

CONSTRUCTION ECONOMICS UPDATE

Information as of 03/05/2026



RESILIENCE WITH SELECTIVE HEADWINDS

Entering 2026, the construction market continues to demonstrate resilience amid a more balanced but cautious economic environment. Construction costs are no longer experiencing broad volatility. Pricing reflects embedded trade impacts and targeted pressure from key material sources, reinforcing the importance of early planning and procurement opportunities. While elevated interest rates remain and are extending decision timelines for some projects, the construction market sentiment remains cautiously constructive. Near-term risks are balanced by strong long-term drivers, including domestic manufacturing investment, infrastructure modernization and technology-driven demand.

QUARTERLY KEY TAKEAWAYS



INTEREST RATES

Near-term rate cuts are less certain than previously anticipated. Project development activity is increasingly dependent on project fundamentals, tenant commitments and capital structure rather than anticipated monetary easing.



LABOR MARKET

While AI, prefabrication and productivity tools continue to improve workforce efficiency, skilled construction labor remains structurally constrained.



TARIFFS & TRADE

Most tariff impacts are now embedded in baseline pricing. Rather than repeated spikes, current conditions point toward price stickiness, with volatility driven by metals, energy inputs and logistics.



IRANIAN WAR CONFLICT

Operation Epic Fury is expected to increase near-term cost and schedule risk through higher energy prices, disruptions to global shipping and volatility in freight-sensitive commodities.



CONSTRUCTION COST DIRECTION

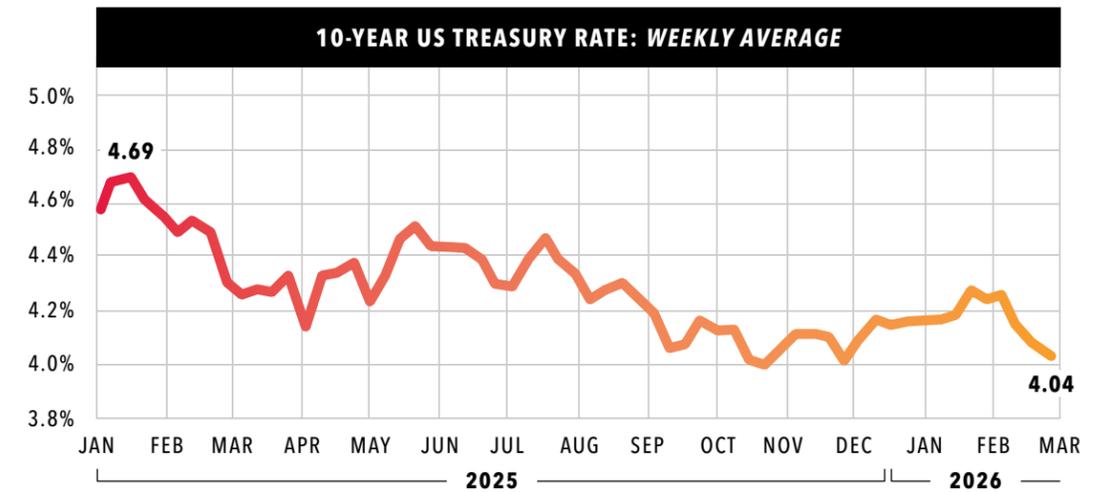
Cost escalation has moderated from peak volatility but remains slightly elevated relative to historical averages.

The construction market entering 2026 is defined less by broad economic cycles and more by selective opportunity, disciplined capital deployment and execution risk. While global conflict and domestic uncertainties persist, the U.S. economy continues to show resilience, supported by consumer spending, steady manufacturing output and sustained investment in critical infrastructure.

Operation Epic Fury, a military campaign launched on February 28th against Iran, will affect the U.S. construction industry. Near-term impacts are being witnessed through the energy markets, including a rise in oil prices. Additionally, disruption of maritime traffic through the Strait of Hormuz, which handles roughly 20% of global oil shipments and other materials, will increase global shipping and freight rates. We anticipate increased volatility, procurement challenges and shipping delays with materials tied to the global supply chain. Although Iran is not a direct supplier of U.S. construction materials, commodities are historically sensitive to global freight changes including steel, aluminum and copper.

