McCOWNGORDON

Q3 2026 CONSTRUCTION ECONOMIC INSIGHTS

Stable Outlook with Sharper Risk

The construction market continues to demonstrate strong underlying demand, but the path to project execution has narrowed. Data centers, power generation, infrastructure and advanced manufacturing remain the primary drivers of activity, while financing costs, labor availability, procurement constraints and trade policy uncertainty are placing greater emphasis on disciplined project planning prior to construction. Recent pipeline indicators remain positive, suggesting opportunities will remain abundant through 2027. However, successful construction projects will be distinguished by early decision-making, realistic assumptions, and proactive management of cost and schedule risks.

Quarterly Key Takeaways

TARIFFS UPDATE

The July 2026 tariff reset has not produced broad construction cost relief because suppliers continue pricing around anticipated replacement tariffs, inventory replacement costs and margin protection strategies. This leaves tariff-related volatility concentrated in metals, electrical, mechanical and globally sourced materials. As trade policy shifts toward more targeted Section 301 actions while Section 232 steel and aluminum tariffs remain in place, project teams should treat tariff exposure as a procurement and buyout risk by clearly documenting tariff assumptions and confirming new tariff-related cost increases.

NONRESIDENTIAL CONSTRUCTION OUTLOOK

Planned activity remains above last year's volumes, with strong backlogs in data centers, infrastructure and industrial markets even as private-sector demand softens. Public and infrastructure projects are providing market stability amid financing and cost pressures.

STEEL MARKET CHALLENGES

Steel procurement faces availability, pricing and sequencing difficulties due to domestic demand, trade policy, mill capacity constraints and import uncertainty. These challenges are necessitating early-release procurement strategies and source mapping for heavy structural and flat-rolled products.

MATERIALS INFLATION

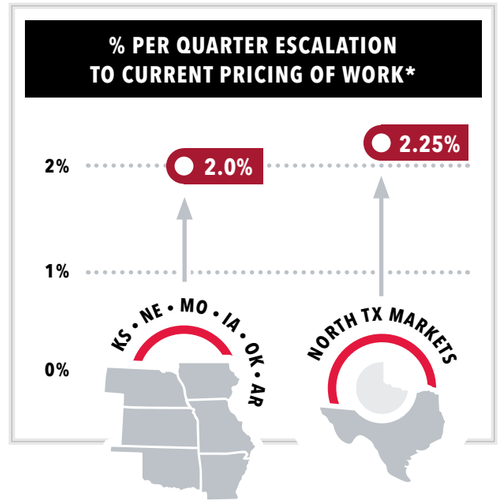
Copper, steel and aluminum remain at historically high year-over-year price increases due to supply constraints, tariffs and strong demand from power and data center sectors, sustaining inflationary pressure on metal-intensive construction components.

Cost Forecast

All information is current as of Sept 4, 2026.

Overall, cost pressures remain selective rather than broad-based. Freight, energy, metals and equipment-intensive scopes continue to experience the greatest exposure, with recent market intelligence citing elevated trucking, flatbed and container shipping costs alongside continued pressure in steel, copper, aluminum and other metals. Labor markets remain capacity-constrained, particularly in high-growth regions such as Texas, Arizona and the Carolinas, reinforcing the need for disciplined escalation assumptions, frequent pricing validation and early trade partner engagement.

Continued construction cost movement in 2026 is expected to remain elevated relative to historical norms. This environment favors early project engagement, transparent escalation discussions, active management of tariff-related increases, and disciplined scope procurement strategies. Project opportunities and bidding activity remain strong, with below-average bid participation among key trades facing local or regional labor shortages. With continued construction demand, ongoing global conflicts, emerging procurement challenges and skilled trade availability, our escalation projections remain unchanged from the prior quarter:



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

Construction budgets should continue to carry targeted risk allowances for material and procurement volatility, particularly where scopes rely heavily on metals, electrical equipment, mechanical components, imported products or long-lead manufactured goods. Current assumptions should account for:

- **TARIFF-RELATED PRICE PASS-THROUGH AND SUPPLIER MARGIN PROTECTION**
- **METALS VOLATILITY, ESPECIALLY STEEL, ALUMINUM AND COPPER**
- **FREIGHT, FUEL AND LOGISTICS SURCHARGES**
- **LONG-LEAD STEEL, ELECTRICAL AND MECHANICAL EQUIPMENT CONSTRAINTS**
- **SCHEDULE IMPACTS TIED TO FINANCING, PROCUREMENT SEQUENCING AND DELAYED RELEASE DECISIONS**

