McCOWNGORDON

Construction Economics Update

Q2 2026 CONSTRUCTION ECONOMIC INSIGHTS

Selective Strength with Rising Execution Risk

The construction sector remains active, but conditions have become more fragile. Demand is still strongest in power, data center-related work, public infrastructure and select corporate investment, yet rising geopolitical, logistics and financing pressures are increasing execution risk. The key shift this quarter is not a broad decline in demand, but a more complex cost and delivery environment shaped by supply chain strain, elevated interest rates and continued uncertainty around tariffs and energy. Owners, design partners and contractors should focus less on recession risk and more on timing, procurement discipline and protecting projects from ongoing disruption.

The construction market in Q2 2026 is defined by durable activity levels paired with higher execution complexity. Overall U.S. economic activity has remained stronger than many expected, with Q2 GDP tracking at 3%, a meaningful contribution to growth. Price pressures persist across the economy, and consumer prices remain elevated. Both consumer goods and construction materials have increased as a result of rising energy prices.

The construction sector remains supported by infrastructure work, power-related investment, logistics and a continuing pipeline of technology and data center-adjacent activity. Concurrently, the market is operating with less cushion than it may appear on the surface. Elevated interest rates, freight disruption, geopolitical uncertainty and selective input shortages are all making project timing and procurement more sensitive. Project starts, as reported by Dodge Construction Network, are in their third consecutive month of gains.

According to Armada Corporate Intelligence, the disruption tied to the Middle East conflict and the Strait of Hormuz, along with the resulting pressure on energy and global logistics, is not a short-duration event. The market should plan for a longer shock rather than a quick normalization. Global oil inventories are being supported in part by reserve releases, but energy pricing remains vulnerable and freight-sensitive construction inputs may experience additional volatility. Even as maritime conditions improve, vessel repositioning and downstream supply normalization are expected to lag for several weeks or months. This disruption has affected material categories relevant to construction with rising pressure in petrochemicals and packaging, shortages in polypropylene and PVC across parts of Asia and average price increases of 5% to 15% across copper, brass, fittings, valves, plumbing and HVAC-related supplies.

On the demand side, the outlook remains positive, though selective. Nonresidential construction spending continues to show steady strength, with infrastructure among the strongest segments and office activity receiving growing support from data center-related investment. The outlier is manufacturing construction, which has eased from earlier peaks, largely because many major projects are shifting from construction into production rather than because the long-term opportunity has faded. Project opportunities remain, but they are concentrated in sectors with strong capital support, strategic importance and reliable access to power.

Quarterly Key Takeaways

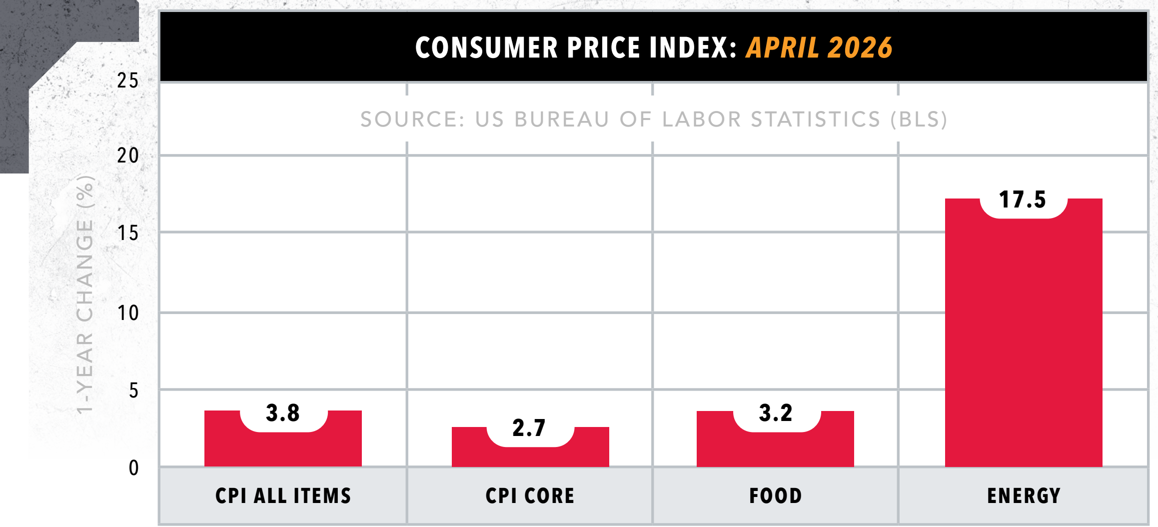
TARIFFS & TRADE Tariff policy is adding uncertainty, but not necessarily a new immediate shock. IEEPA tariffs were replaced with temporary Section 122 tariffs at 10% through July 24, creating a short-term holiday from prior 15% to 18% levels. Even so, many suppliers have not lowered prices and appear to be keeping the difference as margin, while new Section 301 actions are still expected. In practice, much of the tariff cost is already embedded, but pricing transparency remains limited and targeted volatility is likely.

