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Client Brief

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Tariff Strains on U.S. Transportation Projects

Navigating New Costs, Project Management, and New Supply Chain Realities

Executive Summary

This Government Analytica report examines the impact of renewed recent Section 232 and 301 tariffs under on U.S. transportation infrastructure projects. Since January 2025, rising steel and aluminum costs have triggered budget overruns, project delays, and procurement challenges nationwide. Contractors and state DOTs face higher bids, unreliable supply chains, and pressure to adjust sourcing and design strategies. Regional disparities are evident, with coastal and rural areas hit hardest. The report offers data-backed insights and actionable recommendations to help stakeholders navigate tariff-driven cost pressures while maintaining infrastructure momentum in an increasingly volatile trade and construction environment.

Materials Cost Impacts

Recent tariffs on steel (also known as Section 232 tariffs) and Chinese goods (also known as Section 301 tariffs) have significantly inflated material prices for transportation projects. In early 2025, the reinstated tariffs – including a jump in steel and aluminum duties from 25% to 50% – sent domestic steel prices sharply higher (delta-cgi.com, sbybiz.org). Hot-rolled coil steel costs in the U.S. spiked by about 20% within weeks of the new tariff announcements, leaving U.S. steel prices roughly **70–80% higher** than those in Europe (delta-cgi.com, indeavor.com). Contractors across the country report double-digit price surges for key inputs like rebar, structural steel, and aluminum. For example, industry surveys in 2025 found rebar prices up **15–20%** in just a few months, as suppliers anticipated the tariffs and adjusted bids upward (constructionequipmentguide.com).

These rapid cost escalations have pushed project budgets to their limits. Many state departments of transportation (DOTs) saw **steel-intensive items (beams, guardrails, steel bridge components) jump 20–30% in price**, far above normal inflation rates (delta-cgi.com, constructionequipmentguide.com). Even materials produced primarily in the U.S. (like cement and asphalt) felt indirect cost pressure due to higher fuel and equipment costs linked to the tariffs (roadsbridges.com, roadsbridges.com). The National Association of Home Builders reported that overall material costs (including lumber and metals) rose over **20%** after the tariff expansions – an impact that translates to thousands of dollars in added cost per project or home (construction-today.com). Similarly, an analysis by construction consultants estimated the new tariffs could add **1.5–2.5%** to total construction costs in 2025 on top of baseline inflation, potentially driving annual cost increases near 6–7% for projects (dmagazine.com). Separating the tariff-driven inflation from other factors is challenging, but it is clear that import duties have become a major contributor to rising infrastructure prices.

Crucially, these higher commodity costs are being passed through directly to project owners. A June 2025 contractors' survey found **87% of contractors had received notices of price increases for tariffed materials (**constructiondive.com). Many contractors with fixed-price contracts are forced to absorb cost spikes, eroding their profit margins and prompting claims for change orders. Those bidding new work now factor in the tariff risk premiums, driving up bid prices for transportation jobs. In sum, the Section 232 steel/aluminum tariffs and Section 301 import taxes have created a higher cost basis for infrastructure materials, fueling budget overruns and straining public construction funds (constructionequipmentguide.com, delta-cgi.com).

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Project Delays & Cancellations

Rising materials costs and supply-chain disruptions from the tariffs have led to **project delays and even cancellations** in the transportation sector. Contractors and developers are pausing or scrapping projects that are no longer financially viable under higher prices. An industry survey in spring 2025 found that nearly **one in four contractors (25%) experienced tariff-related project cancellations** in April–May (bisnow.com, constructiondive.com). Another study reported almost **60% of development firms had delayed or canceled projects nationwide** due to spikes in material costs and uncertainty in supply chains (construction-today.com). These effects extend to public infrastructure: state DOTs have seen bid prices come in above estimates, forcing rebids, scope reductions, or schedule slippages on highway and bridge jobs.