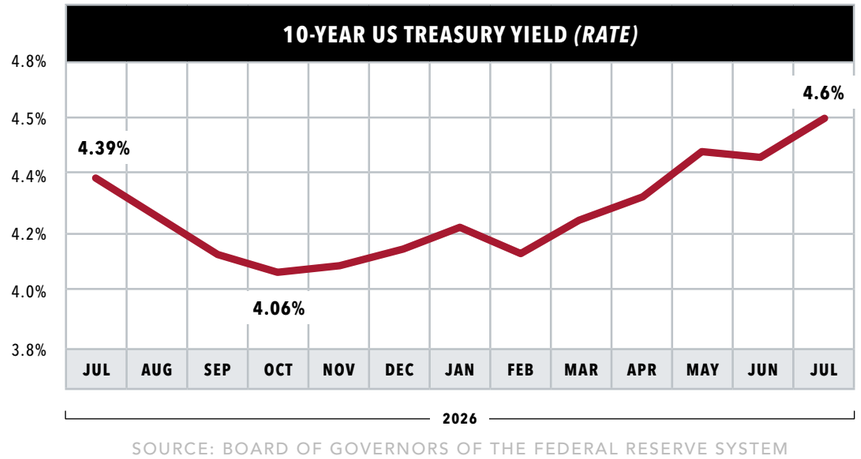
The healthiest projects are expected to be those that focus on early procurement planning, collaborate closely with trade partners to validate costs, and remain flexible in sourcing options, material alternates and procurement timing.

Please contact a member of McCownGordon's preconstruction team for a tailored escalation evaluation of your proposed project. We continue 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.

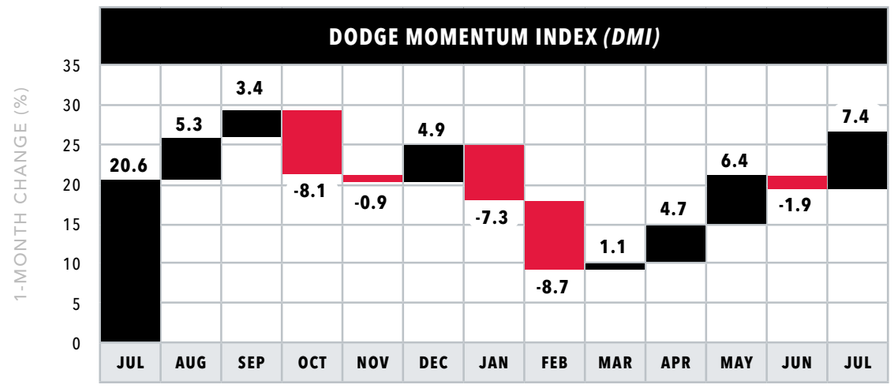
Construction Economics Update

Forward-looking indicators continue to support a constructive outlook for nonresidential construction. Planned project activity remains well above year-ago levels, and contractor backlog remains historically strong, particularly among firms serving data centers, infrastructure and industrial markets. At the same time, project stress indicators suggest owners are becoming more selective due to financing, energy and material cost pressures. The result is a market characterized by strong opportunity coupled with heightened execution risk, where procurement strategy, labor availability and cost certainty are becoming increasingly important differentiators. Capital remains available for priority sectors such as power, infrastructure and data centers. However, elevated Treasury yields and financing costs continue to delay select education, healthcare, mixed-use and manufacturing projects. Owners should continue evaluating financing assumptions early in project development.