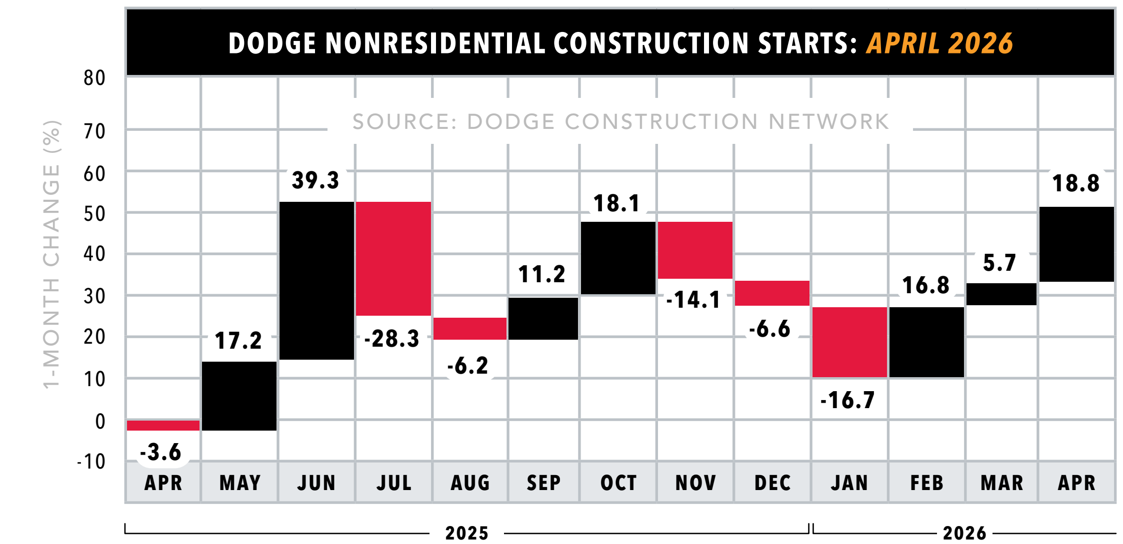
GLOBAL SUPPLY CHAIN RISK The Strait of Hormuz remains a major watch item for the foreseeable future, with prolonged risk, elevated freight pressure and a growing chance of downstream stockouts in petrochemicals, packaging inputs and select industrial materials. Even as conditions improve, the repositioning of vessels and restoration of normal flows could take 60 to 90 days.

