QBE
At the heart of it



Trade tensions and the construction sector

Navigating supply chain disruption



QBE | At the heart of it

Combining knowledge and expertise with empathy and compassion, to understand what's at risk for our customers – and what the right coverage can make possible.

Three things to takeaway:

1. The main impacts of trade tensions and geopolitical risks being experienced in the global construction sector

2. The most exposed construction materials in the current climate – and the state-trade relationships posing the greatest risks to supply chains

3. The strategies and trends emerging in the construction sector in response to supply chain pressures

Introduction

While cement remains less exposed to geopolitical shocks, aluminium and steel costs are expected to rise thanks to new and higher tariffs. In North America, US-Canada trade tensions, rather than China, may present the biggest challenges and drive the most disruptions for the construction sector.



The construction sector faces intensifying geopolitical risks as the world adjusts to a shifting US landscape under re-elected President Donald Trump. Changes in US trade policy – particularly the introduction of tariffs on key construction materials – are prompting businesses to reassess their procurement strategies and project planning.

According to the Associated Builders and Contractors, a US construction trade association, input costs in the sector rose for the third consecutive month in March, reflecting a 9.7% annualised rise in the first quarter of 2025. Given the US economy's central role in global trade and finance, it seems inevitable that these rising costs will ripple through other regions, particularly Europe, in the coming months.

For many construction companies, the challenge lies in navigating this evolving landscape with foresight and a keen understanding of key trends. The impact of tariffs varies: businesses with diversified and flexible supply chains are better equipped to absorb disruptions, while those heavily reliant on imports from affected regions are likely to face tighter margins and delays in project schedules.

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Tariffs and rising protectionism

Geopolitical uncertainty has emerged as a critical risk to the global economy, with rising tensions increasingly disrupting supply chains across various industries. In the construction sector, a surge in economic nationalism - characterised by trade barriers, protectionist policies and, particularly, new tariffs - presents the most immediate and significant challenge to businesses.

Key construction materials such as steel, aluminium, timber and copper are globally traded, making their prices highly sensitive not only to shifts in supply and demand, but also to market concerns and expectations regarding geopolitical stability.

The Trump administration has made it clear that tariffs are a central component of its "America First Trade Policy", using them as a strategic tool to achieve broader economic goals. US trading partners, including China and the EU, have already signalled their readiness and ability to retaliate. While negative reactions by financial markets may temper the use of tariffs and influence governments to impose more targeted and short-term measures, the impacts on the construction sector will still be significant.

Even if initial tariffs and announcements evolve into more considered negotiations, many tariffs – including the 10% baseline tariff imposed by Trump on 2 April, affecting numerous trade partners – are expected to remain in place. This will likely lead to higher costs for US importers and significant shifts in global trade dynamics.

In addition to direct and indirect cost increases, changes to tariff policies are likely to increase processing times at ports and customs, leading to project delays.
When new tariffs are announced, businesses often rush to stockpile goods before the tariffs take effect, overwhelming port infrastructure and causing congestion and inefficiencies.
Even if these disruptions are short-term, they can be costly. This is particularly true for sudden tariff changes, like those seen in the early months of 2025, compared to gradual and predictable adjustments.

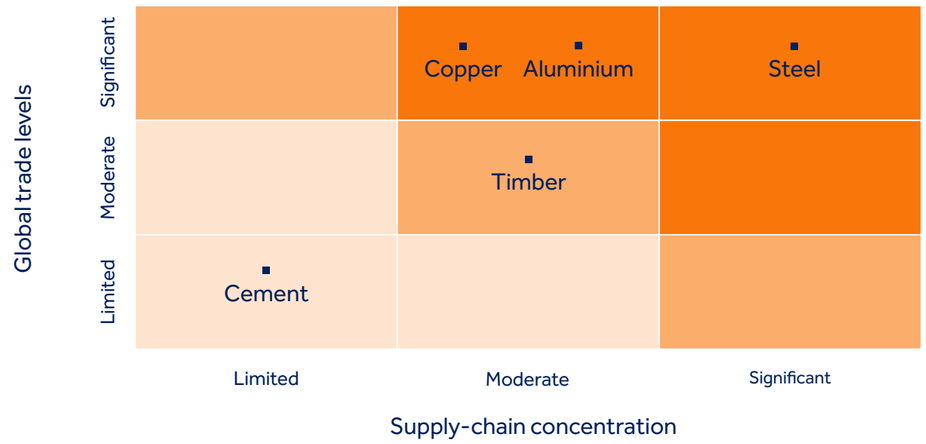
In parallel, trade uncertainty is weakening global growth forecasts, which will ultimately threaten construction demand. On 3 April, the International Monetary Fund (IMF) warned of "significant risks" to the global economy from the ongoing trade conflict, with banks and economic institutions worldwide revising growth projections downward in recent weeks. An economic slowdown would depress demand for residential, commercial and infra-structure projects, particularly in the US but also in other markets.