Case studies illustrate the toll. In Kansas, the DOT warned that if steel prices continue rising, some planned road and bridge projects "will likely have to be sacrificed" because the agency cannot afford them all (roadsbridges.com). Similarly, the Oregon chapter of AGC (contractors) noted that tariff volatility would "interrupt the ability to get the materials we need," forecasting that project timelines would lengthen in response (roadsbridges.com). In Maryland, officials voiced concern that the doubling of steel tariffs to 50% could imperil big-ticket projects like the **$1.8 billion replacement of the Francis Scott Key Bridge**, by driving up steel costs beyond the budgeted range (sbybiz.org, sbybiz.org). In fact, by mid-2025 – only months into the renewed tariffs – **steel prices in the Mid-Atlantic region had already climbed ~16%** since January, and economists warned that further increases could delay the Key Bridge and other bridge replacements (sbybiz.org, sbybiz.org).

Supply chain disruptions related to the tariffs have also slowed project progress. Certain imported components (e.g. specialized steel parts, electronics, rail signaling equipment from overseas) became harder to obtain quickly, causing procurement delays. Contractors report that **delivery lead times for some materials have doubled** or more, as foreign mills and manufacturers reallocate supplies amid the new trade dynamics (roadsbridges.comroadsbridges.com). According to one analysis, a major shock like a widespread steel shortage can cause average project delays of **20–30%** in completion time (delta-cgi.com). In 2025, this scenario began playing out: projects in planning were put on hold or re-bid as owners awaited more stable prices, and ongoing projects stretched their schedules to accommodate reordering of materials from new sources. Major metropolitan areas such as **Dallas, Atlanta, and Chicago** have reported slowdowns in project starts and permitting, as developers reconsidered the viability of new work amidst escalating costs (construction-today.com, construction-today.com).

Public-sector infrastructure initiatives have not been immune. Agencies often operate with fixed budgets appropriated years in advance, so the sudden cost inflation forced difficult choices: *either* find additional funding, *or* delay/cancel portions of the program. Many opted to defer lower-priority projects. For example, Rhode Island's DOT noted in 2018 that higher steel costs would create a "domino effect" – they would finish current projects, but **future projects down the line would be cut or pushed out** due to depleted funds (constructionequipmentguide.com). That scenario has repeated in 2025 across multiple states. In summary, tariff-induced cost hikes have cascaded into tangible project delays, fewer project starts, and occasional cancellations, undermining the momentum of transportation improvements at a time when aging infrastructure needs timely upgrades.

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Procurement & Supplier Shifts

In response to the tariffs, transportation agencies and contractors have adjusted their procurement strategies and supply chains to mitigate cost impacts. **State DOTs and project owners are increasingly shifting to domestic and diverse suppliers** to avoid the added import costs. For federally funded highway and transit projects, long-standing "Buy America" rules already mandate domestically produced steel and iron. However, the tariffs still indirectly affect those projects because domestic mills, shielded from foreign competition, raised their prices as well (constructionequipmentguide.com). To counter this, some agencies

have sought new ways to contain steel cost risk. For example, the Rhode Island DOT implemented a special **steel price-escalation clause** in 2018 that allows contract prices to be adjusted if steel costs fluctuate more than 5% (constructionequipmentguide.com). By 2025, more states have adopted such clauses or are considering them, so that contractors are not forced to absorb unpredictable tariff-driven increases mid-project. This kind of risk-sharing in contracts (escalation or material cost index clauses) provides flexibility for both owner and builder to keep projects on track when input prices swing sharply (wsvgroup.comwsvgroup.com.

Supplier diversification has been another key strategy. Contractors are actively expanding their vendor lists and seeking alternative sources in countries *not* subject to the tariffs or with favorable trade exemptions(wsvgroup.com). For example, some bridge and rail project teams shifted orders from China to suppliers in South Korea or Brazil (though those countries' steel still fell under the global tariffs in many cases). Others looked to domestic manufacturers in the Midwest and South, even if unit prices were higher, to ensure supply certainty. In a few cases, firms have taken advantage of U.S. Foreign Trade Zones or temporary duty exemptions to import critical components while deferring or reducing duties (thompsonhinesmartrade.com, thompsonhinesmartrade.com). Overall, the emphasis has been on **securing materials early** and locking in prices. Many contractors began pre-purchasing steel and aluminum in bulk as soon as new tariffs were rumored, in order to beat the price increases (dmagazine.com, dmagazine.com). DOTs have also adjusted scheduling: letting projects in phases so that steel-intensive portions can be bought out sooner, or using bid alternates that allow cheaper material options.