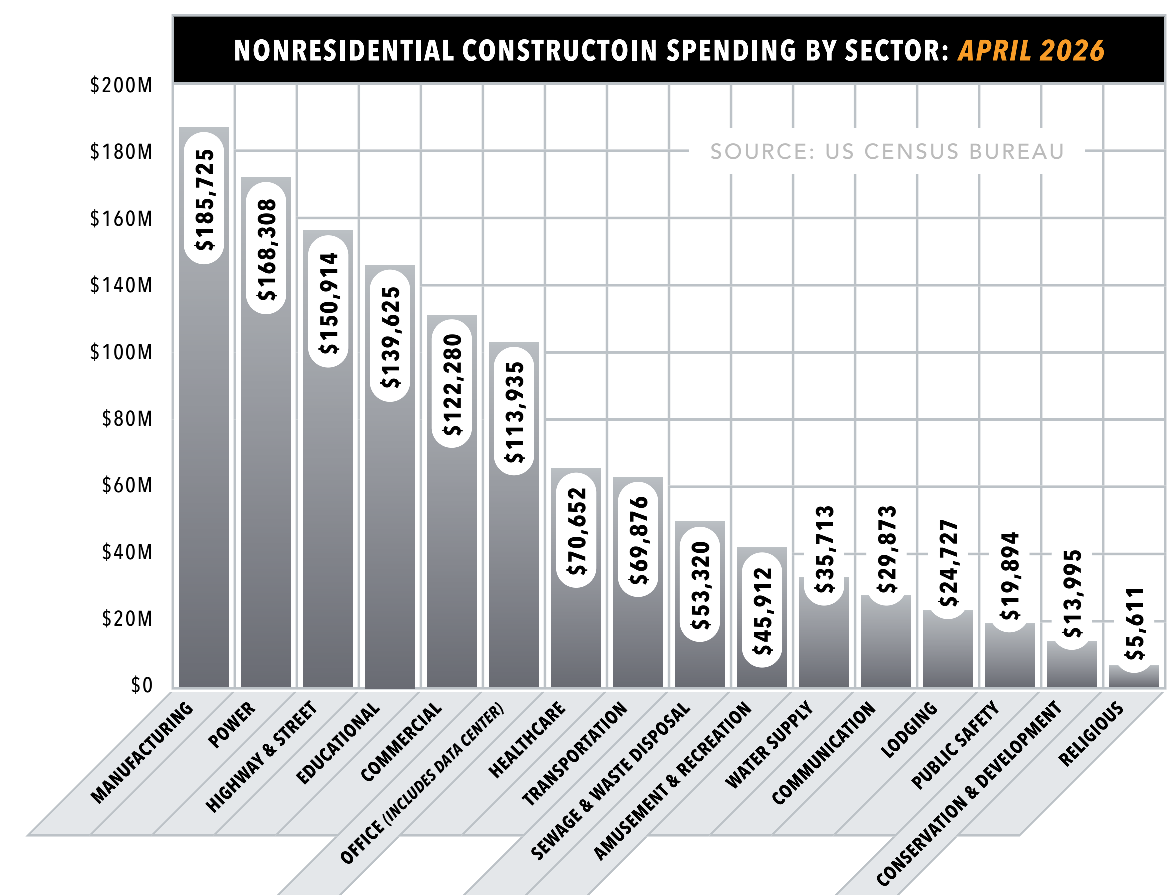
FINANCING Interest rates remain a constraint on project timing. Treasury yields have stayed elevated, with geopolitical uncertainty, inflation pressure and federal deficits all working against meaningful near-term rate relief. Projects with strong fundamentals are still moving, but many others remain paused until financing conditions improve.

CONSTRUCTION PRICING Overall cost escalation is now elevating compared to the last several years, and underlying risk has grown. The current environment points to selective increases in energy-sensitive, freight-sensitive and metals-related scopes, especially where global supply chains remain exposed. Cost forecasting should require closer attention to materials tied to petrochemicals, copper, nickel, HVAC and electrical components.

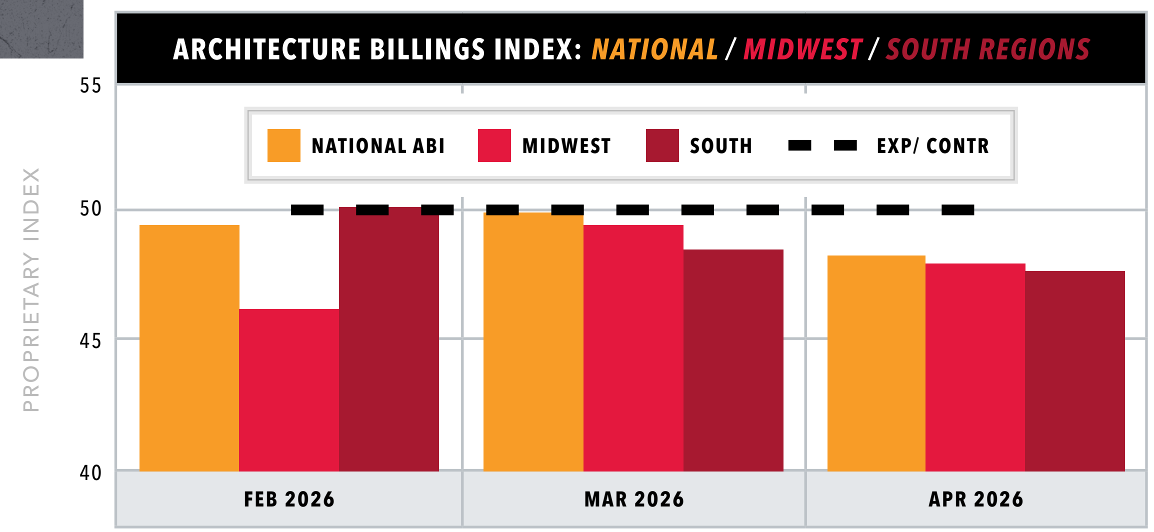
LABOR CONDITIONS Labor remains tight, but the current story is less about broad hiring acceleration and more about capacity and productivity. Skilled labor availability continues to limit how quickly projects can ramp up, reinforcing the value of early trade engagement, realistic scheduling and strategic packaging of work.