Materials Exposure

Lessons from previous tariff-induced shocks show that the direct impact on costs is difficult to forecast. Cost increases from new tariffs rarely match the tariff rates. Rather, outcomes are influenced by a complex interplay of factors, including supplier concentration, evolving inventory strategies and potential retaliatory action from impacted governments – all of which can pressure profit margins across the value chain. Since the announcements of Trump's initial tariffs, some regions, including the EU, have started or intensified trade negotiations with other partners, highlighting the long-term supply-chain implications of tariffs alongside the short-term cost consequences.

The impact of tariffs varies across different construction materials, reflecting factors including country-specific sourcing dependencies, domestic supply capabilities, existing trade agreements and restrictions, and competition between sectors for the same materials. The matrix below provides a high-level overview of tariff exposure for businesses in construction. Its methodology evaluates each material's reliance on global trade and the concentration of their supply-chains worldwide.

Figure 1: Estimated potential impact of tariffs on key construction materials





Prepared for QBE by Control Risks based on data by the UN Comtrade and Eurostat databases. Indications by the matrix are aimed at providing a globally relevant but high-level estimate of tariff risk exposure per material.

According to Control Risks' estimates for QBE, cement is the construction commodity least exposed to geopolitical risks. Despite persistent demand, domestic production satisfies most cement consumption in Western economies, partly due to the high transportation costs. In 2023, the US produced 84% of its consumed cement, while European countries fare even better – France at 96% and the UK at 97%, for example. However, this doesn't mean that cement will serve as a viable replacement for other materials that may become more expensive. Notably, cement faces its own set of challenges: it accounts for approximately 8% of the world's total CO_2 emissions, placing it under increasing pressure from decarbonisation initiatives across multiple jurisdictions.

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In contrast, steel and aluminium are deeply integrated into global trade flows, making them far more sensitive to tariff changes. Together, they accounted for over USD 535bn in trade in 2024, according to estimates from Control Risks, prepared for QBE. These materials are also critical to the construction sector, with businesses absorbing roughly half of all steel and a quarter of all aluminium produced worldwide.

That said – and contrary to common assumptions – China is not the primary source of US construction's steel supply vulnerability. The greater exposure lies with Canada, accounting for nearly a quarter (24%) of US steel imports, compared to just 1.6% from China. This heavy reliance on Canadian steel, underpinned by the 2020 USMCA trade agreement, has made the sector particularly susceptible to recent 25% tariffs, which have already driven US steel prices up in early 2025, contributing to project delays and tighter margins. While China is the world's largest steel producer and exporter – responsible for 56% of global trade - it plays a bigger role as a global price setter than as a direct supplier to the US.

In Europe, the picture is more nuanced. Germany and Italy face greater exposure through reduced EU-to-US exports, one of the world's top five construction material trade flows. Meanwhile, the UK may benefit from redirected Chinese steel surpluses. According to European Council data, the EU's key external steel suppliers include India, South Korea, Turkey, China and the UK.

Similarly, Canada's position as the largest supplier of aluminium to the US – accounting for 41% of US imports - makes US construction businesses highly vulnerable to tariffs, which have already pushed costs up for various building materials. While China remains a major global exporter, it is not a key, direct supplier to the US, despite its dominant influence on global pricing and trade flows.