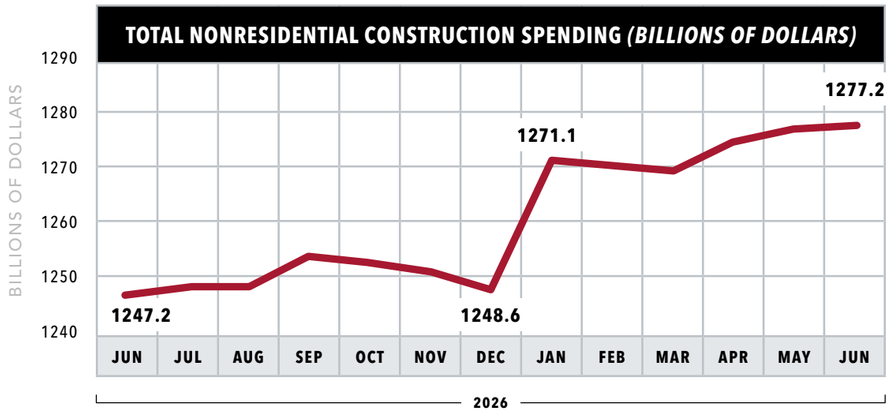
July's Dodge Momentum Index (DMI) indicates that the nonresidential construction planning pipeline strengthened significantly after a modest June slowdown. Data centers resumed their role as a major growth driver, while institutional construction planning broadened across multiple sectors. Because the DMI leads actual nonresidential construction spending by approximately 12 to 18 months, the upward trend points to a healthy project pipeline heading into late 2027.



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



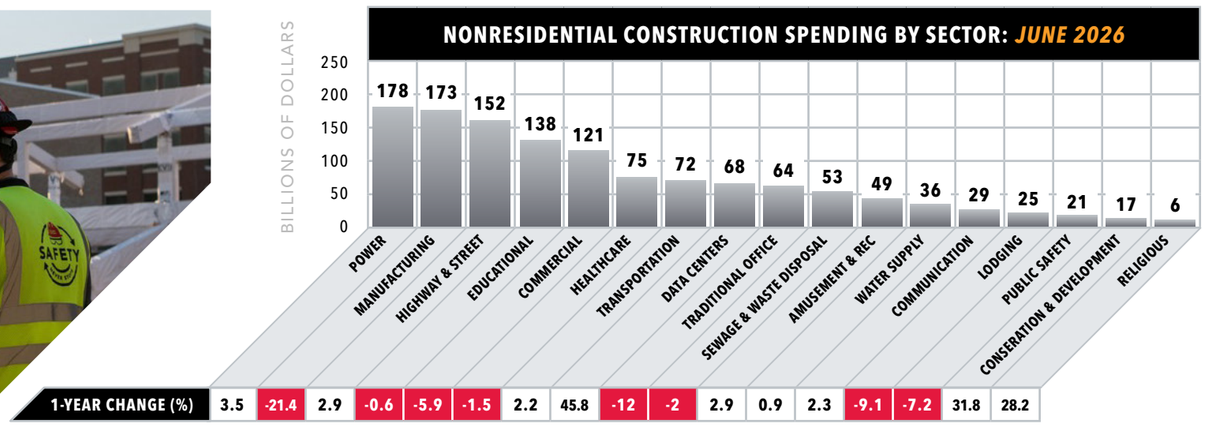
SOURCE: DODGE CONSTRUCTION NETWORK



SOURCE: US CENSUS BUREAU

The headline 0.1% monthly increase in nonresidential construction spending suggests the market is holding steady with selective demand. Data centers are carrying a disproportionate share of the momentum, while traditional private nonresidential construction remains soft. The data points to a nonresidential market that is not collapsing but is becoming increasingly bifurcated. Private work remains the primary area of risk, while public and infrastructure work remains the stabilizer. The strongest opportunities remain concentrated in data centers, infrastructure, power and select public/institutional work, while broad private-sector demand remains under pressure.

NONRESIDENTIAL CONSTRUCTION SPENDING *(BILLIONS OF DOLLARS)*	JUN 2026	1-MONTH CHANGE (%)	1-YEAR CHANGE (%)
TOTAL	1,277	0.1	-2.1
PRIVATE	745	0.1	-4.7
PUBLIC	531	0.4	0.3



The latest Producer Price Index (PPI) data from the U.S. Bureau of Labor Statistics continues to highlight metals as one of the most significant sources of cost pressure across the construction supply chain. Copper remains the leading concern with ongoing supply constraints, tariff impacts and strong demand from power infrastructure and data center construction. Steel pricing remains elevated but is moderating. Aluminum continues to show the strongest inflation among major construction metals, with historically high year-over-year increases. While several metal commodity prices have softened modestly, underlying PPI indexes suggest fabricated metal products continue to experience significant inflationary pressure. These trends reinforce the need for close monitoring of structural steel, electrical systems, façade materials and other metal-intensive scopes where pricing volatility and procurement risks remain elevated.

