

# NEWSLETTER

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## **Of Tariffs and Trump and Other Things**

We all remember the chaos that COVID-19 brought to every corner of the world. It seemed to impact every person, every family, every business, and every profession in the world: health issues, supply chain problems, price increases, unemployment, working remotely, so many problems. Today's prices are 1.86 times as high as the average since 2000, according to the Bureau of Labor Statistics consumer price index. Today's dollar only buys 53.847% of what it could buy back then. Many people thought that inflation would cool down when President Biden's administration changed to President Trump's. Maybe it has, maybe it hasn't. One thing is for sure: President Trump has undoubtedly shaken up the status quo in the marketplace of the entire world. Love him or hate him, we all must be cognizant of the impacts the Trump administration is having on our personal and business lives, and not just from tariffs either. Countless other decisions he has made are impacting us. But let's focus on the 'issue of the moment', tariffs. Everyone seems to be wondering what the final result of the President's 'Liberation Day' will be.

April 2, 2025, was proclaimed 'Liberation Day' by President Trump. He announced his 'reciprocal tariff' strategy, which he had previously promised during his campaign and described as necessary to correct what he characterized as decades of unfair trading relationships that disadvantaged American manufacturers and workers. He said it was one of the most important days in American History, thus, the newly introduced tariffs came to be known as 'Liberation Day tariffs'. During the event, Trump signed Executive Order 14257, which outlined extensive global tariff policies, which he described as the United States 'declaration of economic independence.' The order announcement began a worldwide trade war and triggered a global stock market crash. Weeks later, it still seems to be the number one issue in the daily news.

The US currently has a trade deficit, meaning it imports more goods and services than it exports. In 2024, the trade deficit reached a record \$1.2 trillion. That means we bought \$1.2 trillion more in goods and services (primarily goods) than we sold to other countries. This deficit is primarily driven by imports of goods, particularly from China, Mexico, Vietnam, and Ireland. This tariff 'war' has been welcomed by many Americans and thoroughly reviled by many Americans. Financial markets all over the world have taken notice. Certainty of what the final impacts will be has been thrown out the window. President Trump says one thing one day, and something different the next day. Not being critical of these 'flip-flops.' But whether you agree with President Trump's policies or not, we all must recognize the potential ramifications.

Tariff wars significantly impact the design and construction industry by increasing material costs, disrupting supply chains, and creating uncertainty in project planning and budgets. These issues should certainly evoke memories of the early days of COVID-19. Do you recall what measures you took contractually to address these concerns? These effects can, and likely will, lead to higher project costs, potential delays, and even cancellations of construction projects. Markets abhor uncertainty, and it seems we are entering a relatively prolonged period of unpredictability.

Here's a more detailed look at the effects:

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- Increased Material Costs:

Tariffs on imported construction materials, such as steel, aluminum, and lumber, directly raise the price of these resources. This increase in raw material costs translates to higher expenses for finished products, like beams, pipes, and other structural elements, impacting project budgets. The cost of building materials, already increased greatly from the impacts of Covid, continues to rise, with some materials experiencing dramatic price increases. The National Association of Home Builders estimates a typical home has increased in price by \$9,200, all attributable to tariffs.

- Supply Chain Disruptions:

Tariffs can disrupt established supply chains by increasing import costs and potentially leading to material shortages. This disruption can slow down construction projects, extend timelines, and increase labor costs as workers wait for materials to arrive. Uncertainty about trade policies and their impact makes it difficult for construction companies to plan long-term projects or commit to fixed-price contracts.

- Impact on Project Budgets and Planning:

Higher material costs squeeze project budgets, potentially leading to project delays, cancellations, and budget overruns. When preferred materials become too expensive or unavailable, firms may be forced to use lower-cost alternatives that may not meet the same performance or durability standards, potentially impacting project quality. For projects with fixed-price contracts, contractors may be unable to pass along tariff-related increases, potentially leading to financial losses. Uncertainty about future trade policy makes it difficult for construction companies to accurately predict costs and plan budgets, potentially leading to higher bids and more conservative project planning.

These financial uncertainties present two urgent situations for design firms to address. The first, perhaps more complex, is navigating rising material prices and potential shortages for construction projects that are already in progress, particularly where budgets and timelines have already been established at pre-tariff prices. Even though we are all aware of these issues, make sure to discuss these issues with your client and ensure these discussions are well documented. Secondly, design firms must also contend with the impact of tariffs on future projects not yet at the construction stage.

Beyond increased costs, the imposition of tariffs may also cause delays to the project schedule. For example, this could happen if clients and contractors seek alternative suppliers or engage in value engineering. In this context, design firms are encouraged to review the contract's language to determine when contractors are

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entitled to additional time and costs. While the points above pertain to ongoing projects, design firms currently overseeing the creation of contracts for future projects should also consider adding clauses that directly address tariffs. What are your professional associations suggesting? How about your professional liability insurance broker? Your legal counsel? An A/E firm must be discussing these issues with others in the design profession, the construction industry, and, perhaps most importantly, their clients.