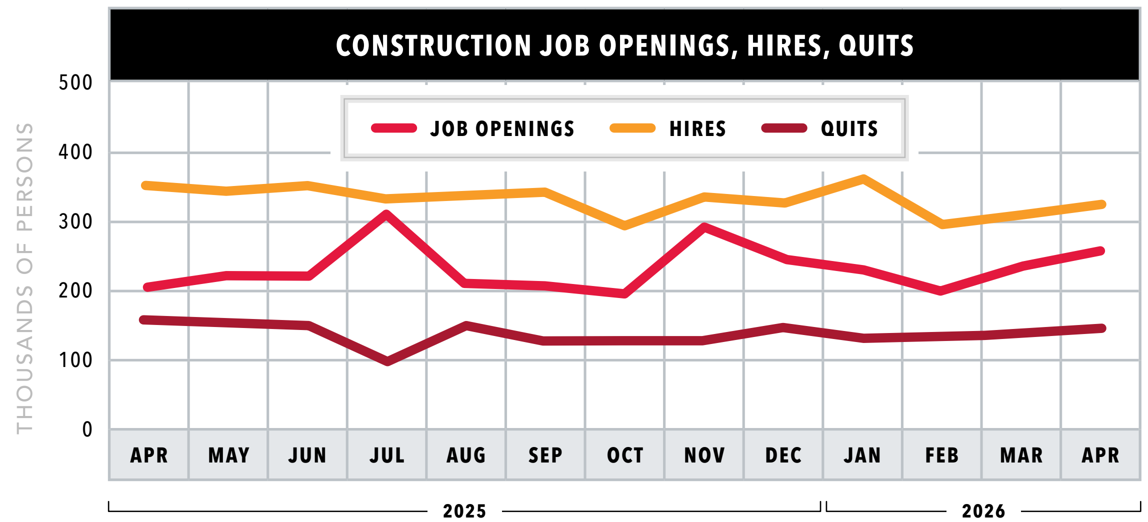


Architectural Billings Index



SOURCE: AMERICAN INSTITUTE OF ARCHITECTS (AIA)

The Architectural Billings Index (ABI) showed that design activity improved meaningfully in February and March 2026 before softening slightly in April, signaling that the planning pipeline is stabilizing but has not yet fully returned to growth. The national ABI measured 49.4 in February, 49.8 in March and 48.3 in April, while project inquiries increased throughout the period and design contracts moved closer to stabilization by April. These trends suggest that future project activity is improving, but market conditions still support a selective and disciplined approach to budgeting, timing and risk planning.



SOURCE: US BUREAU OF LABOR STATISTICS (BLS)

Construction labor remains one of the industry's most persistent constraints. Skilled labor availability continues to limit capacity and remains a defining factor for schedules and pricing this year, even as workforce development, prefabrication, automation and AI-driven productivity efforts help offset some pressure. Nationally, construction employment has held near 8.32 million workers as of April 2026, with the industry adding jobs in both March and April, but labor supply still trails demand. At the same time, construction job openings totaled 259,000 in April 2026, confirming that hiring pressure remains elevated rather than resolved. A recent Associated General Contractor (AGC) survey shows the strain is widespread, with 82% of firms reporting difficulty filling hourly craft positions and 80% struggling to hire salaried staff, while industry forecasts indicate construction will need to attract 349,000 net new workers in 2026 to keep labor supply and demand in balance. As a result, labor availability is likely to remain a key driver of wage pressure, productivity risk and schedule uncertainty in the months ahead, especially in high-growth segments such as data centers, power and advanced manufacturing.