	MATERIAL	1-MONTH CHANGE %	1-YEAR CHANGE %
ALUMINUM	ALUMINUM BASE SCRAP	5.8%	29.6%
	ALUMINUM MILL SHAPES	-1.6%	40.5%
	EXTRUDED ALUMINUM SHAPES	-0.3%	43.7%
CONCRETE	CONCRETE BLOCK AND BRICK	0.3%	3.7%
	CONSTRUCTION SAND, GRAVEL AND CRUSHED STONE	0.5%	6.2%
	PRECAST CONCRETE PRODUCTS	1.0%	8.5%
	PRESTRESSED CONCRETE PRODUCTS	0.0%	2.6%
	READY-MIX CONCRETE	-0.4%	2.2%
COPPER	COPPER AND BRASS MILL SHAPES	-2.9%	18.4%
	COPPER AND COPPER PRODUCTS *(SPECIAL INDEX)*	0.7%	26.2%
	COPPER AND WIRE CABLE	0.2%	17.9%
LUMBER	PARTICLEBOARD AND FIBERBOARD	-0.4%	-1.7%
	PLYWOOD	0.7%	9.2%
	SOFTWOOD LUMBER	6.4%	15.0%
STEEL	FABRICATED STRUCTURAL IRON AND STEEL	0.2%	21.5%
	HOT ROLLED COIL	0.4%	11.3%
	HOT ROLLED STEEL BARS, PLATES AND STRUCTURAL SHAPES	3.1%	14.7%
	IRON AND STEEL SCRAP	-1.5%	11.4%
	REINFORCING BARS	0.2%	17.7%

The late-July tariff reset should be viewed less as a clean cost-relief event and more as a transition point in the pricing environment. The prior IEEPA-based tariff structure had already become embedded in many supplier quotes, while the temporary Section 122 framework sat at a lower 10% level before expiring in late July. As a result, a lower headline tariff rate has not consistently translated into lower project pricing because many manufacturers, distributors and suppliers continue to price against expected replacement tariffs, inventory replacement costs or preserved margin structures.

The replacement framework has shifted toward Section 301 investigations tied to forced labor, structural overcapacity and country-specific trade practices. **At the time of publication, many countries are sitting at a base 10% to 12.5% rate for the labor section portion of the tariffs, while select products and stacked tariff categories could face higher rates because the overcapacity portion of the Section 301 tariffs have not been finalized.** This is creating a more uneven and product-specific risk environment than the earlier broad tariff structure, particularly where material content, country of origin or component sourcing is difficult to trace.

For construction, tariff risk remains concentrated in globally sourced and metal-intensive scopes rather than spreading evenly across every material category. Steel, aluminum, batteries, electronics, chemicals, solar components, electrical gear, mechanical equipment and specialty manufactured components remain the categories most likely to experience quote-level volatility or changes in lead-time commitments. The continued separation of Section 232 steel and aluminum tariffs from the broader tariff reset is especially important because those tariffs remain a separate cost driver for domestic and imported metals pricing.
Project teams should be treating tariff exposure as a procurement planning issue rather than a simple escalation allowance. Quotes should clearly identify the tariff basis used, whether pricing reflects prior IEEPA assumptions, Section 122, anticipated Section 301 replacement levels, Section 232 exposure, freight pressure or domestic price responses. Where suppliers propose new tariff-related cost increases, teams should challenge whether those costs were already included in prior pricing and document reset assumptions in bid clarifications.

WHY STEEL REMAINS UNDER PRESSURE

Data center, semiconductor and EV battery projects continue to absorb domestic mill capacity.

Heavy structural sections are produced during limited rolling campaigns, reducing schedule flexibility.

Section 301 tariff uncertainty is discouraging some import purchasing activity.

Red Sea shipping disruptions and Rhine River constraints continue to limit global alternatives.

Fabricator labor shortages are extending processing and delivery schedules.

52 WEEKS — UTILITY TRANSFORMERS & SECTIONALIZERS

64 WEEKS — GENERATOR 1MW-1.8MW

Steel procurement is currently presenting a combined availability, pricing and sequencing challenge. Current steel pressures are not simply the result of normal escalation; they reflect the interaction of domestic demand, trade policy, tight inventories, reduced import flexibility and constrained mill scheduling. Section 232 tariffs remain a major support for domestic pricing, while broader tariff uncertainty has made buyers more cautious about relying on offshore supply.