On February 20, the U.S. Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were not authorized. In response, the administration immediately implemented a new set of temporary global tariffs under Section 122 of the Trade Act of 1974, establishing a 10-15% tariff on most imports. These tariffs are temporary and are scheduled to expire on July 24, 2026, unless extended by an act of Congress. As of March 5, efforts to seek refunds for duties already paid are underway. Importantly, Section 232 tariffs on steel and aluminum and Section 301 tariffs, primarily affecting goods from China, remain in effect under separate authorities. Overall, these changes are not expected to materially alter current pricing structures.

Interest rates remain elevated relative to recent history, and expectations for near-term monetary easing have moderated. However, project momentum remains solid where fundamentals are strong. Development activity is increasingly driven by secured financing, clear end-user demand and strategic importance rather than anticipated rate relief, allowing well-capitalized projects to continue advancing. A decline in the 10-year Treasury below 4% would likely unlock a broader wave of project starts, while movement toward the mid-3% range would meaningfully accelerate investment, confidence and overall economic growth.

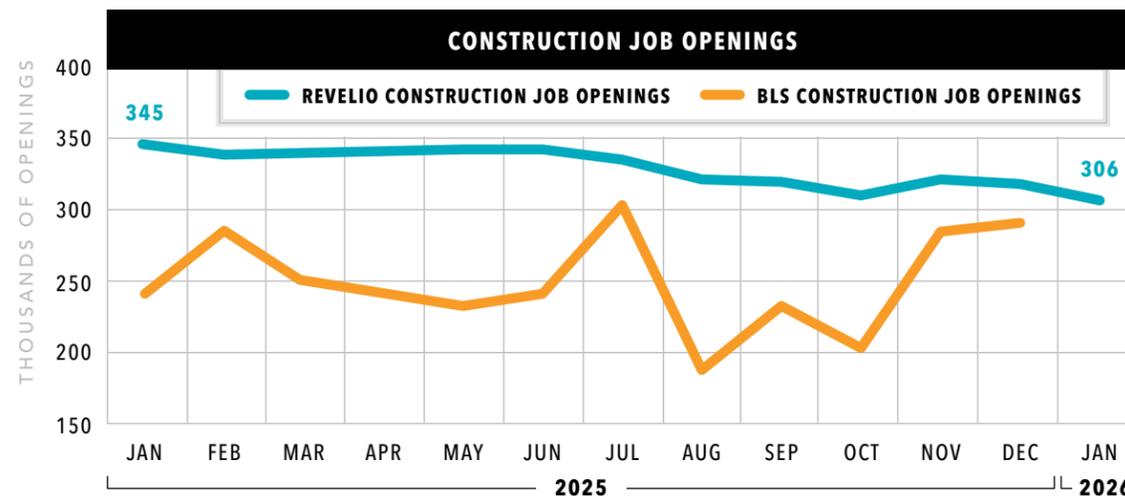


SOURCE: US BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Nonresidential construction activity remains concentrated rather than broad-based. Data centers, power generation and transmission, manufacturing tied to reshoring and defense, cold storage and logistics facilities continue to outperform other sectors. These segments are driving construction demand even as speculative office and select commercial markets remain cautious. Power availability and infrastructure capacity have emerged as critical considerations influencing site selection, scheduling and feasibility for large, energy intensive projects.

Labor remains one of the most significant structural challenges facing the construction industry. Despite gains in prefabrication, automation and AI-enabled efficiencies, skilled labor availability continues to constrain capacity and influence both schedules and pricing. Workforce development and productivity initiatives are helping mitigate risk, but labor conditions will remain a defining factor throughout 2026.

Delays in the release of economic data from government sources during and after the late 2025 government shutdown created short-term uncertainty across many commonly referenced indicators. In response, economists and construction industry leaders have supplemented public data with select private-sector sources to provide a more consistent view of market conditions. One example is Revelio Labs, which tracks employment trends that can be reviewed alongside U.S. Bureau of Labor Statistics (BLS) data to help validate direction and identify emerging patterns within the labor market.



Overall, market sentiment is cautiously constructive. While downside risks of policy shifts, infrastructure constraints and geopolitical pressures remain, the construction industry is supported by long-term drivers such as domestic manufacturing investment, infrastructure modernization and technology-driven demand.