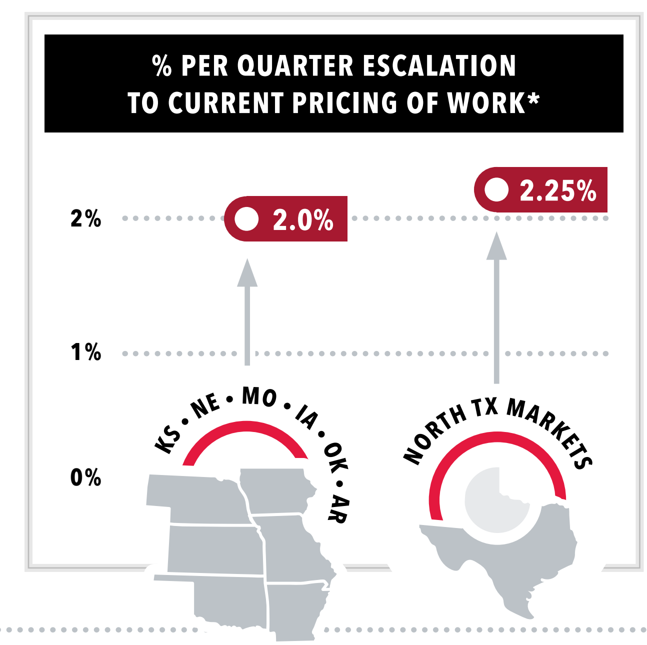
Cost Forecast

As the industry moves through Q2 2026, construction cost conditions are less stable than they were during the peak volatility of the prior cycle and contain more risk. Armada Corporate Intelligence suggests that the current pricing environment is best understood as selectively inflationary rather than broadly accelerating. Many categories are behaving normally, while specific scopes tied to global freight, energy, petrochemicals and metals are experiencing renewed pressure. That means the cost conversation has shifted away from universal escalation and toward risk identification by scope, source and timing.

Tariffs are part of that picture, but not the whole story. Because temporary Section 122 tariffs are currently below prior effective levels, some suppliers may have room in their pricing that is not immediately visible to buyers. Armada's view is that many firms are using the current tariff gap to preserve margin rather than reduce pricing, and that future Section 301 action may formalize what has already been absorbed into the market. As a result, a lower tariff headline will likely not translate into lower project cost.

Near-term cost risks are most pronounced in categories tied to roofing materials, copper, nickel, PVC, brass, valves, fittings, plumbing, HVAC and electrical systems, along with transportation-sensitive materials more broadly. If the current disruption in global shipping lanes persists, price movement may show up first in supplier quotes, lead-time extensions and reduced flexibility rather than in immediately visible index swings. In our North Texas market, we are already expecting 5-7% price increases across roofing membranes, shingles, insulation, and adhesives in the month of July. Additionally, there is growing concern about a potential polyiso insulation shortage, which could further impact pricing and availability. These conditions favor proactive procurement, scope prioritization and early buyout of long-lead or high-exposure items.

Construction cost growth in 2026 is expected to remain above long-term norms, reflecting the continued volatility experienced in recent years. This backdrop continues to support proactive project planning, disciplined escalation discussions and earlier procurement decision-making. Bid activity also remains healthy, with trade interest still trending above historical averages. The escalation figures below represent near-term adjustments from current construction costs to anticipated start-of-construction pricing. In light of steady demand, increased pricing since early 2026, labor constraints and ongoing procurement risk, our escalation projection has been revised upward from the prior quarter:



*For projects in other markets, please contact McCownGordon for a tailored forecast specific to your project and market.

Please contact a member of McCownGordon's preconstruction team for a tailored escalation evaluation of your proposed project. From a planning standpoint, the current environment continues to support disciplined escalation assumptions, but with greater attention to contingency management. Budgets should reflect the possibility of:

- SELECTIVE MATERIAL MOVEMENT
- FREIGHT SURCHARGES
- FINANCING-RELATED SCHEDULE EXTENSIONS
- DELAYED REPLENISHMENT OF INVENTORIES

The healthiest projects are expected to be those that combine realistic escalation language, early trade coordination and flexible procurement sequencing.

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.

Tariff Reset

Tariff policy remains one of the clearest near-term policy risks for construction pricing because the current import surcharge is temporary by design. After the U.S. Supreme Court ruled on February 20, 2026 that tariffs imposed under the International Emergency Economic Powers Act were not authorized, the administration shifted to Section 122 of the Trade Act of 1974 as an interim mechanism. That action created a broad surcharge, generally described as 10% and in some cases discussed up to the 15% statutory ceiling, that is scheduled to expire on July 24, 2026, unless Congress acts or another trade tool is put in place. Section 232 tariffs on steel and aluminum and Section 301 tariffs, particularly those affecting China, remain separate and continue regardless of what happens to the Section 122's.

