Insight

Tariffs Are Increasing Homebuilding Costs

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Executive Summary

- Shelter constitutes one-third of the Consumer Price Index and, just as overall inflation is still on the rise, so is shelter price inflation.
- This study looks at one of the factors contributing to rising shelter costs: tariffs on products essential to homebuilding, enacted to restrict imports from China.
- It finds that trade-weighted average tariff rates for homebuilding products from China were *more than nine times higher* in 2021 than in 2017 before these tariffs were enacted, and the rate for homebuilding products from all countries *increased more than four times* over the same period.

Introduction

Residential housing, like most other goods, has seen record inflation. While the August Consumer Price Index (CPI) release showed overall CPI up, 8.3 percent over 2021, the shelter component was up 6.2 percent from the year before.[1] Many factors have contributed to the rise in shelter costs, and tariffs have played a significant role in the higher prices of homebuilding materials.

President Biden has to-date chosen to retain Section 301 tariffs on over $300 billion worth of imports from China that were originally imposed by President Trump. This study finds that trade-weighted average tariff rates for homebuilding product imports from China were nine times higher in 2021 than in 2017 before these tariffs were implemented, and that Americans saw more than a fourfold increase in the cost to import these products globally overall. A variety of factors impact the price of housing but removing tariffs on homebuilding products is a common-sense strategy to lower costs for homebuilders and Americans.

Background

Between 2018 and 2019, the Trump Administration imposed tariffs – ranging from 7.5 percent to 25 percent – on imports from China following a 2017 investigation by the Office of the United States Trade Representative (USTR) to determine if the country was engaging in discriminatory practices that harm trade. Then-President Trump based this authority on Section 301 of the Trade Act of 1974, which allows the president to impose tariffs on imports if such harmful practices are found and retaliatory action is deemed appropriate by USTR. The tariffs were applied in four tranches, known as List 1, 2, 3 and 4a. The tariffs analyzed in this study, which are composed of goods used in homebuilding, are from List 3.[2] List 3 covered roughly $200 billion worth of goods and applied a tariff of 10 percent on September 24, 2018. List 3 tariffs were raised to 25 percent on June 15, 2019.[3]

Tariff Rates for Homebuilding Products

In 2018, the National Association of Home Builders released a study that identified 463 products from List 3 that are "ubiquitous in home construction and remodeling." The products covered in this list range from finished goods such as doors and cabinets, to inputs such as lumber, to building tools such as wrenches and screwdrivers. This study used this list of goods to collect trade volumes and tariff revenues for homebuilding products. It then calculated the trade-weighted average tariff rates paid by Americans on these List 3 homebuilding products for 2017 through 2021. The full datasheet can be found here. The trade-weighted average tariff rate is defined as the calculated duties collected on imports, divided by the total customs value of imports. Table 1 lists the annual U.S. trade-weighted average tariff rates for homebuilding imports analyzed from all countries, and for those from China. Put simply, these numbers show the average tariff paid by Americans to import the examined homebuilding products.

In 2017, before the List 3 China tariffs were imposed, the U.S. trade-weighted average tariff rate for the list of affected homebuilding products was 1.67 percent. The same rate for imports of these goods from China was 2.97 percent. When List 3 tariffs went into effect, the tariff rate started to increase and nearly doubled for imports from China in 2018. Some homebuilding products were granted exemptions to the tariffs between 2018 and 2020, resulting in the tariff rate increasing more slowly in the earlier years. The rate for homebuilding imports tripled from 2018 to 2019, however. In 2021, tariff rates for homebuilding products from China were *more than nine time higher* than in 2017.

Table 1: U.S. Trade-weighted Average Tariff Rate for Certain Homebuilding Products by Year**[4]**

Year	U.S. Trade-weighted Average Tariff Rate	U.S. Trade-weighted Average Tariff Rate on Imports from China
2017	1.67%	2.97%
2018	2.59%	5.42%
2019	6.25%	17.78%
2020	7.36%	23.59%
2021	7.70%	27.20%

The average tariff on imports from China continued to climb in 2020 and 2021 as tariff exemptions expired. For example, some vinyl flooring from China was granted an exemption in September 2018, but the exemption expired in August 2020. While the average tariff for vinyl flooring was 1.5 percent in 2017, it began increasing in 2018, spiked to 13.5 percent in 2020 and hit 22.4 percent in 2021.[5]

Average tariff rates for homebuilding products globally experienced *more than a fourfold increase* between 2017 and 2021, suggesting they were heavily affected by the China tariffs. This is especially true of the tariff rates from 2019 to 2021, when the List 3 tariffs were increased and as exemptions began to expire.

Conclusion

Tariffs are essentially a sales tax on imports, and U.S. tariffs on homebuilding products from China are increasing Americans' costs. There are a variety of factors that go into the total cost of building a home, many of which are unrelated to tariff policy. Yet the products analyzed in this study are essential to the homebuilding process and the costs to purchase those products from abroad have increased substantially due to the Section 301 tariffs on Chinese imports. Removing the Section 301 tariffs, specifically on homebuilding products, could only help to ease inflated shelter costs.

Note: This paper was updated to reflect an adjustment to the rate of increase for the U.S. trade-weighted average tariff rate between 2017 and 2021.

[1] Consumer Price Index Summary – 2022 M08 Results (bls.gov)

[2] https://ustr.gov/sites/default/files/enforcement/301Investigations/Tariff%20List-09.17.18.pdf

[3] https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart

[4] Author's calculations based on HS Codes from The Residential Construction Impact of Levying Tariffs on an Additional $200 Billion of Chinese Imports (nahb.org) of the National Association of Home Builders (NAHB) and data from https://dataweb.usitc.gov/. The Trade-Weighted Average Tariff Rates were calculated by dividing the collected customs duties by the values of imports. The values of imports are the customs values for the provided HS codes as reported by the International Trade Commissions (ITC) Dataweb tool. The ITC Dataweb tool only contains estimated calculated duties for the provided HS codes. The official collected custom duties are not readily available for the provided HS codes nor at the country level. That being said, the estimated calculated duties from the ITC Dataweb are a close measure of the official collected duties.

[5] Author calculations based on import volumes and calculated duties for HS code 39181010