In terms of design and material choices, the tariffs are spurring some innovation. Project designers are exploring **material substitutions** in certain cases – for instance, using fiber-reinforced polymer (FRP) rebar or composites in bridge decks to reduce the quantity of steel needed, or swapping steel elements for concrete or engineered wood where structurally feasible (wsvgroup.com, wsvgroup.com). While core structural steel usually can't be eliminated in large bridges or rails, these substitutions can trim costs at the margins. Additionally, the construction industry is adopting methods like **modular prefabrication** , which can optimize material usage and potentially source components in tariff-free locations before assembly (construction-today.com). Some firms report using more recycled steel (scrap) which is often sourced domestically and not subject to tariffs, thereby cutting reliance on new import material (construction-today.com).

Public agencies and industry groups are also advocating policy adjustments. By 2025, organizations such as AASHTO and AGC were lobbying for **tariff relief or project exemptions** – for example, seeking exclusions for certain specialized steel products needed for infrastructure that aren't readily available from U.S. producers (construction-today.com). There is also a push to increase federal funding to offset the higher costs (so that fewer projects get shelved). In the meantime, **contracting practices have adjusted** : bids now often include separate line items for tariff-affected materials, giving transparency to that cost, and owners sometimes set aside contingency funds specifically for tariff volatility. All these procurement shifts aim to ensure projects can still be delivered in a timely manner despite the trade policy headwinds. Contractors who "hedge" effectively by locking in prices and finding new suppliers have been better able to stay on schedule and budget than those who took a wait-and-see approach.

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Budget Overruns & Funding Reallocations

Tariff-induced cost escalations have led to **budget overruns on many transportation projects** , forcing officials to juggle funds and adjust project scopes. When steel and other material costs rose dramatically, projects that were initially within budget suddenly faced multi-million dollar shortfalls. For instance, the Associated General Contractors reported cases of fixed-price infrastructure contracts where contractors had to absorb unanticipated tariff costs, eroding their profit or even causing losses (constructionequipmentguide.com). Such overruns can strain contractors and lead to disputes or claims for additional compensation. On the owner side, agencies have had to dip into contingency reserves, delay other projects, or request supplemental funding to cover these overruns. A 2023 U.S. International Trade Commission study quantified the impact: the Section 232/301 tariffs from 2018–2021 caused an estimated **$3.4 billion annual reduction in U.S. construction output** , effectively meaning fewer projects built for the same expenditure due to higher unit costs (delta-cgi.com). That is roughly a 0.6% cut in construction activity per year attributable solely to the tariffs, a significant loss in an industry with tight margins (delta-cgi.com).

Public-sector transportation programs operate within fixed budgets (often set by legislation or bond issues). As costs inflate, officials must **reallocate funding and prioritize** . Shoshana Lew, then COO of Rhode Island DOT, explained that with a fixed federal funding pot, "as our top-line costs go up, there is less money available for everything else." Projects already under construction were not halted, but it meant **"projects down the road won't get funded"** if costs continue to overrun (constructionequipmentguide.com). In practice, this has led agencies to postpone or cancel lower-priority projects—especially smaller, rural, or new initiatives—so that critical projects (often large bridges or interstates underway) can be completed with the higher prices. Rep. Pete Olson of Texas warned early on that as big project price tags inflate, *"smaller projects get left behind"* because the budget gets consumed by a few expensive jobs (roadsbridges.com). This appears to be happening in 2025: states are concentrating available infrastructure dollars on core projects and deferring some enhancements or local projects that had been in the pipeline.

Additionally, **scope adjustments** have become more common to keep projects within budget. Transportation departments report scaling back project features – for example, opting for a narrower shoulder or a shorter auxiliary lane – to save on steel and concrete quantities when bids come in over estimate. Some bridge projects were redesigned to use simpler, less steel-intensive designs when original bids exceeded funding. In extreme cases, state DOTs have returned to the negotiating table with contractors to remove certain contract line-items or pursue value engineering alternatives that reduce

import-heavy components. While these changes can help control costs, they may also reduce the overall benefits or longevity of the infrastructure being built.

On the federal level, there have been efforts to address the funding gap. Lawmakers have noted that the 2021 Infrastructure Investment and Jobs Act (IIJA) funding is eroding in real value due to higher construction inflation, including tariff costs. However, as of 2025, no specific federal relief for tariff impacts has been passed. This puts the onus on state and local agencies to cover overruns. Some have used creative financing – for instance, shifting funds from maintenance budgets or using bond premiums – to fill the gaps. Others are requesting additional appropriations or emergency funding if a particularly important project is at risk of stalling.