## COST FORECAST

As the construction industry moves further into 2026, the cost impacts of tariffs and trade policy are now largely embedded into baseline pricing across most major material categories. While tariffs remain in place and continue to influence global trade flows, the market has largely adjusted, shifting the cost conversation away from sudden price shocks and toward ongoing cost management and procurement discipline.

Rather than repeated or unpredictable spikes, current conditions reflect price stickiness with periodic volatility, driven primarily by metals markets, energy inputs, logistics costs and labor availability. Suppliers and manufacturers have incorporated tariff exposure into standard pricing models, and future cost movement is expected to be incremental rather than abrupt, barring significant policy or geopolitical disruption.

Overall construction cost movement in 2026 is expected to remain slightly elevated relative to historical norms but significantly more predictable than in recent years. This environment favors early project engagement.

As a reminder, these figures are short-term inflation adjustments applied to the period between current construction cost dollars and commencement of construction work. Please contact a member of McCownGordon's Preconstruction team for a tailored escalation evaluation of your proposed project.

From a planning perspective, current construction budget values are being protected through a combination of the following:

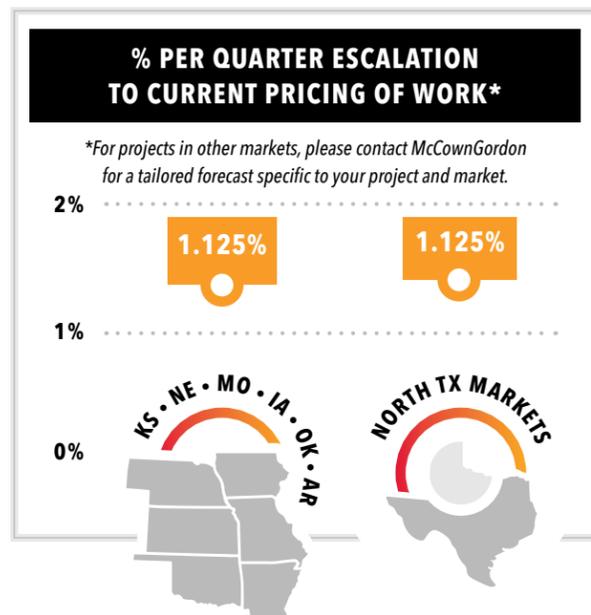
