ECONOMIC VIEWPOINT

Desjardins Housing Outlook

Hammered by Tariffs: Impacts of the Trade War on the Canadian Homebuilding Sector

By Kari Norman, Economist

Highlights

- US tariffs on imports of Canadian lumber, steel and aluminum will affect building materials producers and the broader construction industry by reducing foreign demand, potentially impacting input prices here at home.
- At the same time, a weakening Canadian dollar and retaliatory tariffs on imports from the US will increase costs for homebuilders who rely on American construction materials. Higher costs for these materials could lead to increased project budgets and potential delays.
- In addition to driving up direct materials costs, tariffs are creating broader economic uncertainty that is likely to lead to a recession in Canada. This will cause the unemployment rate to rise considerably and could soften housing demand.
- The impact of tariffs will vary significantly across Canada depending on local industry structures and supply chain dynamics. Ontario and Quebec are considered particularly vulnerable to US import tariffs. Together, they accounted for half of Canada's national housing starts in 2024, suggesting that trade war impacts in these two provinces could noticeably influence national housing starts trends.
- The homebuilding industry will likely need to adjust by diversifying supply chains, finding local substitutes and improving efficiency. Government policy could play a key role in shaping industry responses.

The escalating trade war between the US and Canada is unfolding against a backdrop of housing shortages paired with longstanding affordability concerns. As policymakers seek to stabilize housing markets and accelerate new construction, tariff-related disruptions to the supply and cost of essential building materials risk undermining these goals.

The Direct Impact of a Trade War on Canadian Residential Construction

US Import Tariffs

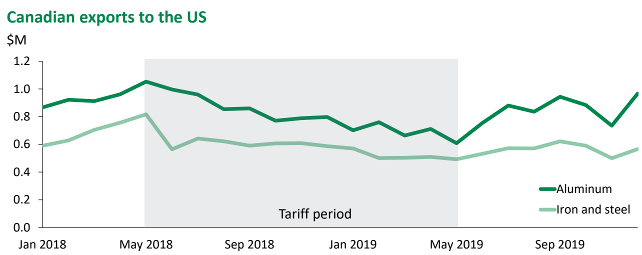
US tariffs on Canadian lumber, steel and aluminum imports will affect materials producers and the broader construction industry in Canada. The United States has long targeted Canadian softwood lumber with trade restrictions, arguing that having timber lots that are mainly government owned (rather than privately owned south of the border) provides unfair subsidies to producers. In past instances of this long-standing dispute, US tariffs and customs duties have made it difficult for Canadian lumber companies to plan production and investment and have compressed profit margins for these firms. Indeed, the price of softwood lumber increased immediately following the announcements of new US tariffs in March 2025 (graph 1).

Graph 1
Lumber Prices Shot Up with Tariff Announcements in Early March

* Chicago Mercantile Exchange (CME) contract settlement price.
Datastream and Desjardins Economic Studies

The steel and aluminum sectors may also face challenges as US buyers reconsider their sourcing strategies. Canadian steel and aluminum producers rely heavily on exports to the US. If American tariffs make these products less competitive, producers may be forced to cut prices or lose sales unless new export markets can be found quickly. The temporary tariffs applied by the US on steel (25%) and aluminum (10%) starting in May 2018 resulted in a decline in exports to the US of even greater magnitudes (graph 2). In response, the Canadian government imposed retaliatory tariffs and other measures.

Graph 2
Exports of Steel and Aluminum Fell Following the 2018 US Tariffs



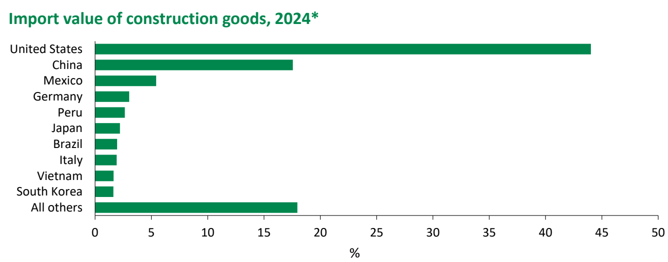
Statistics Canada and Desjardins Economic Studies

Reduced demand from US buyers may have further consequences for Canadian materials producers. A decrease in exports might create a temporary surplus of inventory in Canada among domestic producers. Moreover, the federal government has highlighted the risk of non-US countries dumping their oversupply of steel into Canada at artificially low prices despite placing a surtax on imports of steel and aluminum products from China late last year. These factors could help ease cost pressures for builders in the near term. Longer term, Canadian steel and aluminum producers may look to overseas markets to help offset losses in US sales. But if none are to be found, they may ultimately reduce their production capacity, leading to layoffs in the lumber and metals sectors.