The American Society of Civil Engineers' 2025 Report Card noted that despite recent funding increases, rising costs (partly due to tariffs) threaten to undermine progress on improving infrastructure (roadsbridges.com). The key insight for stakeholders is that without adjustments – either policy changes to reduce tariffs or significantly more funding to counteract them – the cost overruns will continue to eat into the volume of transportation improvements delivered. Strategic planning and cost contingency will remain critical in this tariff environment.

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Regional Variations

The impacts of the Section 232 and 301 tariffs have not been uniform across the United States – **regional differences in project mix and supply chains** mean some areas feel the pain more acutely than others. Broadly, coastal and border states that depend on imported materials have experienced greater cost shocks than inland regions. For example, West Coast states like **California** (with its busy port of Los Angeles/Long Beach) and Eastern port states like **New York/New Jersey** saw immediate price surges and some material shortages as tariffs took effect (wsvgroup.com). These states import large quantities of steel products (rebar, steel pipe, etc.) and construction equipment through their ports. When tariffs hit, port infrastructure projects themselves also faced uncertainty – U.S. ports saw changes in cargo flows and higher costs for imported cranes and components (shipuniverse.com). In **Texas** and other Gulf Coast states,

which had been sourcing structural steel and cement from USMCA partners, the new tariffs on Mexican and Canadian steel (reimposed in 2025) drove up costs on highway projects. Texas officials noted that what had been relatively affordable imported rebar from Mexico now carried a 25% (later 50%) tariff, squeezing state highway budgets more than in regions that source steel domestically.

In contrast, some **inland regions** benefitted from proximity to domestic steel and aluminum production. The **Midwest**, with states like Indiana, Ohio, and Pennsylvania, has multiple domestic steel mills and foundries. Projects in these states could sometimes procure materials locally without immediate tariff fees – indeed, domestic mills in the Great Lakes region ramped up production with the tariff protections (indeavor.com, indeavor.com). However, even these areas felt price inflation (since domestic suppliers raised prices to match the tariff-adjusted market). The difference was often one of degree: inland projects saw cost increases but generally avoided outright material unavailability. Additionally, the **Northeastern U.S.** had a robust backlog of infrastructure work that continued despite tariffs; by mid-2025 the Northeast led the nation in year-over-year growth of contractor backlogs, suggesting that strong urban demand kept projects moving forward albeit at higher prices (constructiondive.com). In the **Southeast**, states like Florida and Georgia – which import less structural steel but more construction equipment – faced higher equipment and vehicle costs due to tariffs on machinery and trucks (ttnews.com, ttnews.com). This affected large corridor projects (for instance, contractors paying more for earthmovers and dump trucks).

Urban vs. rural divides also emerged. Large metropolitan areas (urban cores) tend to undertake complex projects that rely on global supply chains – such as specialized transit systems, large bridge spans, or high-rise structures – and thus were more exposed to tariff impacts. An urban rail expansion might require electrical systems or train cars that were subject to 301 tariffs on Chinese electronics, raising costs for transit agencies. Meanwhile, many **rural projects** (like local road repavings or small bridge replacements) use mostly domestic materials and simpler supply lines. These rural projects did see higher fuel and asphalt costs (indirectly from trade policies and general inflation) but were somewhat less directly hit by steel/aluminum tariffs. However, rural areas can be **more vulnerable in budgeting** : they often have thin margins and little flexibility. So a 10% cost increase might delay a rural county bridge for years if supplementary funds aren't found, whereas a big city might be able to absorb that increase through bonding or tax revenue. In this way, tariffs arguably exacerbated the urban-rural funding gap – urban regions pushed ahead (paying more), while some cash-strapped rural localities postponed needed projects.

Another layer is **state policy responses** . Certain states took steps to cushion the blow of tariffs. For instance, states with major agriculture exports (hit by foreign retaliatory tariffs) redirected some state funds to infrastructure as stimulus, or they provided short-term subsidies to contractors for critical projects. Others, like **Nevada and Utah** , which have a more domestic supply of construction materials (e.g. local quarries for aggregates and concrete), saw comparatively stable costs and continued with planned highway expansions with minimal delay. By contrast, **Alaska and Hawaii** , which import nearly all construction materials, encountered steep price hikes across the board, forcing project reprioritization in those remote states.