The late-July deadline creates a tariff reset point rather than a clean resolution. If Congress does not extend Section 122's, the broad surcharge would lapse. The administration has already signaled continued interest in more durable tariff authorities, most notably additional Section 301 actions and broader Section 232 sector measures. As a result, the market is increasingly treating July 24 as a transition window in which the universal surcharge may disappear but be replaced by more targeted country-, product-, or sector-specific duties. For project teams, the practical takeaway is that uncertainty is more likely to shift than vanish.

For the construction industry, this reset risk matters less as a single headline and more as a procurement planning issue. Many suppliers have already priced conservatively because they expect some form of replacement tariff regime or continued trade friction, which means a lapse in Section 122's may not flow through immediately as lower quotes. Instead, owners and contractors should assume that metals, electrical gear, mechanical equipment and other globally sourced components will remain vulnerable to repricing, lead-time changes and margin protection by manufacturers. The best response is to continue emphasizing early sourcing conversations, quote validation, strategic buyout timing and contingency language that protects projects from policy changes occurring in the second half of 2026.

Materials Watch

Our latest internal market data confirms that escalation pressure is no longer moving evenly across the market. Materials requiring the closest attention currently are copper, aluminum, nickel, PVC and equipment-heavy mechanical and electrical components. Copper and aluminum remain exposed to tariff policy, grid and data center demand, and broader metals tightness, while nickel continues to matter for stainless and alloy-intensive systems even after a flatter start to the year. At the same time, PVC, valves, fittings, HVAC supplies and select electrical gear remain vulnerable to petrochemical disruption, freight volatility and supplier margin protection.

Select Producer Price Index (PPI) Watch List

INDICATOR	1-MONTH CHANGE %	1-YEAR CHANGE %
ALUMINUM MILL SHAPES	4.2%	37.3%
CONCRETE REINFORCING BARS	2.3%	13.6%
COPPER & BRASS MILL SHAPES	0.9%	20.9%
COPPER & COPPER PRODUCTS	0.5%	24.7%
COPPER & WIRE CABLE	-1.3%	11.8%
FABRICATED STRUCTURAL IRON & STEEL	2.6%	14.5%
HOT ROLLED STEEL BARS, PLATES & STRUCTURAL SHAPES	4.1%	22.1%
READY-MIX CONCRETE	0.5%	1.7%
SOFTWOOD LUMBER	5.5%	0.9%
SWITCHGEAR, SWITCHBOARD & INDUSTRIAL CONTROLS	3.8%	12.2%
TRANSFORMERS & POWER REGULATORS	0.0%	3.6%
WTI CRUDE OIL *(USD/BARREL)*	41.7%	33.9%
PADD II DIESEL SALES PRICE *(USD/GAL)*	30.0%	36.6%

During preconstruction, the practical watch list is less about a broad-based spike across all materials and more about targeted exposure in electrical infrastructure, façade and extrusion packages, plumbing systems, air-side equipment and long-lead specialty components. McCownGordon supports continued early procurement discussions, disciplined contingency planning and regular pricing refreshes for scopes tied to metals, fuel and long-lead equipment.

Procurement: LEAD TIME UPDATES

Current procurement conditions are being shaped less by universal lead time distress and more by selective exposure to global supply chains. The greatest near-term procurement risk is tied to upstream disruption in energy, petrochemicals and industrial inputs rather than to a generalized equipment shortage across every category. This makes source mapping and sub-tier visibility increasingly important, particularly for materials that rely on global chemical feedstocks, metals extraction or long ocean transit routes.

Projects with significant electrical, mechanical, process or specialty systems exposure should remain especially attentive. Copper-related products, nickel-bearing materials, HVAC supplies, valves, fittings and PVC-based systems all carry higher watch potential under the current supply-chain backdrop. Procurement teams should continue engaging suppliers early, validating manufacturing origin and clarifying whether current quotations already include assumptions for tariff resets or freight pressure later in the year.