Canada's Retaliatory Tariffs

Canada's retaliatory tariffs on US imports will increase costs for homebuilders who rely on American-made products. In 2024, about 45% of construction-related goods imports came from the US (graph 3). In response to recent US trade measures, the Canadian government imposed retaliatory tariffs on $30B of American goods imports starting March 4, 2025, and additional retaliatory tariffs focusing on steel ($12.6B), aluminum ($3B) and other products ($14.2B) beginning March 13, 2025. These include a range of construction-related inputs, including engineered wood products, drywall, certain steel and aluminum components and finished goods such as large appliances. Recent work by Desjardins Economic Studies has found that as the cost of steel residential construction components goes up, demand will fall, but not as sharply as prices increase.

Graph 3
Almost Half of Construction Imports Come from the US



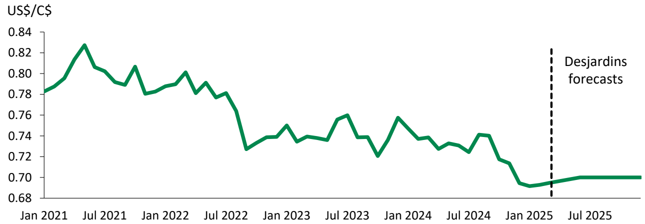
* Includes wood, glass, stone, basic metals, housing, electrical appliances and furniture.
Statistics Canada and Desjardins Economic Studies

Higher costs for these materials could lead to increased project budgets and potential delays. Some developers may attempt to pass these costs on to future homebuyers, raising concerns about affordability in an already strained housing market. Indeed, new home prices increased rapidly during the pandemic when costs escalated from rising construction prices and higher borrowing rates. Builders who must honour preexisting contracted sales prices may seek alternative suppliers with prices closer to their expected budgets. But shifting supply chains takes time and could introduce new logistical challenges.

The Impact of the Canadian Dollar

A weak Canadian dollar could amplify the impact of tariffs on homebuilding costs (graph 4). With nearly half of construction-sector imports sourced from the US, a weaker loonie will increase the cost of these goods beyond the direct effect of retaliatory tariffs. While a weaker currency could make Canadian materials exports more attractive, global turmoil may dampen Canada's prospects of finding new markets abroad. On the other hand, the weakening Canadian dollar may prompt the Bank of Canda to lower interest rates in order to stimulate growth and support domestic demand, giving builders a bit of a break on the cost of financing new projects.

Graph 4
The Weak Canadian Dollar Will Hurt Importers, but Soften the Tariff Shock for Exporters
Canada–United States exchange rate



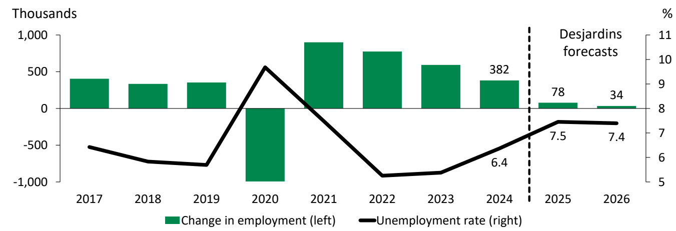
Estimates and forecasts: End-of-period values.
Bank of Canada and Desjardins Economic Studies

Indirect Economic Effects of the Trade War on Homebuilding

In addition to driving up direct materials costs, tariffs create broader economic uncertainty that may slow home construction. Developers make investment decisions based on expected costs and market demand. When trade policies introduce volatility in materials prices, it becomes more difficult to predict the extent of the total increase in costs. Developers may delay new housing projects until market conditions stabilize. Indeed, an early March 2025 survey by the Canadian Federation of Independent Business (CFIB) showed that US tariffs were already having a negative impact on 62% of respondents in the construction industry. Moreover, competition from non-residential construction, such as additional public infrastructure motivated by the rapid pace of population growth, may influence materials prices and labour availability, further complicating the residential homebuilding outlook.

Wobbling consumer confidence and deteriorating labour market conditions could impact demand for new homes. The Conference Board of Canada recently reported that consumer confidence has fallen to a historic low, including worsening conditions for employment prospects and personal finances. Indeed, our outlook for a modest recession this year foresees stagnant employment growth and a rising unemployment rate (graph 5). Potential homebuyers may postpone purchases until they know their jobs are secure, reducing demand for newly built homes. Moreover, this is somewhat of a feedback loop, as a slowdown in construction activity could lead to job losses in related industries, reinforcing a cycle of lower demand and reduced housing supply.

