

Subject:

FW: Updates & Survey for Information: Tariff Impacts on Municipal Procurement



Good Morning,

I am emailing with an update around AMO's work on tariffs and trade, including work to:

1. Estimate tariff impacts on municipal capital projects
2. Better understand the value and reliance on US/non-Canadian markets of non-construction municipal procurement
3. Make the case for municipal stimulus funding

1. Estimating Tariff Impacts on Municipal Capital Projects

First, we owe a big thank you to everyone who quickly contributed to our last request for data. As a result, our economists were able to produce the attached estimate of the impacts of tariffs on Ontario municipalities, which has been shared with the Premier and various senior public servants in all relevant ministries. It has also been shared with municipal elected officials as part of an AMO Policy Update last week and is posted on the AMO website.

The AMO Executive Board approved the necessary resources to proceed with both a more detailed analysis of the impact of tariffs on municipal capital projects as well as the creation of a model to be distributed to all member municipalities to support understanding potential impacts at a project level. We hope to provide an opportunity in late March/early April for any interested CAOs and Treasurers to participate in a call with the consultants to better understand the project, ask questions and provide any insights or commentary.

We are targeting the end of April for finalization of the more detailed report and mid-May for the availability of the model.

2. Municipal Non-Construction Procurement

We are attaching a short survey to support anticipated discussion with the provincial government regarding procurement policy and supply chains. To date, we have not had the opportunity for any official discussions with the province on procurement given the transition period. We would anticipate, however, the ability to begin discussions in the coming weeks regarding:

- Any anticipated changes to procurement legislation or policies that could impact municipalities
- Guidance or exchange of ideas with respect to key policy questions
- Potential for closer collaboration regarding longer-term diversification of supply chains

We would ask that you make best efforts to submit responses to the survey to Spencer Sandor at ssandor@amo.on.ca by **Wednesday, March 19** to enable readiness to engage in discussions as soon as a new Cabinet is sworn in. We will share survey results once they have been finalized.

3. The Case for Municipal Stimulus Funding

AMO is also working to develop proposals for stimulus dollars for submission to the provincial and federal governments in advance of anticipated budgets. These proposals would include:

- Investments to both offset the cost escalations of tariffs and enable municipalities to accelerate planned repair/renewal and growth-related projects across the spectrum of municipal assets. AMO anticipates that modelling work to understand the macro impacts of a tariff-induced economic downturn on the municipal sector and the potential impacts of the proposed stimulus will be available in early April and will be shared with the sector.
- Investments to support community and supportive housing, including both repair/renewal projects and the creation of new units. The request will include an ask for corresponding operating funding. Municipalities who are one of the 47 service managers a survey request on new social housing capital investments last week with a deadline of **Wednesday, March 12**.

We realize the challenges that come with multiple requests for data with quick turnaround times, particularly over the March break period. The data insights and advice that we have received from municipal staff across the province has been incredibly impressive, as it highlights a depth of and commitment to knowledge of the sector.

Thank you again for your support, and please don't hesitate to reach out with any questions.



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Association of Municipalities of Ontario

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TARIFF IMPACTS ON ONTARIO MUNICIPALITIES

Association of Municipalities of Ontario

28/02/2025



Disclaimer

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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