Despite these differences, no region was completely spared. Even domestically sourced materials became more expensive nationwide due to the tariffs' market effects. But understanding regional variations is important for stakeholders: it highlights that **mitigation strategies may need to be tailored** . Coastal states are focusing on port supply chain efficiencies and alternative import partners; industrial Midwest states are pushing domestic production advantages; and all are lobbying federal officials for consistency in trade

policy to reduce uncertainty. Going forward, transportation agencies in heavily impacted regions might require extra federal aid or cost indexing of grants to ensure that tariff-driven inflation doesn't stall their infrastructure improvements.

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Key Insights and 6 Recommendations

Recent trade policies – particularly the continuation and expansion of Section 232 steel/aluminum tariffs and Section 301 tariffs – have created a **challenging cost environment** for U.S. transportation infrastructure projects. Across the board, materials prices are elevated, project timelines are stretching out, and budgetary pressures are forcing tough trade-offs. A fundamental insight is that tariffs on critical inputs act like a hidden infrastructure tax, one that must be paid either in **higher project costs or in forgone projects** . Industry stakeholders should recognize that these trade measures, aimed at boosting domestic industries, carry significant downstream costs for construction and require proactive management.

Some key takeaways and recommendations include:

Plan for Volatility

Transportation agencies and contractors should build contingencies into project plans for continued price volatility. This could mean **adding 10% or more contingency on material costs** in estimates or securing price-lock agreements with suppliers. Historical data shows tariff policies can change rapidly; being financially prepared for swings will reduce the shock to individual projects (dmagazine.com, constructiondive.com).

Strengthen Risk-Sharing Mechanisms

It is advisable to incorporate escalation clauses and other risk-sharing provisions in contracts. These mechanisms enable adjustment of contract prices if material costs exceed certain thresholds, preventing contractors from either **baking in excessive risk premiums** or suffering untenable losses (constructionequipmentguide.com, constructionequipmentguide.com). Both owners and contractors benefit from more flexible contracts under volatile market conditions.

Diversify Supply Chains

Relying on a single country or supplier for key materials is risky in a tariff-prone era. Agencies should encourage a diverse supplier base – including **domestic suppliers** wherever possible, and alternative foreign suppliers from countries with favorable trade terms or exemptions. In some cases, using design alternatives that allow for different materials can open up new supply options not subject to tariffs (wsvgroup.com, wsvgroup.com). Supply chain resilience is now as important a factor as price in procurement decisions.

Advocate and Collaborate on Policy

Industry associations (like AASHTO, ARTBA, AGC) and state DOTs should continue to **advocate for federal solutions**, whether that be tariff exclusions for certain infrastructure products, or additional funding to offset cost increases. Close communication with policymakers can help ensure they understand the on-the-ground impact of tariffs (e.g. canceled projects, fewer improvements) so that trade-offs between trade policy and infrastructure policy are better balanced (roadsbridges.com, construction-today.com). In addition, stakeholders can collaborate on pooling purchases or establishing regional material stockpiles as buffers against supply shocks.

Optimize Project Design and Delivery

Now is a good time to innovate in project delivery to save costs. Techniques like **modular construction, 3D printing of building components, and use of high-performance lighter materials** can reduce the total amount of tariffed material needed (wsvgroup.com, wsvgroup.com). Value engineering should be employed aggressively to find cost savings that do not compromise safety or longevity. Moreover, scheduling projects to bid at less peak times for materials demand, or bundling projects to achieve bulk-buy discounts, are tactics that can mitigate tariff effects.

Transportation infrastructure stakeholders should approach the current tariff-driven climate with a strategy of adaptation and active management. The tariffs have undeniably raised costs and impeded some projects, but through prudent planning, flexible contracting, supply chain management, and strong advocacy, the industry can navigate these pressures. **Resilience and creativity** are key. By sharing best practices – for example, how one state successfully implemented price adjustment clauses or how a contractor sourced steel from an alternate mill – the industry can collectively lessen the impact. Ultimately, ensuring the continuity of critical infrastructure improvements in the U.S. will require stakeholders to both respond to immediate cost challenges and work toward a more stable long-term trade environment.

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