### EARLY PROCUREMENT OF LONG LEAD AND HIGH-RISK MATERIALS

### CLEAR ESCALATION LANGUAGE ALIGNED WITH REALISTIC MARKET CONDITIONS

### STRATEGIC EVALUATION OF DOMESTIC AND ALTERNATIVE SOURCING OPTIONS

### CLOSE COORDINATION WITH TRADE PARTNERS TO MANAGE SCHEDULE AND LABOR EXPOSURE

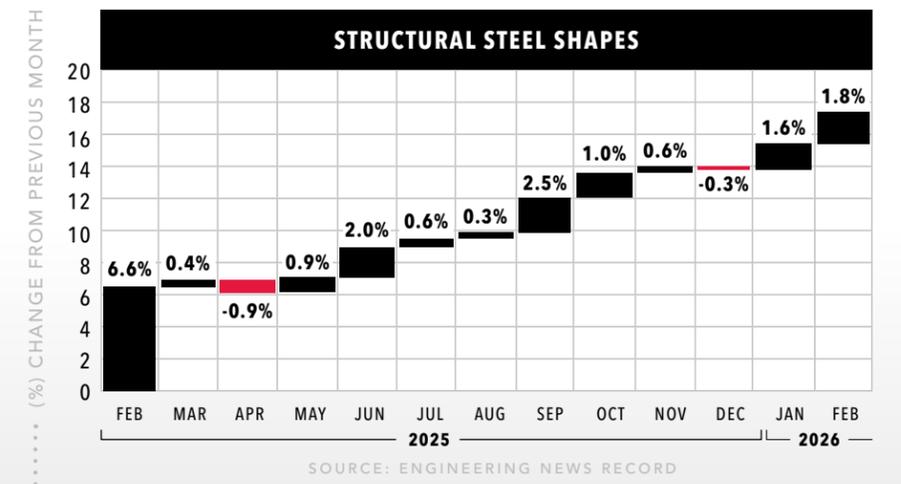
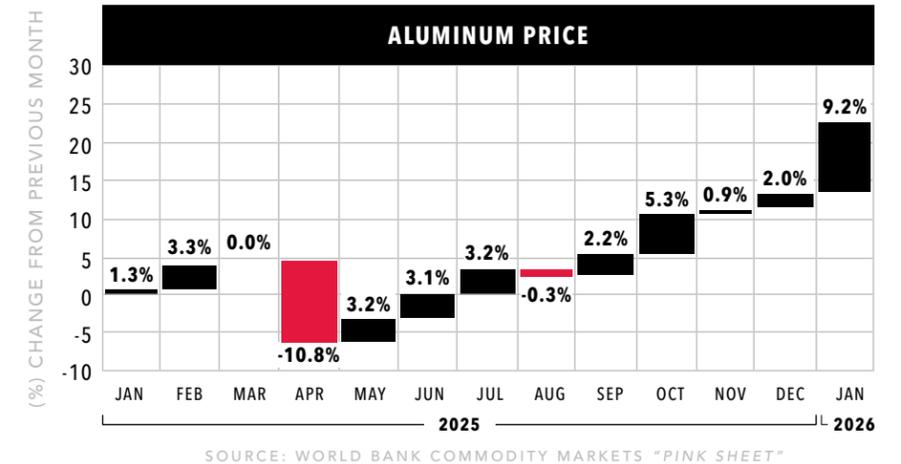
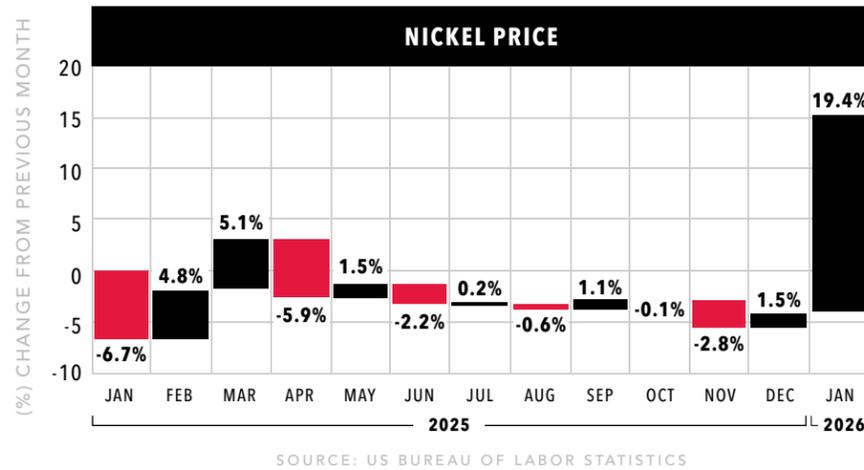
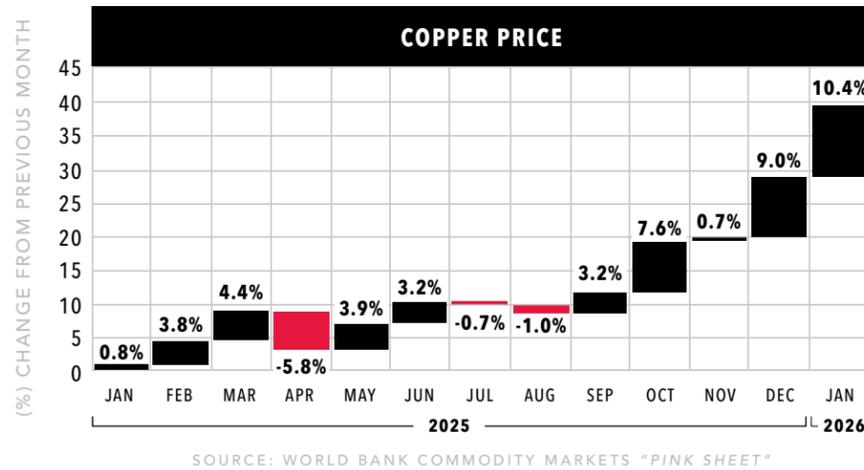
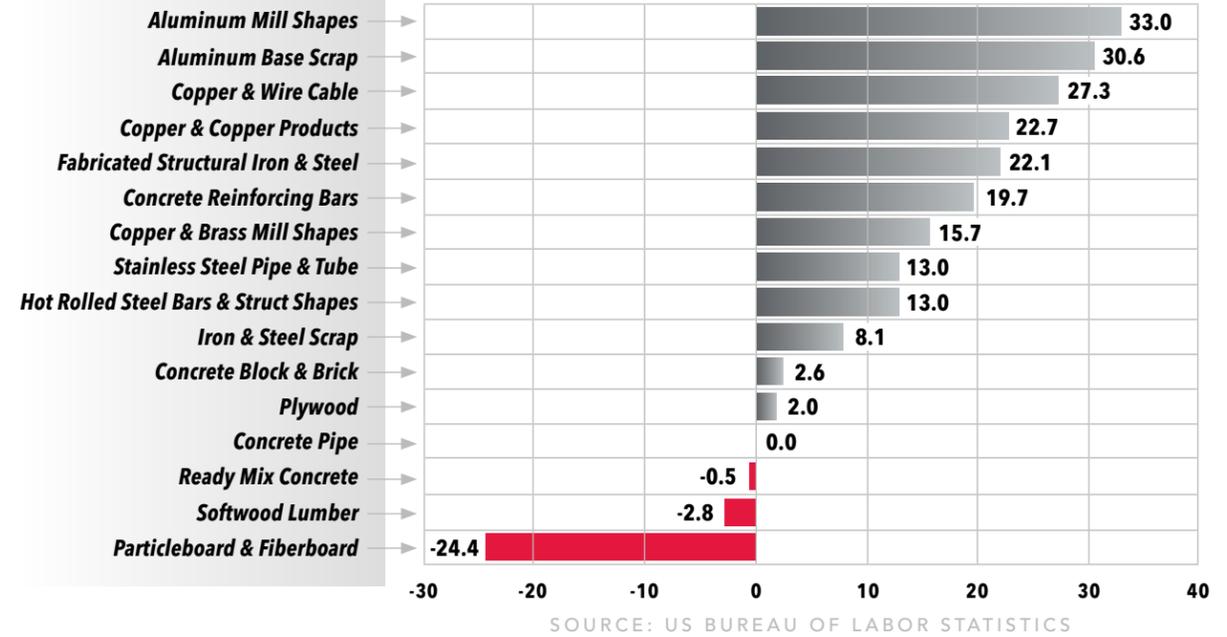
McCownGordon continues to monitor material pricing, trade policy developments and supply chain conditions closely. Our preconstruction and procurement strategies are designed to anticipate known risks, minimize exposure to cost volatility and provide owners with clear, actionable insights to support informed decision making throughout the project life cycle.