In Europe, the impact of aluminium trade trends varies. France benefits from robust domestic production, which covers 85% of its needs, providing some insulation from tariffs and their broader supply chain effects. In contrast, Germany and the UK, rely more heavily on imports; the UK, for example, imports 60% of its aluminium, with 20% coming from China, exposing them to global market volatility. Canada's efforts to redirect surplus aluminium to Europe have temporarily lowered EU prices, but not all European buyers can access Canadian aluminium due to differing standards and specifications.

Figure 2: Aluminium and steel exports to US

In metric tons, 2024

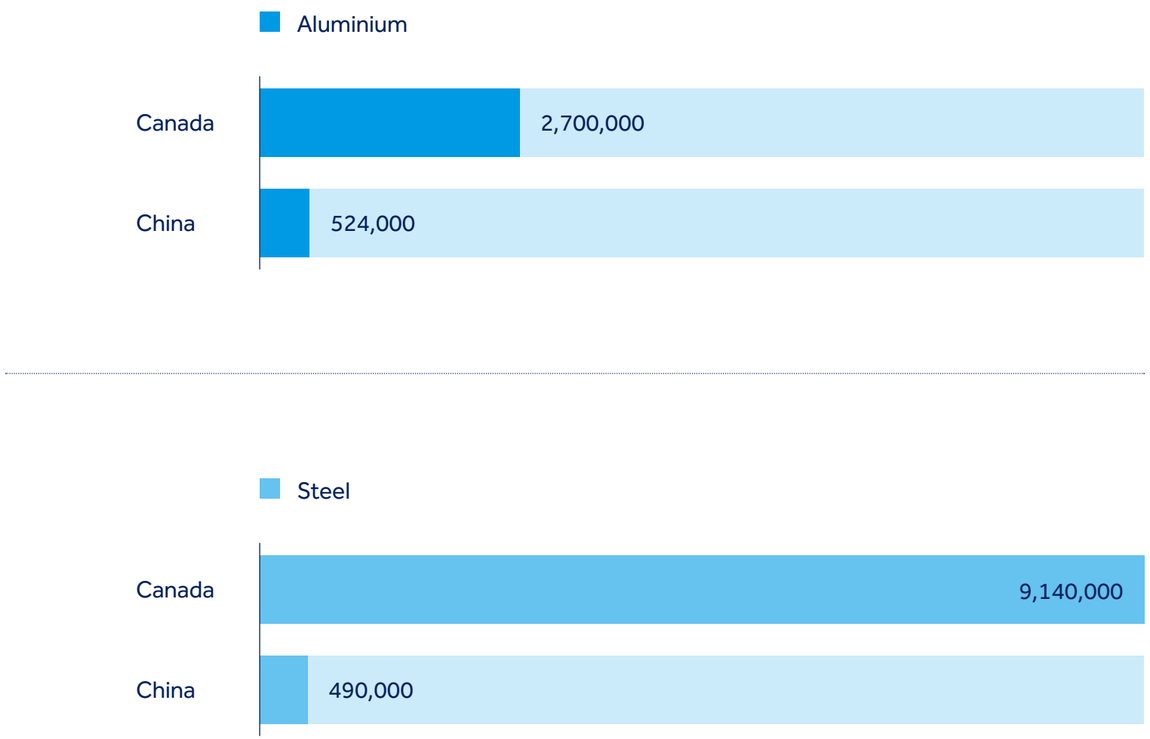


Chart: Control Risks • Source: US Department of Commerce, China's General Administration of Customs, Royal Bank of Canada.

US-Canada timber disputes are likely inflating costs in North America and sending ripples across the Atlantic. With 70% of US timber imports coming from Canada, import duties approaching 35% have already pushed prices to multi-year highs, straining budgets for both residential and infrastructure projects. In Europe, Scandinavian suppliers now face increased competition from redirected Canadian timber, while the UK – reliant on the US for 19% of its timber – has experienced rising costs, according to anecdotal reports. Sweden's strong intra-EU trade offers some protection, but Denmark's renewable energy sector and Italy's restoration projects, both dependent on imported specialty woods, are at risk of delays and supply bottlenecks.

