SPRING 2025

Construction Market Recap

The construction market in Q1 2025 exhibited a complex mix of challenges and opportunities impacted by economic factors, policy changes and sector specific dynamics. Construction spending continues to increase with Data Centers being a particular bright spot. Material costs are again increasing after stabilizing in 2024. In addition, the cost of labor is also on the rise while immigration policies are impacting skilled labor availability. However, the rate of increase in labor wages is less than that seen in previous years. The potential impact of tariffs and interest rates continue to be driving forces behind the cost of materials and construction financing. Contractors will need to understand how these changes will impact their businesses and then develop appropriate strategies.

Through Q1 of 2025, there continues to be a mix of projections amongst the various construction sectors. The sectors with the most favorable and stable outlooks include:

Manufacturing

U.S. manufacturing construction investment is rapidly accelerating, with plans for 2025 approaching $250 billion—more than three times the 2020 figure[1]—driven by key legislation and major projects in semiconductors and fabricated metals. The sector faces challenges such as talent shortages, supply chain disruptions, and infrastructure concerns, but a rise in smart manufacturing is leveraging AI and robotics to enhance productivity and efficiency.

Commercial

The commercial sector is facing a contraction, primarily driven by a slowdown in warehouse construction and other factors that are affecting overall retail demand. Despite a sharp rise in retail bankruptcies resulting in thousands of store closures, some regions are experiencing recovery in physical retail, supported by increased consumer spending and opportunities for mixed-use development. [1]

Multifamily Residential

High expenses and slow rent growth will likely limit multifamily construction in 2025 after a 27% drop in starts in 2024[1]. A recovery is expected by late 2026. Strong rental demand persists due to affordability issues, while modular construction may gain traction. Mountain and South Atlantic regions are likely to outperform the national average.

Sewage and Waste Disposal

In 2024, water infrastructure spending rose due to treatment plant expansions and storm management needs amid severe weather. The Environmental Protection Agency's 2022 survey revealed a $630 billion funding gap for these types of projects, with states like New York and California facing the largest shortfalls as they both reported clean water infrastructure needs exceeding $50 Billion. [1] Federal programs, including a $1 billion allocation from the Infrastructure Investment and Jobs Act (IIJA), aim to address these challenges.

Highway & Street

In 2024, spending growth led by bridge investments stabilized following several years of rapid increases. This marks a leveling-off of the significant project activity initiated by the IIJA beginning in 2022. With industry priorities shifting to accommodate climate considerations, designs are increasingly emphasizing low-impact materials and resilience. [1]

Other Construction Segments

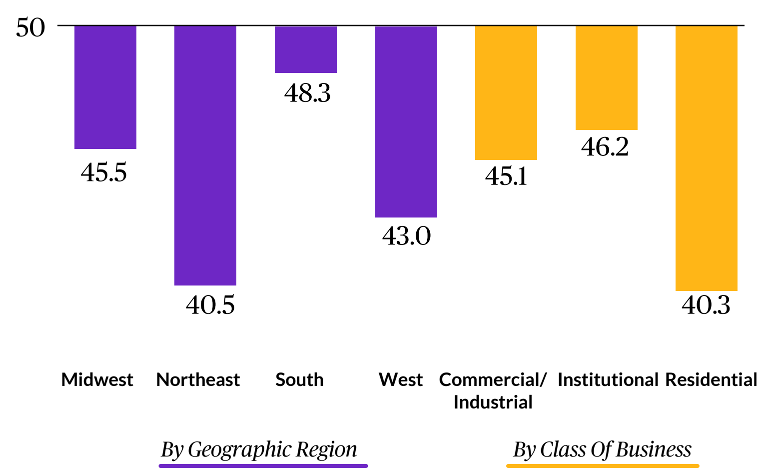
- Educational
- Health Care
- Power

Key Construction Markets

Markets expecting the most construction activity over the next 5 years:

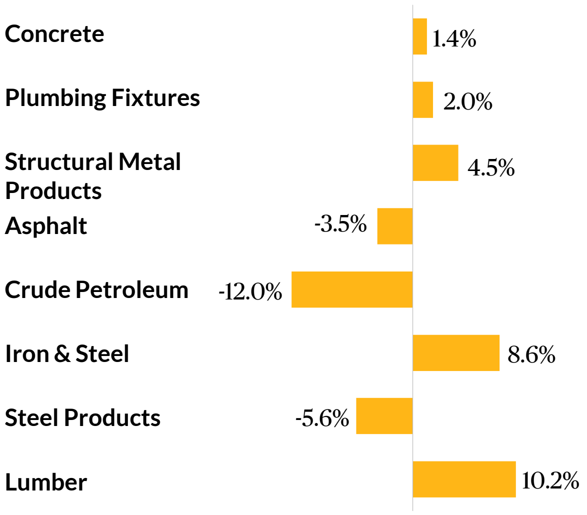
Architectural Billings Index

The AIA/Deltek Architecture Billings Index dropped to 44.1 in March, marking a continued decline in billings for architecture firms, with 27 of the last 30 months showing decreases. Future work indicators are weak, as inquiries and new design contracts have also declined. Clients appear hesitant to start new projects due to economic uncertainty, although firms maintain a healthy average backlog of 6.5 months. All regions reported declining billings, with the Northeast experiencing the largest drop. Business conditions are weak across all specializations, particularly in multifamily residential projects. [2]



Material Prices

Material prices continued to fluctuate through March of 2025.[3] Some notable price changes to key construction materials year-over-year included:



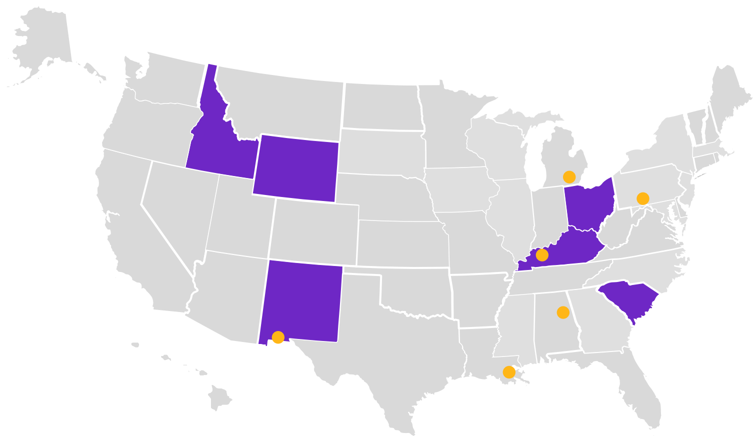
Administration Changes & Construction

Administration policies continue to affect the construction economy. Tariffs on imports of steel, aluminum and lumber have raised material costs which is affecting project financing and putting stress on contractor margins. Simultaneously, stricter immigration enforcement is impacting labor shortages which is putting pressure on wages and project schedules.

Deregulation may also speed up permitting processes, while tax cuts may provide financial relief to contractors and developers. Competition for federal projects could increase with the rollback of Project Labor Agreements (PLAs). Contractors will need to track the potential impact of the Department of Government Efficiency (DOGE) recommendations and cuts to the federal workforce to determine the extent to which potential spending and staffing actions may impact various projects and the broader sector. DOGE is looking at cost efficiency and many contracts are under increased scrutiny which could lead to potential contract modifications, plus federal workforce/staffing shortages may also lead to a slowdown in processing funding applications, leading to project delays, or impact procurement procedures. In summary, the construction industry will need to navigate both positive and negative impacts from the current administration and economic environment.

Employment Figures

- As of March 2025, **83.3%** of able-bodied persons aged 25-54 are currently in the workforce, an inconsequential decrease from 83.4% in March of 2024.[4]
- At the end of March 2025, the number of job openings in the U.S. slightly decreased to **7.2 million**. The construction industry accounted for **248,000** or **2.9%** of these open jobs.[5]
- Nonfarm Payroll Employment increased by **228,000** in March 2025. Construction employment trended up in March, adding **13,000** jobs.[6]



Roughly **62%** of states (Including D.C.) have seen an increase in construction employment levels since March 2024.[7]

The largest percentage gains were in:

1	New Mexico	12.0%
2	Idaho	10.4%
3	Kentucky	8.0%
4	Ohio South Carolina	6.7%
5	Wyoming	6.0%

Similarly, **53%** of metropolitan areas have seen some level of increase since March 2024.[7]

The largest percentage gains were in:

1	Anniston-Oxford, AL Las Cruces, NM	17%
2	New Orleans-Metairie, LA	16%
3	Bowling Green, KY	15%
4	Jackson, MI	13%
5	Chambersburg, PA	12%

Sources

1 FMI North American E&C Outlook
2 AIA Architectural Billings Index
3 BLS: Producer Price Indexes
4 BLS: Labor Force Statistics
5 BLS: Job Openings and Labor Turnover
6 BLS: The Employment Situation
7 AGC Construction Data – Employment

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