

A magnifying glass with a black handle and frame is positioned over a document. The words "Import Tariffs" are printed in a bold, black, sans-serif font and are the central focus of the magnifying glass's lens. The background of the document is slightly blurred, showing some lines of text and a barcode-like pattern. The overall image has a professional, analytical feel, with a blue and white color palette.

**Import
Tariffs**

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The Impact of U.S. Tariffs on
Construction Claims and Project
Scheduling in the Insurance Sector

By: Brandon Fodo, Senior Construction
Expert, Construction Services &
Henry Densham, MRICS, Director,
Time Element and Delay Analysis Services

Tariffs have a direct impact on the price of goods, both domestic and imported, as costs are based on supply and demand. As the cost of imported goods increases, due to tariffs, the cost of domestic supplies can increase as well, both due to demand of non-imported materials not subjected to tariffs, and also to reflect the market valuation of those materials based on imported material pricing. In this paper, we will discuss tariffs and how they may impact the insurance industry as a whole and how we, as construction consultants, must adapt our pricing methodologies to reflect the increased costs of tariffs in our estimates, valuations, and evaluations of the actual incurred costs.

A BRIEF HISTORY OF TARIFFS

Tariffs, taxes imposed by a government on imported goods, have been a central instrument of U.S. trade policy since its inception. Originally used to protect

fledgling industries and generate revenue to pay off war debts, tariffs fluctuated throughout the years to provide a balance between protectionism, aimed at protecting domestic industries, and globalization, aimed at economic prosperity through international free trade agreements such as North American Free Trade Agreement (NAFTA) and the United State-Mexico-Canada Agreement (USMCA).¹

However, starting in 2018, a resurgence of protectionist policy emerged in the U.S. Originally directed at steel and aluminum, current proposals (although subject to rapid change) include a minimum 10% tariff with all trade partners and steeper tariffs on goods originating from China among other countries. These measures, in part aimed at reducing the trade deficit and pressuring trade partners, have the potential to significantly disrupt supply chains, and affect domestic industries – including the construction industry that accounted for 4.5% of GDP for 2024.²



IMPORT
TARIFFS



TARIFF IMPACT ON CONSTRUCTION MATERIALS

Tariffs have a direct effect on the price and availability of construction materials such as steel, aluminum, concrete, and lumber. Currently, the U.S. primarily imports steel from Canada and Mexico, aluminum from Canada, the United Arab Emirates, and China,³ lumber from Canada, China, and Brazil,⁴ and cement from Canada and Mexico.⁵ When tariffs are applied to imported materials, this results in a difference between the cost of domestic and imported materials. This difference between the imported cost of materials and the domestic cost of materials provides an opportunity for domestic suppliers to raise costs while still undercutting the cost of imported materials.

When tariffs raise material prices, those costs are either passed on to the consumer or absorbed along the supply chain, either by the importer, supplier or the contractor. For fixed-price contracts, this can severely impact profit margins and financial solvency for contractors and developers, particularly when the costs rise during the contract period. As a result, on-going construction projects may face potential budget shortfalls while bid prices for new projects are rising, sometimes due to actual material cost increases, and sometimes due to speculative pricing. Demand for domestic and non-tariffed supplies has led to shortages resulting in as many as 60% of developers reporting delayed or cancelled projects due to material cost increases and supply chain disruptions.⁶

INCREASED COST OF CONSTRUCTION DUE TO TARIFFS

The increased costs stemming from tariffs have a cascading effect through the entire construction process. Steel prices have increased 15% to 25% and aluminum prices have increased 8% to 10% since January 2025. Lumber prices, in anticipation of the tariff proposed on Canadian lumber, have increased 10% to 15% as of March 2025.⁷ Construction material costs rose at 9.7% annualized rate for the first quarter of 2025, the largest monthly increases seen in the past 36 months.⁸ Rising material costs directly equate to rising construction costs, especially as it relates to these core building materials.

While construction costs increase, so does scrutiny of those costs. Fixed bids require a degree of speculative pricing; however, determining whether the speculative pricing is warranted or consistent with market trends, is important in evaluating construction costs. Understanding where the materials are imported from, what the current and proposed tariff rates are, and the potential for trade shifts is vital for the construction consulting industry so the downstream effects are reflected in our estimates, valuations, and evaluation of actual incurred costs.

TARIFFS AND BUDGET OVERRUNS FOR ONGOING CONSTRUCTION

For construction projects already underway at the time new tariffs are enacted, budget overruns may be unavoidable. Material costs negotiated at the time of bid or quote can become obsolete by the time of purchase. Contractors are likely to request change orders to make up the difference or substitute materials which can have disastrous downstream effects, especially when lesser quality material is substituted. Material shortages and pricing led to the Chinese drywall incident in the mid-2000's that resulted in substantial damage and replacement of affected building components and appliances. Where downstream or latent property damage occurs, additional demand on insurance policies to repair damages can also occur.

Contractors may request change orders or claims for pricing adjustments to account for unforeseen increases in expenses, depending on contract terms. In the insurance context, property insurers covering Builder's Risk policies or Construction All-Risk policies must grapple with whether these increased costs constitute covered losses, especially when change orders are presented after loss events. Disputes over whether tariff-driven increases are justifiable or opportunistic must be evaluated with diligence.