Copper supply chains are facing mounting pressure as surging demand from electric vehicles (EVs), renewable energy, and infrastructure upgrades collides with tightening supply and shifting trade dynamics. In early 2025, copper prices in the US rose sharply - up 29% according to an April report by Nasdaq - driven by tariffs, sustained EV sales growth, and market uncertainty.

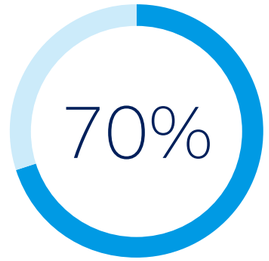
Global copper supply is highly concentrated. The largest trade flow runs from Chile to China, accounting for 18% of global copper trade, with additional volumes from Peru to China and from Brazil to the EU. The US imports 45% of its copper, primarily from Chile and Canada. China, as the world's largest consumer and a strategic stockpiler, plays a key role in global availability. Any escalation in trade tensions involving China could quickly tighten supply for other markets, including Europe and the UK, which source large proportions from Chile and Peru.

With new mining developments lagging behind demand growth, construction and infrastructure projects in Western economies are likely to face continued price volatility and supply constraints, making copper one of the most strategically sensitive materials in the sector.

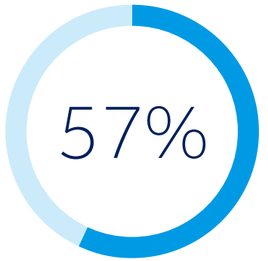
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Figure 3: Percentage of imported materials and their origins



of US timber imports come from Canada.



of EU imports of copper come from three countries – Brazil, Indonesia and Peru.



of UK imports of aluminium come from China, followed by Turkey (16%).



The future of construction supply chains

The construction sector is undergoing a slow but significant shift in supply chain strategy, as businesses increasingly adopt a blend of reshoring, nearshoring and supplier diversification to bolster resilience. These changes often involve relocating or supplementing key supply nodes to jurisdictions considered less vulnerable to geopolitical shocks, with the primary goal of reducing dependence on any single source, particularly China. While these adaptations aim to improve flexibility and security, they also introduce higher operational costs, at least in the short term.

Under the Trump administration, decoupling efforts are expected to accelerate, as protectionist policies push businesses to rethink their global sourcing models. This recalibration isn't limited to Western economies - it's also shaping trade dynamics across Asia. In early 2025, for example, South Korea and Vietnam imposed tariffs on Chinese steel, signalling a broader effort to reduce supply chain dependencies and reinforce domestic industries.

Meanwhile, jurisdictions including the EU and Canada are seeking to shield their economies and reinforce national security credentials from the growing unpredictability of US trade policy. These efforts increasingly involve developing and strengthening alternative alliances, which will further influence how businesses approach supply-chain restructuring.

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However, the path to supply chain diversification is far from straightforward. Persistent challenges, such as skilled labour shortages (exacerbated by increasingly strict immigration policies), a lack of regulatory alignment (particularly around sustainability), and deep-rooted reliance on key suppliers (especially in China) mean that reconfiguration is unfolding slowly and with considerable complexity.

For construction businesses, the priority is to strike a strategic balance: building resilience and adaptability while managing the higher costs and operational demands of an increasingly fragmented global landscape.

