotes for the time being. A decline in all available steel supply could impact FDOT steel prices even for domestic steel. Donald Trump's Tariff Threats: Canada, Mexico Steelmakers Refuse New US Orders - Bloomberg</p> <p>The Tax Foundation estimates that the tariffs on Mexico, Canada, and China would shrink economic output by 0.4% and increase taxes by \$1.1 trillion between 2025 and 2034 on a conventional basis, amounting to an average tax increase of more than \$800 per U.S. household in 2025. Trump Tariffs: The Economic Impact of the Trump Trade War</p> <p>Economists have modeled various scenarios of post-election policy impacts. According to these estimates, implementation of blanket tariffs, immigration and energy policy changes could bring 4% to 7% of additional inflation (on top of current inflation) into the U.S. economy over the next two years. The</p>

			International Economic Implications of the Trump Program ; Inflation Scenarios 8 and 9. (While lower bound estimates show inflation increases of less than 1%, the lower estimates are from individual scenarios, not combined effects of tariff, immigration, and energy policy changes.) The housebuilding industry estimates that the proposed tariffs on Canada and Mexico, paired with duties already charged on Chinese goods, will raise the cost of imported construction materials by \$3-4 billion. How Tariffs Impact the Home Building Industry NAHB
European Union	Announced a 25% tariff on all goods imported to the U.S. from Europe.	None- interviews occurred prior to this announcement	The EU-US trading partnership is the world's largest, exceeding \$1.5 Trillion annually (or about \$4 billion a day). Several major U.S. contractors and materials suppliers are EU-based. At this writing, insufficient detail exists to formulate any credible estimate of an EU-specific tariff's impacts.