52 WEEKS	UTILITY TRANSFORMERS & SECTIONALIZERS
38 WEEKS	SWITCHBOARDS > 2,400+ AMPS
34 WEEKS	SWITCHBOARDS > 2,000 AMPS
30 WEEKS	GENERATOR 0-500KW
64 WEEKS	GENERATOR 1MW-1.8MW
18 WEEKS	AUTOMATIC TRANSFER SWITCH *(ATS)*
20 WEEKS	DEDICATED OUTDOOR AIR SYSTEM *(DOAS)*
10 WEEKS	LAB EXHAUST SYSTEMS
15 WEEKS	LIQUID COOLING TOWERS
14 WEEKS	HVAC PUMPS

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Market Indicator

McCownGordon's forward-looking market view for Q2 remains constructive, but with a more cautious risk profile than last quarter. The underlying economy continues to support nonresidential activity, especially in infrastructure, power, logistics and technology-driven sectors. At the same time, the market is increasingly sensitive to geopolitical disruption, financing costs and targeted supply-chain constraints. Demand is still present, but the path to successful execution has become narrower and more dependent on planning discipline.

Key observations aligned with this quarter's outlook include:

1 CONSTRUCTION MATERIALS
OUR SELECTED MIX OF MATERIALS INCREASED ON AVERAGE 8% IN THE FIRST QUARTER. WITH THE RISE OF OIL PRICING DUE TO THE MIDDLE EAST CONFLICT, ELEVATED PRESSURE IS BUILDING IN METALS, PETROCHEMICALS AND FREIGHT-SENSITIVE PRODUCTS.

2 DESIGN & PLANNING INDICATORS
PROJECT ACTIVITY REMAINS SELECTIVE. STRATEGIC PROJECTS CONTINUE TO MOVE FORWARD, BUT MANY OWNERS ARE STILL PACING STARTS BASED ON FINANCING, POWER AVAILABILITY AND COST CONFIDENCE.

3 NONRESIDENTIAL CONSTRUCTION SPENDING
SPENDING REMAINS HEALTHY OVERALL, WITH NOTABLE STRENGTH IN INFRASTRUCTURE AND DATA-CENTER-RELATED ACTIVITY. MANUFACTURING HAS DECELERATED FROM A PREVIOUS PEAK LEVEL, BUT NOT BECAUSE LONG-TERM DEMAND HAS DISAPPEARED.

4 ECONOMIC OUTPUT
Q2 GROWTH INDICATORS ARE ELEVATED AND SUPPORTED BY CONSUMER SPENDING, BUSINESS INVESTMENT AND NON-RESIDENTIAL FIXED INVESTMENT.

5 EMPLOYMENT
LABOR REMAINS A STRUCTURAL CONSTRAINT ON PROJECT DELIVERY, REINFORCING THE NEED FOR EARLY ALIGNMENT WITH TRADE PARTNERS AND REALISTIC EXECUTION PLANNING.

CONSTRUCTION MATERIALS
Steel, Concrete, Copper, Lumber, Oil

KEY CONSTRUCTION INDICATORS
ENR Building Cost Index, Construction Spending

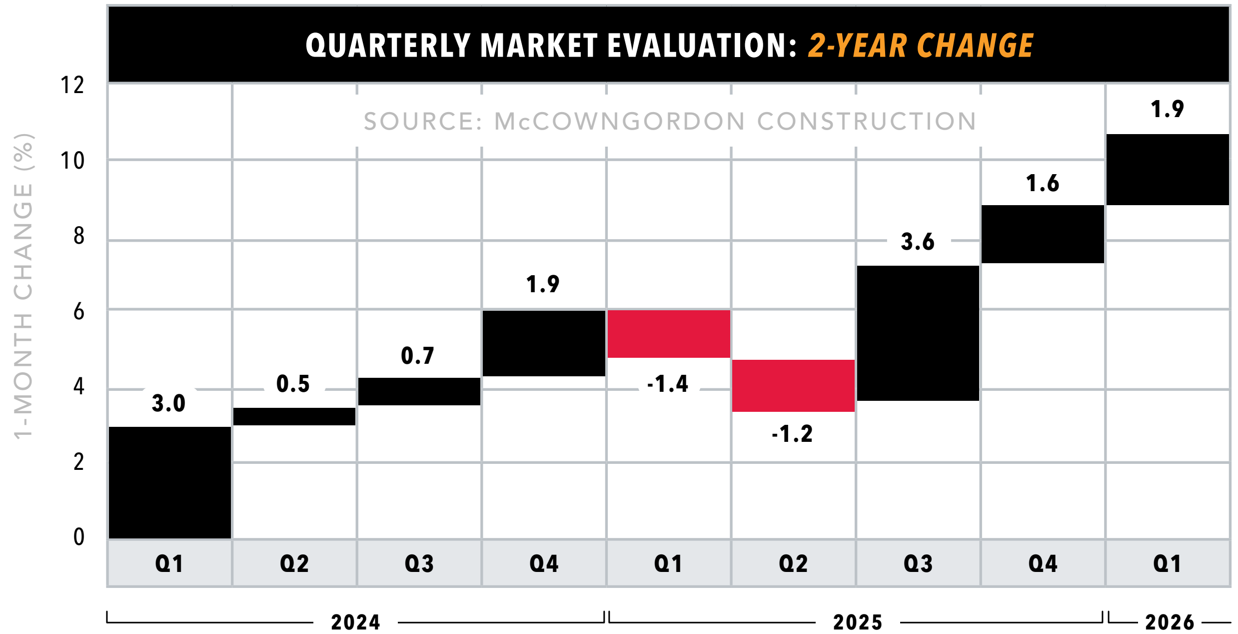
SUPPLY & DEMAND
Manufacturing/Services PMI, Architecture Billings Index