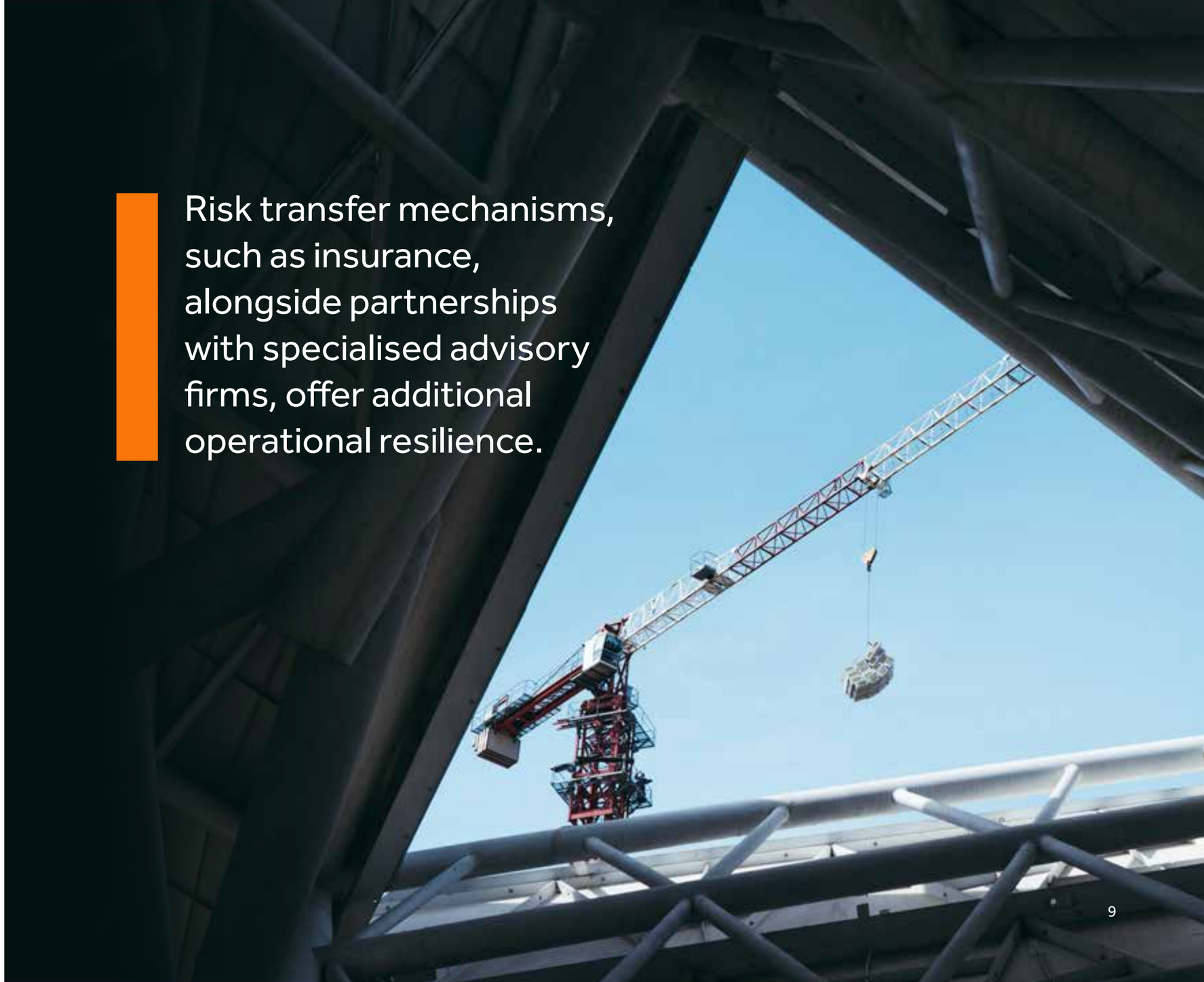
Responding to geopolitical volatility and construction supply chain disruption

Construction companies must adopt a proactive, strategic approach to managing geopolitical volatility, embedding risk awareness at the highest levels of decision-making. Rather than considering geopolitical risk in isolation, it should be fully integrated into the broader enterprise risk management framework, with clear senior-level ownership to ensure accountability and agility. There is no universal template for managing these risks; each company's exposure is shaped by its specific supply chain structure, geographic footprint, and relationships with key stakeholders, including investors, regulators and local authorities.

Nonetheless, several best practices are emerging as industry standards. Chief among them is the use of scenario-based risk assessments, which help firms anticipate and model the potential impact of regulatory shocks, trade disruptions or shifts in political stability on operations and supply chains. Maintaining situational awareness through continuous geopolitical monitoring – leveraging both in-house expertise and external intelligence – is essential. This enables leadership to respond swiftly and effectively to emerging threats and/or opportunities.

Finally, in an environment of ongoing uncertainty, risk transfer mechanisms, such as insurance, alongside partnerships with specialised advisory firms, offer additional operational resilience. These tools not only help mitigate and distribute risk, but also allow leaders to focus on value creation, operational efficiency and long-term growth.

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