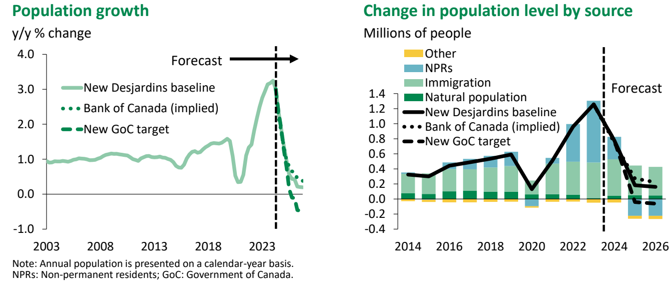
Graph 5
The Unemployment Rate Should Rise Considerably
Change in employment versus the unemployment rate



Statistics Canada and Desjardins Economic Studies

Recent changes in government immigration policies will likely compound this effect. Our recent report showed that the sharp decrease in non-permanent residents admitted into Canada should lead to significantly slower population growth or even an outright population decline (graph 6). Fewer people looking for housing, particularly in the rental market, creates additional headwinds for the homebuilding sector even as it provides affordability relief for renters.

Graph 6
Sharply Declining Population Will Add to Homebuilding Headwinds
Population growth | Change in population level by source



Note: Annual population is presented on a calendar-year basis.
NPRs: Non-permanent residents; GoC: Government of Canada.
Government of Canada, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Box 1: What to Watch: Key Indicators for Measuring the Impact of Tariffs on Homebuilding

As tariffs and retaliatory tariffs on construction materials roll out, the full economic impact will unfold over time. Key leading indicators may provide early signals of how the trade war could affect costs, supply chains and construction activity.

- Materials cost inflation
  - Industrial Product Price Index (IPPI) – tracks the prices of key construction materials, e.g., lumber, metals, concrete and glass (Statistics Canada)
  - Futures prices for raw materials used in homebuilding – may indicate higher costs, supply constraints or trade disruptions
- Supply chains
  - Import and export data – track shifts in trade volumes, could indicate whether builders are sourcing materials from alternative suppliers (Statistics Canada)
  - Freight and shipping costs – changing suppliers may result in higher costs
- Construction sector
  - Construction sector employment – tracks labour market changes (Statistics Canada)
  - Monthly Business Barometer – tracks optimism of SMEs in the construction sector (Canadian Federation of Independent Business)
  - Business Outlook Survey – tracks business conditions (Bank of Canada)
  - Homebuilder sentiment survey (Canadian Home Builders' Association)
- Home prices and affordability
  - New Housing Price Index – changes in the cost of newly built homes (Statistics Canada)
  - Home sales – declining resale home sales may indicate potential decline in demand for new homes (Canadian Real Estate Association)
- Home construction
  - Building permits – a forward-looking indicator before construction begins (Statistics Canada)
  - Housing starts – a measure of new housing under construction (Canada Mortgage and Housing Corporation (CMHC))
  - Housing completions – a widening timeline between permits, starts and completions could indicate stress on the homebuilding sector (CMHC)
- Public policy
  - Changes in public policy by all levels of government can have significant impacts on the pace and type of homebuilding

Regional Differences in Trade War Effects

The impact of tariffs will vary significantly across Canada depending on local industry structures and supply chain dynamics. Softwood lumber exports are concentrated in Quebec, BC and Alberta. If US demand falls, excess supply could temporarily lower lumber prices for Canadian homebuilders, but producers may curtail production if the situation persists.

Ontario and Quebec are major steel and aluminum manufacturing hubs and are the most exposed to fluctuations in international trade. A decline in US demand for steel and aluminum could lead to production cuts and potential job losses in these sectors. At the same time, higher costs for structural steel imports from the US could make high-rise construction more expensive. Ontario and Quebec together accounted for half of Canada's national housing starts in 2024. This suggests that trade war impacts in these two provinces could heavily influence national housing starts trends.

Atlantic Canada is especially vulnerable due to its reliance on US imports. Being more geographically isolated from much of the rest of Canada, builders in this region often source construction materials from nearby US suppliers rather than transporting them across Canada. For example, Atlantic Canada imported 52% of its fabricated metal products from international sources as compared to 42% for other provinces—a category that includes metal windows and doors, structural metals and architectural metals. Similarly, the region internationally sourced 40% of its non-metallic mineral products, including gypsum, glass and cement, as compared to 32% for the rest of the country. Tariffs on these imports could significantly increase costs.