The most acute concern is the availability of structural and flat-rolled products with heavier weights per foot and sections greater than 27 inches in depth. Domestic production has increased in response to demand, but mill utilization remains near long-term norms, and key domestic capacity for heavier structural sections is concentrated among a limited number of mills. Heavy sections are rolled only during specific production campaigns, meaning missed roll windows, demand surges or mill disruptions can push availability out by months. Currently, mills expect demand peaks to extend into 2027, with steel inventories near low levels and limited market cushion.

Our market reporting indicates that flat-rolled steel supply has tightened materially, with reduced import arrivals, limited spot availability, maintenance outages and low service center inventories contributing to longer lead times. The pricing of hot-rolled coil used for processed structural shapes, machinery and equipment has also been reported near elevated levels, making some import options attractive again despite tariff costs. However, import timing and trade-policy risk remain difficult to manage within project schedules. This creates a procurement environment in which domestic material may be expensive and import alternatives may be uncertain.

For project teams, steel should be managed as an early-release and source-mapping priority. Fabricators should be asked whether material is already in inventory, assigned to a mill roll, available through a warehouse or dependent on import sourcing. Teams should validate Q4 2026 and Q1 2027 roll availability for heavy sections and critical flat-rolled products and protect bid language around tariff, freight, mill availability, fabrication backlog and delivery-sequencing assumptions.

Outside of steel, procurement conditions have generally stabilized, but significant risk remains concentrated in electrical infrastructure, power-related equipment, generators, transformers, switchgear and select HVAC systems. Lead times are becoming more predictable, but they remain long enough to influence project scheduling, buyout sequencing and procurement strategy.

↑ 36 WEEKS	AUTOMATIC TRANSFER SWITCH *(ATS)*	↑ 22 WEEKS	DEDICATED OUTDOOR AIR SYSTEM *(DOAS)*
↑ 40 WEEKS	AIR COOLED CHILLER > 150 TONS	↑ 15 WEEKS	ROOFTOP UNIT 3-50 TONS
↑ 25 WEEKS	INDOOR AIR HANDING UNIT	↓ 23 WEEKS	ROOFTOP UNIT 60-150 TONS
↑ 28 WEEKS	OUTDOOR AIR HANDING UNIT	↓ 10 WEEKS	PLUMBING BOOSTER PUMPS

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Market Indicator

KEY QUARTERLY OBSERVATIONS OF THE INDICATOR IN RELATION TO OUR ECONOMIC FORECAST AND EVOLVING MARKET TRENDS:

McCownGordon's six-to-nine-month look ahead of the overall health of the construction market is slightly above the ten-year trend indicating a fundamentally stable and consistent market, even in 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 4% quarter over quarter increase.

1 CONSTRUCTION MATERIALS

PRICING MOMENTUM CONTINUES AND COSTS REMAIN ON THE RISE. TARIFFS, METALS PRICING, ENERGY INPUTS AND TRANSPORTATION CONTINUE TO APPLY UPWARD PRESSURE ALONGSIDE STEADY DEMAND.

2 DESIGN & PLANNING INDICATORS

ARCHITECTURAL AND PLANNING METRIC REDUCTIONS REFLECT CAUTIOUS MARKET ACTIVITY AND DELAYED STARTS. THIS IS CONSISTENT WITH EXTENDED DECISION TIMELINES AND ELEVATED FINANCING RATES.

3 NONRESIDENTIAL CONSTRUCTION SPENDING

OVERALL SPENDING IS SLOWING BUT REMAINS WELL ABOVE LONG-TERM AVERAGES. DATA CENTERS AND POWER GENERATION WORK ARE SUPPLEMENTING OTHER REDUCED SPENDING SECTORS CATEGORIES.

4 ECONOMIC OUTPUT

GDP AND INDUSTRIAL PRODUCTION REMAIN SUPPORTIVE OF CONSTRUCTION DEMAND, PARTICULARLY IN SECTORS TIED TO INFRASTRUCTURE, POWER AND DATA CENTERS.

