

## Steel tariff impacts on US construction industry

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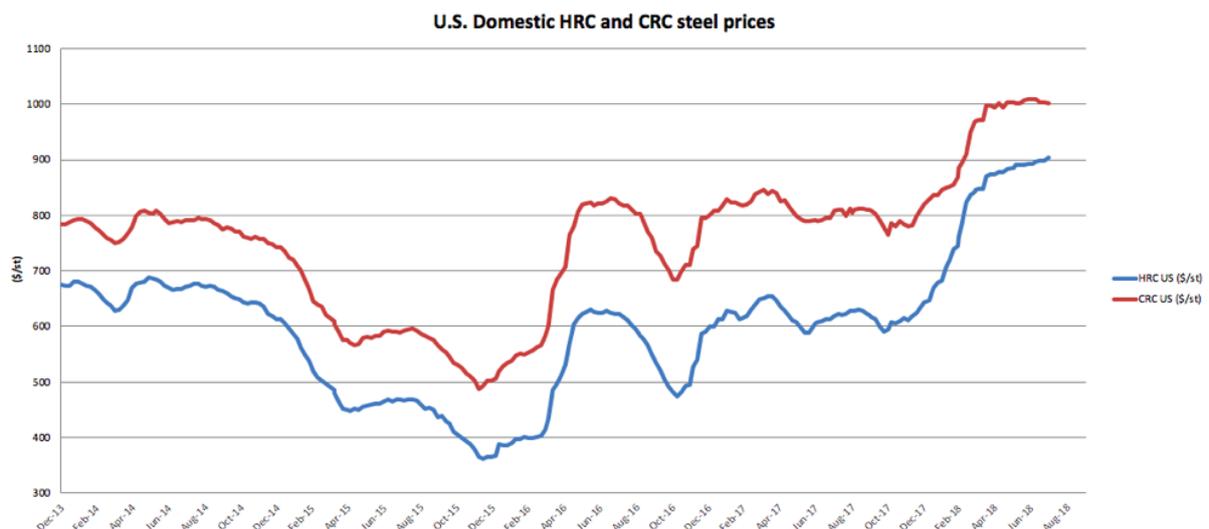
It has been three months since the steel and aluminum tariffs came into effect, and prices have responded in a volatile way. As a leading consumer of both steel and aluminium, the construction industry will be impacted by the cost increases caused by the new tariffs.

The tariff was enacted under a law enabling the president to set tariffs on materials critical to national security in an attempt to revitalise the domestic steel production industry<sup>1</sup>. The workings of the policy have changed frequently and created relentless criticism, notoriously around the exemptions from the tariffs. President Trump announced on 30 August that the Commerce Department would provide “targeted relief” from quotas imposed on steel from South Korea, Argentina and Brazil. As this legislation is likely to continue to evolve, it is imperative that key steel consumers continue to monitor the situation.

This is not the first time the United States has attempted to use tariffs to promote domestic steel producers. In 2002 President George W. Bush imposed a 30% tariff on imported steel. The tariffs lasted only 20 months because of the severe international backlash. However, it revealed the supply chain delays, material shortages and price volatility that can result from such a policy.

The effects of the current tariffs thus far are following a similar trend as the 2002 tariffs. Domestic steel producers have been eagerly raising their prices as foreign producers become less competitive. In December 2017, hot-rolled steel futures were trading at \$660/tonne. The price per tonne increased sharply following the beginning of the tariff discussion, peaking in mid-June at \$924/tonne, over 40% higher than in December. Recently futures have levelled off and are currently trading around \$890/tonne.

The MetalMiner<sup>2</sup> graph below shows the upward trajectory of domestic hot-rolled coil and cold-rolled coil steel prices, with prices beginning to level off in June.



<sup>1</sup> Jeremy Diamond and Julia Horowitz, *Trump hits allies with metal tariffs; Mexico, EU and Canada vow to retaliate* (New York: CNN Money, 2018), <https://money.cnn.com/2018/05/31/news/economy/united-states-steel-aluminum-tariffs/index.html>

<sup>2</sup> MetalMiner IndX™ <https://agmetalmminer.com/metal-prices/carbon-steel/>

SteelBenchmarker also shows raw steel prices increasing nearly 40% from the beginning of 2018 to June 2018, and both data sources align with what happened previously when the 2002–2003 tariffs were in force.

Volatile pricing requires efficient planning. Applying contingencies in the design stage will help alleviate unexpected project costs. Key construction material prices must be tracked in order to apply accurate contingencies and pricing throughout the design stages.

Raw steel ranges from 15% to 30% of the total cost of numerous final fabricated and installed steel products. It should be noted that a price increase in the material does not result in a price increase in labour. According to data collected from projects Currie & Brown has been involved in, the cost of pre-tariff raw structural steel averaged \$775 per tonne. The cost of fabricated and installed structural steel in those projects was between \$3,500 and \$4,500, depending on local labour rates. Assuming raw steel costs settle in around 20% higher than pre-tariff prices, the cost of a tonne of raw steel rises from \$775/tonne to \$930/tonne. Without increasing the cost of fabrication or installation, this results in an installed structural steel cost increase of 3.4% to 4.4%. Currie & Brown recommends carrying a 4-5% contingency on the typical cost of structural steel through 2018, decreasing to 3-4% in early 2019.

Galvanised steel conduit is experiencing the most extreme volatility, with material costs increasing by 40% in some cities after the announcement of the tariff. Currie & Brown recommends carrying a 12-16% contingency on the typical cost of installed galvanised steel conduit for the next six months, and 6-8% for the following six months.

It is evident that steel prices are on the rise and, should the trend continue, prices will stabilise when supply and demand reach an equilibrium. As the tariffs diminish foreign competition, domestic producers are tasked with supplying a much larger share of demand. According to the US Department of Commerce, in 2017 the US was the largest importer of steel in the world, with imports accounting for more than 30% of US consumption<sup>3</sup>. Domestic steel mills will need to increase capacity and, until they are running optimally, fabricators and contractors may have a difficult time securing sufficient steel for projects.

Due to the current volatility of the price of raw steel, many suppliers will only guarantee pricing if an order is being placed within a week. This places increased risk on contractors if they win work using a supplier quotation that is no longer valid when the work begins. Contractors in this position may begin to price this risk unless project owners allow for adjustments based on current supplier quotations. This risk should decrease over the next six months as additional domestic steel mills are reopened or increase their capacity and supply can meet demand.

Currie & Brown recommends staying up to date with legislation and tariff exemptions as they happen in the future.

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<sup>3</sup>[https://www.commerce.gov/sites/commerce.gov/files/the\\_effect\\_of\\_imports\\_of\\_steel\\_on\\_the\\_national\\_security\\_-\\_with\\_redactions\\_-\\_20180111.pdf](https://www.commerce.gov/sites/commerce.gov/files/the_effect_of_imports_of_steel_on_the_national_security_-_with_redactions_-_20180111.pdf)