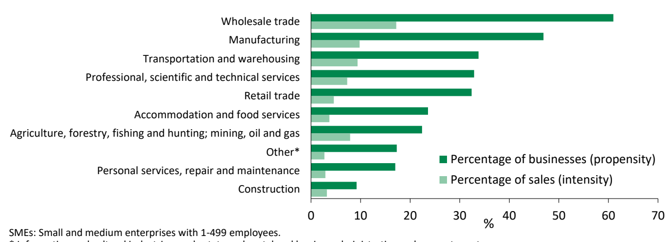
The Prairies and Far North—like the rest of Canada—may face transportation and logistical challenges as builders look for alternative suppliers. If sourcing shifts away from US imports to domestic or overseas producers, transportation costs could rise, particularly for remote construction projects.

Long-Term Industry Adaptations and Policy Responses

The homebuilding industry will likely need to adjust by diversifying supply chains and improving efficiency. Builders may seek greater reliance on domestic materials suppliers, but this transition will take time. Increased interest in prefabricated construction and modular housing could help reduce dependence on site-built materials, offering a more efficient use of resources.

Government policy could play a key role in shaping industry responses. The federal and provincial governments may introduce subsidies or incentives to offset tariff-related cost increases, particularly for materials that are essential to residential construction. However, they risk introducing further distortions or delaying efficiency improvements in supply chains. Government support for construction firms to adopt innovative techniques and materials may be a better long-term option. Trade negotiations will also be critical to ensure the long-term health of the construction industry. And examining interprovincial barriers to trade, shipping, labour and other regulatory factors could help reshore supply chains. A survey of small and medium enterprises showed they were the least likely to have sales outside of their province or territory (graph 7). Moreover, Farm Credit Canada found that industries with less interprovincial trade tended to have the lowest productivity growth. As we've previously reported, construction sector innovation could be an important factor in Canada's efforts to boost residential construction.

Graph 7
Construction Firms Are the Least Likely to Participate in Interprovincial Trade
Interprovincial sales by SMEs



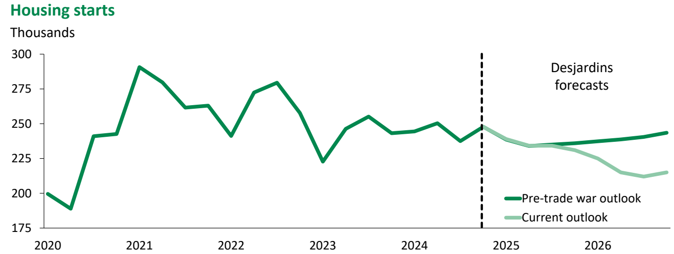
SMEs: Small and medium enterprises with 1-499 employees.
* Information and cultural industries; real estate and rental and leasing; administrative and support, waste management and remediation services; health care and social assistance; arts, entertainment and recreation.
Statistics Canada and Desjardins Economic Studies

Outlook for Housing Construction in Canada

The escalating trade war adds uncertainty to our national homebuilding outlook. Higher materials costs and supply chain disruptions may lead developers to delay or scale back projects. While the full impact will depend on how long tariffs remain in place and how effectively the sector adapts, we're anticipating downward pressure on housing starts (graph 8), albeit with a delay stemming from the resilience of homebuilding, particularly in the larger multi-unit sector.

Graph 8
The Trade War Is Dampening Our Homebuilding Outlook

Housing starts



Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Conclusion

Tariffs and retaliatory tariffs on construction materials are creating uncertainty for Canada's homebuilding sector. While US tariffs on Canadian exports may impact foreign demand and domestic prices for lumber and other materials in the short term, Canada's retaliatory tariffs are likely to increase costs for builders reliant on US imports. The indirect economic effects—such as lower consumer confidence and potential job losses—may have an even greater impact on housing demand than the direct price changes. No matter how you slice it, residential construction in Canada is likely to get hammered by the trade war this year.

Over the long term, builders should look to adapt by exploring alternative suppliers, adopting more efficient construction methods and addressing lacklustre innovation and productivity gains in the sector. Policymakers should make this sector a primary focus in trade negotiations and consider industry support measures to mitigate the effects of these disruptions. Adequate long-term housing supply and affordability may depend on it.