5 EMPLOYMENT

LABOR WORKFORCE AVAILABILITY CONTINUES TO LIMIT CONSTRUCTION CAPACITY EARLY TRADE ENGAGEMENT AND AWARD PRIOR TO COMPLETION OF FINAL DESIGN FOR CRITICAL SCOPES OF WORK REMAIN RECOMMENDED TO ENSURE NEEDED SKILLED LABOR TO MEET SCHEDULE MILESTONES.

CONSTRUCTION MATERIALS ↗
Steel, Concrete, Copper, Lumber, Oil

KEY CONSTRUCTION INDICATORS ↗
ENR Building Cost Index, Construction Spending

SUPPLY & DEMAND →
Manufacturing/Services PMI, Architecture Billings Index

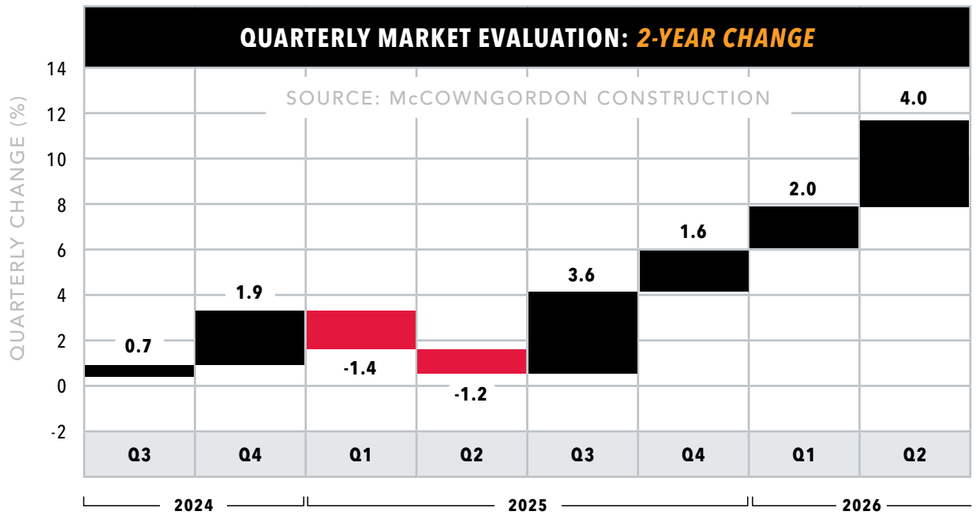
CONSUMER CONFIDENCE ↗
Consumer Confidence Index, S&P 500 Index

INFLATION ↗
Consumer Price Index, Producer Price Index

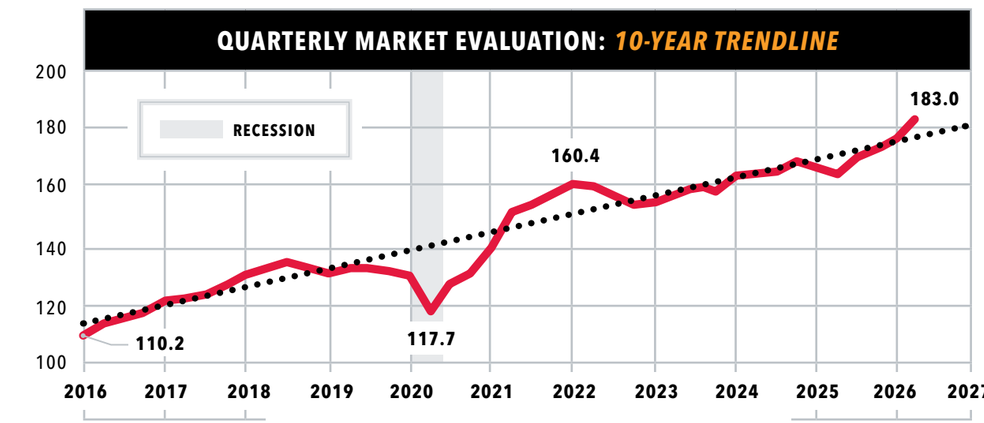
EMPLOYMENT →
U-3 Unemployment Rate

NATIONAL PRODUCTION ↗
Real Gross Domestic Product (GDP)

QUARTERLY MARKET EVALUATION: *2-YEAR CHANGE*



QUARTERLY MARKET EVALUATION: *10-YEAR TRENDLINE*



SOURCE: McCOWNGORDON CONSTRUCTION

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, Associated General Contractors, Associated Builders and Contractors, DBM Global Steel, The Federal Reserve System, 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**.

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