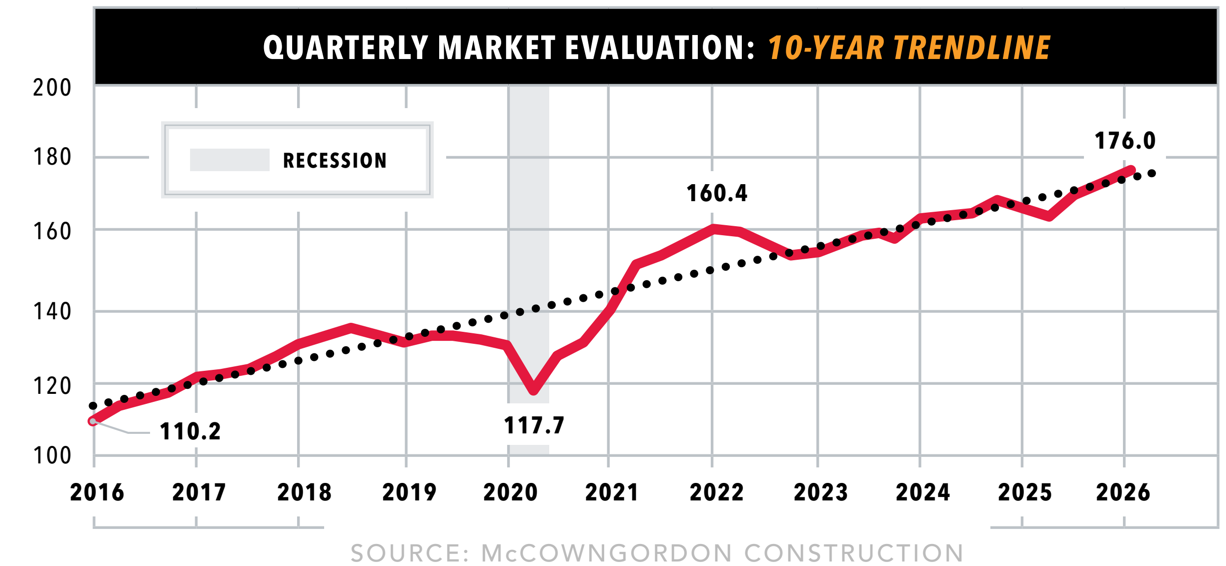
CONSUMER CONFIDENCE
Consumer Confidence Index, S&P 500 Index

INFLATION
Consumer Price Index, Producer Price Index

EMPLOYMENT
U-3 Unemployment Rate

NATIONAL PRODUCTION
Real Gross Domestic Product (GDP)





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.

Data Release Note: Several federal economic series used to monitor construction conditions have experienced staggered release timing in recent months, including updates tied to construction spending, employment and related benchmark revisions. Where timing gaps or delayed releases affect quarter-end interpretation, this report supplements public data with private market intelligence and directional indicators to provide the most current view available at publication. As a result, selected figures and narrative conclusions may be refined in future editions as delayed source data is released or revised.

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, Associated General Contractors, Associated Builders and Contractors, The Federal Reserve System, Dodge Construction Network, Engineering News Record, 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**.

CHAD BRUNGARDT
VICE PRESIDENT, ESTIMATING
816.877.0648
cbrungardt@mccowngordon.com