## MATERIAL PRICE TRENDS

Construction material pricing in 2026 reflects a margin management environment, with suppliers prioritizing stable, disciplined pricing to protect profitability amid steady costs and demand. For pricing of primary construction materials during preconstruction, the most useful signal is often the 12-month year-over-year (YoY) change, which smooths month-to-month volatility and better reflects sustained pricing direction. There has been a wide range of key material pricing changes in the past year including:

Over the last 12 months, copper and aluminum have shown sustained upward pressure relative to the same period a year earlier, while nickel tracked flat until January's spike. These patterns matter most for projects with higher exposure to electrical infrastructure for copper, façade/extrusions and equipment components with aluminum and stainless/alloy-heavy systems relative to nickel. These figures will continue to be monitored in the coming months as they translate to increasing cost of materials.



Additionally, milled structural steel shapes prices remain on a continued upward trend, as tracked by Engineering News Record. Milled steel is a primary contributor to the fabricated structural iron and steel increase shown in the Key Materials Indicator bar graph. These trends mirror recently received feedback from DBM Global, a U.S.-based steel fabricator and installation provider, which note \$40 to \$60 per ton increases in both months of January and February.

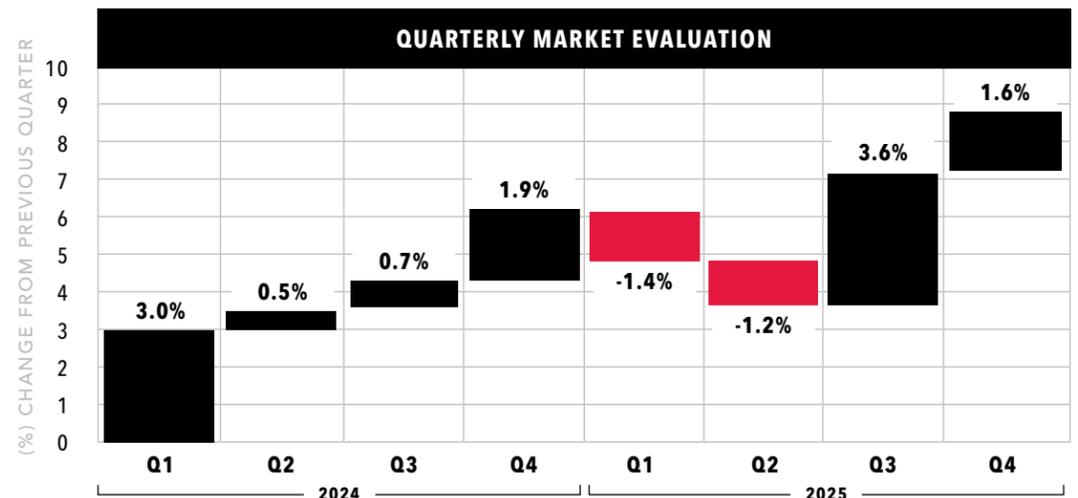
With the exemption of utility main transformers and sectionalizers which remain around the 60-week lead time, many primary mechanical and electrical components have either remained stable, or decreasing slightly since the past quarter.

- ↑ **40 WEEKS** **BUS DUCTS**
- ↓ **40 WEEKS** **SWITCHBOARDS**  
>1,200 AMPS
- ↓ **29 WEEKS** **GENERATOR**  
0-500KW
- ↓ **48 WEEKS** **GENERATOR**  
1MW-1.8MW
- ↑ **90 WEEKS** **GENERATOR**  
2MW+
- ↓ **24 WEEKS** **UNINTERRUPTED POWER SUPPLY (UPS)**
- ↓ **16 WEEKS** **INDOOR AIR HANDLING UNIT**  
>10,000 CFM
- ↓ **25 WEEKS** **OUTDOOR AIR HANDLING UNIT**  
>20,000 CFM
- ↑ **14 WEEKS** **ROOFTOP UNIT**  
3-6 TONS
- ↓ **17 WEEKS** **DEDICATED OUTDOOR AIR SYSTEM (DOAS)**
- ↑ **12 WEEKS** **WATER HEATERS**

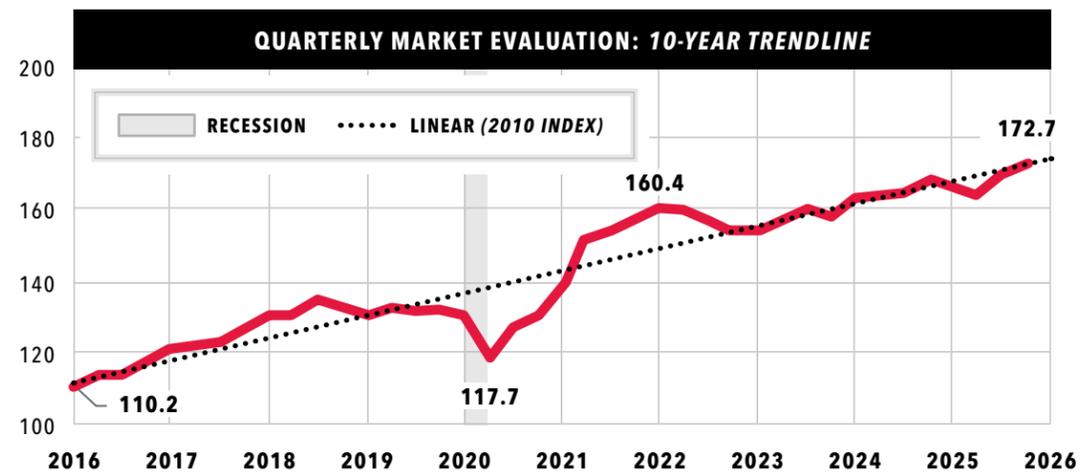
McCownGordon's six-to-nine-month look ahead of the overall health of the construction market is on target with the ten-year trend while remaining fundamentally stable and consistent with a selective growth environment. This outlook is informed by a composite of seventeen economic indicators, construction cost data, sector specific metrics, and market sentiment that when combined experienced a 1.6% quarter over quarter increase.