CONSTRUCTION DELAYS AND TARIFF-DRIVEN DISRUPTIONS

The impact of increased tariffs, and the uncertainty resulting from continuous tariff changes, on construction durations will likely affect the procurement stage of a construction project. Supply chain disruption will be the main outcome as pre-existing relationships between construction companies and their suppliers become strained and, in some cases, break down due to increased costs that are inevitably passed on. When this occurs, construction companies may be forced into a lengthier procurement period as multiple bids and quotes are received that require more thorough analysis prior to contracts being completed. At the other end of the procurement cycle, deliveries may

be held up as increased checks are required on imports. Furthermore, with less goods forecast to arrive into the US due to blanket tariffs, there may be less shipping and logistics options as those companies scale back operations. For example, in May, the Port of LA – the nation's busiest port – saw a 30% drop in inbound container volumes.⁹

Procurement of key building materials such as steel and aluminum, along with key equipment that is often sourced from overseas, is often on the construction project's critical path. Extended procurement durations will therefore cause downline impacts to critical construction activities and ultimately affect project completion. These delays can lead to increased costs as labor and rented equipment is on site longer and, in some cases, contractors may risk losing their labor to other projects if idle for too long thus increasing delays still further.

For planned construction projects, the current tariff climate can disincentivize investors who require some level of certainty surrounding project costs and completion dates. The number of new projects coming to fruition is therefore likely to reduce until the market stabilizes.

Construction projects that carry builder's risk insurance indemnifying for time related costs such as soft costs and extended general conditions, along with delay in startup (DSU) endorsements, will likely become harder to assess. Delays resulting from Insured events need to be segregated from delays on the project that would have occurred in any event. There is the potential that those delays resulting from prolonged procurement due to tariff increases would fall into this latter category.

IMPACTS ON SCHEDULE OF VALUES FOR INSURED PROPERTY

Another impact to the insurance industry is regarding the schedule of values (SOV), declared in insurance policies to reflect the estimated replacement or reconstruction cost of a structure. When tariffs inflate material costs, the previously determined values can quickly become outdated, resulting in current construction costs exceeding the SOV. This affects all the stakeholders including the carriers, policy holders, and contractors performing the work.



Insurers will need to evaluate how these costs are interpreted in their policies. This can lead to disputes over coinsurance penalties, policy limits, and whether additional premiums should have been collected. As construction consultants, we should be prepared to evaluate whether these values are due to tariff-related increases or whether the values were understated at the time of reporting.

TARIFFS AND THE SEVERITY OF PROPERTY CLAIMS

Tariff-induced inflation in material costs and procurement delays directly affect property insurance claims resulting in longer claim cycles and increased reconstruction costs.¹⁰ The resulting effect can also impact business interruption claims due to material sourcing difficulties contributing to increases in the length of project timelines and surety claims where contractors fail to fulfill contractual obligations due to an unforeseen increase in costs. Contractors and developers that are unable to adapt or recoup losses can face bankruptcy, resulting in an increase in costs and project delays as alternate contractors are sourced to complete the projects, with potential impact to surety provisions that may be triggered. In instances where the increased costs cannot be verified or agreed upon, an increase in dispute resolution and litigation is likely.

There are also mounting fears of a possible recession which typically leads to an increase in claim frequency as policyholders look to insurers to cover the cost of damage to buildings and structures.¹¹ It can also lead to an increase in claims such as the copper theft claims during the great recession of 2008. This can lead to higher premiums and a stricter evaluation of the claimed costs as insurers look to reduce costs, take out loans or increase reinsurance to remain at required levels of solvency.¹²

EVALUATING INCURRED VS. PRESENTED COSTS IN CONSTRUCTION CLAIMS

Given the inflationary environment driven by tariffs, insurers and their consultants must scrutinize construction claim costs more rigorously. Not all presented costs reflect the actual market impact. Increases in material costs and delays due to material shortages will need to be verified to ensure costs are fair and reasonable. Similar to the submitted increases in labor costs during the COVID-19 era, in depth analysis is required to determine if the cost increases are real or opportunistic in nature. Costs that are determined to be opportunistic, or not the real result of market impacts, need to be identified in a clear, concise,



and transparent manner to resolve the difference and reach fair settlement of the presented costs.

VOLATILITY AND UNCERTAINTY IN THE MARKETPLACE

The full scale and impact of the tariffs is yet to be determined. Recent statements indicate that the tariffs on steel and aluminum may be increased to 50%,¹³ which would result in even higher cost increases. While tariffs have been proposed across the board for other construction materials, many have been delayed while trade negotiations take place and legal challenges are resolved, leading to uncertainty and volatility in construction pricing. Increased awareness and attention are required by construction consultants to remain apprised of the tariff impacts and their effect on the construction industry in a rapidly evolving landscape.

DISCLAIMER

The content in this document is for information only and does not constitute legal advice nor is this a complete or comprehensive statement of the subject matter. The information is correct at the time of publication and can be subject to change.

CONCLUSION

Tariffs, while primarily trade policy tools, have a significant cascading effect on the construction and insurance sectors. Their impact on material costs, construction durations, and insurance claim dynamics necessitates greater diligence from underwriters, adjusters, and risk managers. For property insurers, understanding the intersection between tariff policy and construction economics is essential in ensuring fair claim evaluation, accurate risk pricing, and sustainable underwriting in an increasingly complex global supply chain environment.

Contact Us

We are always available to answer your questions and help you find solutions.

Email experts@halliwellglobal.com or visit us at halliwellglobal.com

Authored By



Brandon Fodo
Senior Construction Expert,
Construction Services
863.999.4903
brandon.fodo@halliwellglobal.com



Henry Densham, MRICS
Director, Time Element and
Delay Analysis Services
312.833.6291
henry.densham@halliwellglobal.com

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