

TARIFF IMPACTS ON ONTARIO MUNICIPALITIES

Association of Municipalities of Ontario

28/02/2025



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Tariff Impacts

Ontario's Reliance on US Construction Related Imports

Ontario's construction sector relies on the US to supply approximately 25% of its material and fuel inputs as of 2023. This equated to \$9.5 billion worth of materials and fuel imported from the US, which helped supply the \$38.4 billion worth of relevant construction inputs demanded by the sector.

Key construction inputs which rely significantly on US imports are higher end manufactured goods such as construction machinery, electrical equipment and diesel fuel. Bulk construction material needs (e.g. concrete and bitumen) have a minor reliance on US imports. It's estimated that 20% of Ontario's steel for construction (structural and rebar) comes from the US.

In terms of total dollars spent, electrical equipment, steel and diesel pose the greatest risk to Ontario municipality capital expenditure (CAPEX) programs given both their heavy reliance on US imports and that they making up a notable share of total construction costs. Of the least concern to CAPEX programs are concrete, quarry material and bitumen as Ontario has a minor reliance on US imports to meet local demand given that they are likely more economical to source locally due to higher transport costs.

Impact of US Tariffs on Municipality Capital Expenditure

Tariffs on US imports is estimated to increase Ontario's municipality projected CAPEX program by around 2.1%, or around \$1.04 billion over the next two years (with a CAPEX projection of \$49.7 billion to March 2027, excluding social housing).

Ontario's municipality CAPEX program contains four distinct asset types – non-residential building, transportation and environmental services (civil infrastructure) and vehicles .These asset types accounted for around 21%, 45%, 32% and 2.7% of projected CAPEX respectively. This current analysis suggests tariffs on US imports will have a relatively similar impact on each infrastructure assets/function in total cost terms (average \$300 million each). Per dollar spent on CAPEX, tariff impacts on non-residential building construction is expected to be relatively more acute than transport infrastructure (2.5% vs 1.5%) owing to its higher content of manufactured components imported from the US (e.g electrical equipment). This is relative to the higher reliance on locally sourced bulk inputs such as bitumen and concrete for transport infrastructure. For vehicle acquisitions, Canadas reliance on US to meet half of its supply needs means tariffs will have a notable impact on vehicle costs, with an estimated 10.5% impact on CAPEX, or \$141 million.

Generalised equation for calculating tariff impact on CAPEX

CAPEX	→	Materials (i.e. non-labour)	→	US Imports	→	Import Price	→	Tariff	=	Impact on CAPEX
(100%)	x	(40%)	x	(~25%)	x	(~60-80% of retail price)	x	(10, 25, 50%)	=	(~2.1%)

Material and fuel demand from Ontario's construction sector, and reliance on US imports

Input	2023 Total Demand (\$M)	2023 US Imports (\$M)	Demand met by US Imports
Steel	17,752	3,550	20%
Concrete	6,701	72	1%
Diesel	6,698	3,038	45%
Electrical Equipment	3,435	1,882	55%
Plant & Machinery	1,708	609	36%
Bitumen	1,015	59	6%
PVC Pipes	807	242	30%
Quarry Products	277	48	17%
Total	38,393	9,499	25%

Ontario's municipality projected CAPEX by asset/ function, and impact of 2025 US tariff schedule

Asset/ Function	Projected CAPEX (\$M), to March 2027	Estimated Tariff Impact	
		% CAPEX	\$M
Non Residential Buildings	10,252	2.5%	258
Transportation	22,281	1.5%	324
Environmental Services	15,801	2.0%	316
Vehicles	1,341	10.5%	141
Total	49,676	2.1%	1,038

Methodology and Assumptions

Methodology

The methodology for this analysis is comprised of four steps:

1. Estimating Ontario's demand for key construction materials. This was achieved by applying the material demands known for broad asset types (residential, non-residential, transport, utilities, other engineering) to Ontario's construction investment profile^{1,2}.
2. Calculating the proportion of Ontario's construction material and vehicle demand which is met by US imports (i.e. US imports / total demand = share of demand met by US imports).
3. Applying this proportion to Ontario's municipality CAPEX program, by asset/ function (transport, environmental services, non-residential building, vehicles) and to calculate the municipalities' demand for materials, fuel and vehicles demand which is met by US imports. Note – social housing was excluded from this analysis and will be considered in a separate study.
4. Apply tariffs to the estimated value of municipalities' US imports. Tariffs are equal to those the US has announced it will impose on Canadian imports (see assumptions on page 5).

This analysis was based on the selection of key construction materials which represent the bulk of the material needs of building and engineering infrastructure projects. However, the list of construction materials included in the analysis is not exhaustive, and further investigation is required to enable a more accurate depiction of Ontario's reliance on US construction imports.

The selection of construction inputs for this analysis was based on two criteria:

- Those used exclusively in the construction of infrastructure.
- Final goods (or near final goods). These are construction materials which do not require significant further processing.

Material excluded from this analysis:

- Intermediate goods. These are materials or commodities which require further processing before being used in construction (e.g. hot rolled coil steel, which can be further processed into various construction, industrial and consumer products).
- Materials which are used across two or more industries (e.g. glass and electrical wire, which is used in both construction and consumer goods).

Furthermore, the analysis also has taken 2023 as the reference point for imports and does not include any potential temporal trends in Ontario's reliance on US imports, or the capacity of domestic industry to supply Ontario's future construction demands.

Given the above material selection criteria, it is expected that this high-level analysis underestimates the actual value of Ontario municipalities' US imported construction materials and therefore underestimates the impact of tariffs on municipality CAPEX.

Further investigation will enable the inclusion of materials currently excluded from this initial analysis, and the assessment of any potential trends in Ontario's reliance on US imports over time.

¹Statistics Canada. Table 34-10-0163-01 Flows and stocks of fixed non-residential and residential capital, by sector and asset, provincial and territorial (x 1,000,000)

²Statistics Canada. Table 34-10-0286-01 Investment in building construction

Methodology and Assumptions

Assumptions and Data Source

Variable	Assumption/ Source
Imports and Tariff	
Canadian retaliation to US tariffs	Canada applies 1 for 1 tariffs on imports from the US
Tariff (materials and vehicles)	25% ³
Tariff (steel)	50% (25% + 25%) ^{3,4}
Tariff (fuel)	10% ³
Percentage of tariff paid by consumer	100%
Import price (tariff applies) as a percentage of retail price (paid by municipalities)	
-vehicles, machinery, equipment	80%
-materials and diesel	60%
Trade data, Harmonized System (HS) codes ⁵	steel (7213, 7214, 7216), concrete (2523), diesel (2710), bitumen (7213), electrical equipment (8504), plant and machinery (8705), quarry material (2517), PVC pipe (391723)
Ontario Municipality CAPEX	
Breakdown of CAPEX by function/asset	Ontario Financial Information Return (FIR), average shares over 2018-2022
-non-residential	21%
-transport	45%
-environmental services	32%
-vehicles	2.7%
Projected CAPEX (\$49.7 billion, March 2025 to March 2027)	a) Survey of municipalities b) 90% of municipalities reported (as a proportion of their population to Ontario's) c) Extrapolation of remaining 10% using population -CAPEX per capita from reporting municipalities * population of municipalities that did not report

³<https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/>

⁴<https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-restores-section-232-tariffs/#:~:text=President%20Trump%20is%20reinstating%20the,on%20aluminum%20imports%20to%2025%25.>

⁵Statistics Canada. Unpublished data. Accessed via Trade Data Monitor

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