Key quarterly observations of the indicator in relation to our economic forecast and evolving market trends:

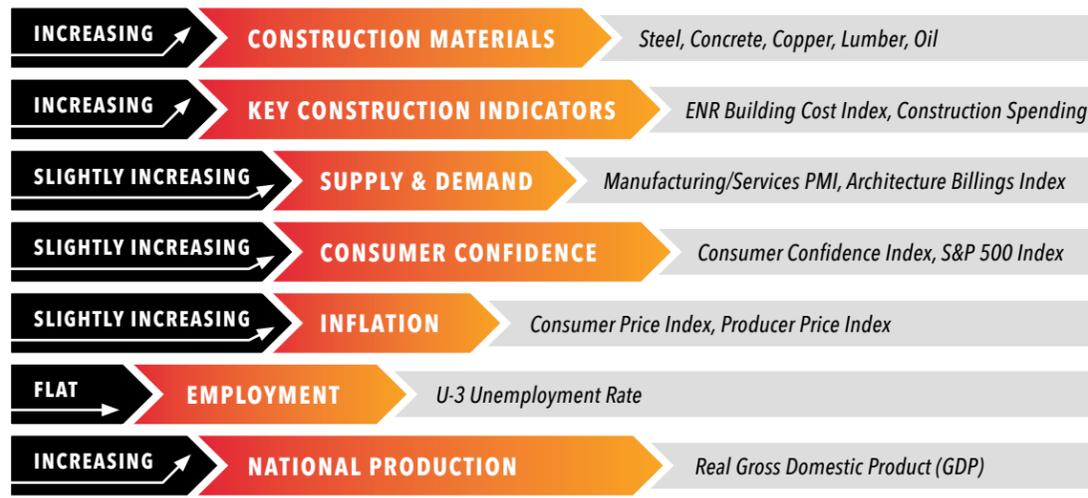
- 1 CONSTRUCTION MATERIALS:** Pricing momentum has stabilized following prior volatility, but costs on average remain on the rise. Embedded tariffs, metals pricing, energy inputs and transportation continue to apply upward pressure. While oil and lumber pricing have regressed, steel and copper pricing indexes are now increasing more rapidly.
- 2 DESIGN & PLANNING INDICATORS:** Architectural and planning metrics reflect cautious but improved activity. This is consistent with extended decision timelines and selective project advancement.
- 3 NONRESIDENTIAL CONSTRUCTION SPENDING:** Overall spending has moderated but remains well above long-term averages. Current traction is supported by strong activity in manufacturing, data centers, power and logistics.
- 4 ECONOMIC OUTPUT:** GDP and industrial production remain supportive of construction demand, particularly in sectors tied to domestic investment and infrastructure modernization. The lackluster 1.4% Q4 GDP figure was attributable primarily to the government shutdown.
- 5 EMPLOYMENT:** Labor workforce availability continues to limit construction capacity. This reinforces the need for early trade engagement and award prior to completion of final design for critical scopes of work.



SOURCE: McCOWNGORDON CONSTRUCTION



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In the communities and markets McCownGordon serves, this update helps inform strategies that deliver the best value and schedule for your project. By combining current economic insight with our strong relationships across manufacturers, suppliers, design firms and trade partners, we strive to provide greater clarity, confidence and predictability in the planning and advancement of construction projects.

This information was compiled from several public and private sources including the U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Bureau of Economic Analysis, World Bank Group, Revelio Labs, The Conference Board, The Federal Reserve System, Engineering News Record, DBM Global Inc., American Institute of Architects and Armada Corporate Intelligence, our consultant that provides McCownGordon monthly tailored briefings of business-related economic information beyond our range of expertise. For any questions regarding this publication, please contact Chad Brungardt.

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