



RENEWED MOMENTUM

The U.S. economy remains dynamic. Tariff increases, initially intended as a one-time 2025 pricing adjustment, have so far been modest. However, there is potential for higher values in 2026. The current focus on tariffs is shifting toward concerns about supply constraints, which could lengthen procurement timelines as global supply chains adapt to the new tariff structure. Meanwhile, interest rates are trending downward and U.S. markets remain strong, supported by subdued yet steadily improving consumer confidence. Within this environment, the construction industry is positioned for positive growth in 2026.

QUARTERLY KEY TAKEAWAYS

TARIFF WATCH

The expected material cost increases have been subdued. Current mitigation strategies include marginal tariff risk allowances in pricing, considering domestic sourcing and monitoring trade policy updates.

LABOR MARKET

Despite recent layoffs, the U.S. labor market remains strong with more job openings than normal.

GOVERNMENT SHUTDOWN

In addition to the estimated \$90 billion-dollar economic impact and projected Q4 GDP growth hit, the government shutdown created the first two-month data gap in history and left many to rely on speculation and private source data to make informed business decisions.

AIA BILLINGS

The Midwest is faring better than the Architectural Billings Index (ABI) National average figures, which are still hovering below the expansion/contraction line.

CONSTRUCTION SPENDING

Figures remain elevated with continued growth in manufacturing, logistics and data center work.

GEOPOLITICAL WATCH

Be on the lookout for brewing tensions between China, Japan and Taiwan in the coming months. Turmoil with these countries would cause major impacts to the global supply chain including rare earth minerals and construction products.

CONSTRUCTION ECONOMIC INSIGHTS

Q4 DECEMBER 2025

TARIFF UPDATE*

*Information as of 12/10/2025

At time of publication, the latest primary tariff rates related to construction products include:

CATEGORY	TARIFF RATE	IMPACTED COUNTRIES	EFFECTIVE DATE
WOOD PRODUCTS: SOFTWOOD LUMBER	45%	CANADA	OCT 14, 2025
KITCHEN CABINETS & VANITIES	50%	GLOBAL	JAN 1, 2026
UPHOLSTERED WOOD FURNITURE	30%	GLOBAL	JAN 1, 2026
STEEL & ALUMINUM	50%	GLOBAL	ONGOING
COPPER PRODUCTS	50%	GLOBAL	ONGOING
ELECTRICAL COMPONENTS	15-40%	GLOBAL	PENDING FINALIZATION
RECIPROCAL TARIFFS	15-20%	MULTIPLE COUNTRIES	JAN 1, 2026
CRITICAL MINERALS (GRAPHITE • MAGNETS)	25%	GLOBAL	JAN 1, 2026
SEMICONDUCTORS	50%+	GLOBAL	ESCALATING IN 2026

To maintain transparency and minimize potential disputes, we will continue to outline how tariff risk should be addressed during the design phase. Assumptions will be documented and escalation scenarios provided to foster client confidence and ensure clarity throughout the preconstruction life cycle.

RECOMMENDED MITIGATION STRATEGIES

ADVANCE PROCUREMENT For long-lead or high-value items, consider early procurement or owner-assisted purchasing to reduce exposure to future tariff increases and maintain cost stability.

CONTRACTUAL SAFEGUARDS Incorporate material cost escalation clauses in contracts to allow adjustments for tariff-driven increases post-award. Include timely notification requirements to ensure compliance and responsiveness.

CONTINGENCY PLANNING & SENSITIVITY ANALYSIS Conduct sensitivity analyses at bid finalization to model cost impacts under varying tariff scenarios, enabling informed decision-making.

STRATEGIC SOURCING Prioritize domestic suppliers and those from regions with lower tariff exposure. Engage procurement teams early to identify alternative sources and lock in pricing where feasible.



COST FORECAST

Despite many construction projects remaining on the sidelines, McCownGordon continues to see steady bidding activity and procurement opportunities across most project types in our core regional markets. At final bid, we are still receiving strong trade coverage and competitive pricing for primary scopes of work. Trade partners remain engaged and responsive as they work to secure backlog for 2026 and beyond.

Consumer sentiment, while subdued, is showing signs of improvement—an essential factor for advancing discussions on planned projects. Looking ahead, three key indicators will signal a healthier construction environment and help unlock shelved projects:

INCREASE IN THE SMALL BUSINESS INDEX

within the next six months, which would trigger capital expenditure releases.

CONTINUED DECLINE IN INFLATION

moving closer to the Federal Reserve's 2.0% target.

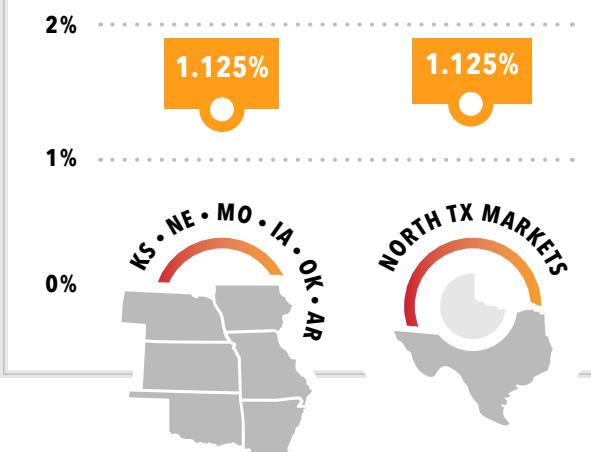
10-YEAR TREASURY YIELDS DROPPING BELOW 4%

with historical patterns and current sentiment suggesting that a drop to 3.5% could spark a significant surge in construction activity. At time of publication, the yield resides slightly above 4%, but expected to drop based on the December quarter point Federal Reserve rate cut.

As the construction market gains projected momentum heading into 2026, the emphasis on strategic project planning and early procurement will only intensify—particularly to mitigate upward price pressure. Based on detailed tracking of primary construction materials, labor escalation, and tariff implementation projections, we anticipate quarterly cost escalation to trend slightly above the historical average of 0.875% per quarter as follows.

With a portion of the tariff increases behind us and the continued stalling of remaining tariffs, our prior stand-alone 2-3% immediate tariff project increases have been added to the escalation figures at the right. As a reminder, these figures are short term inflation adjustments applied to the period between current construction costs dollars and commencement of construction work.

% PER QUARTER ESCALATION TO CURRENT PRICING OF WORK PROJECTED IN 2026

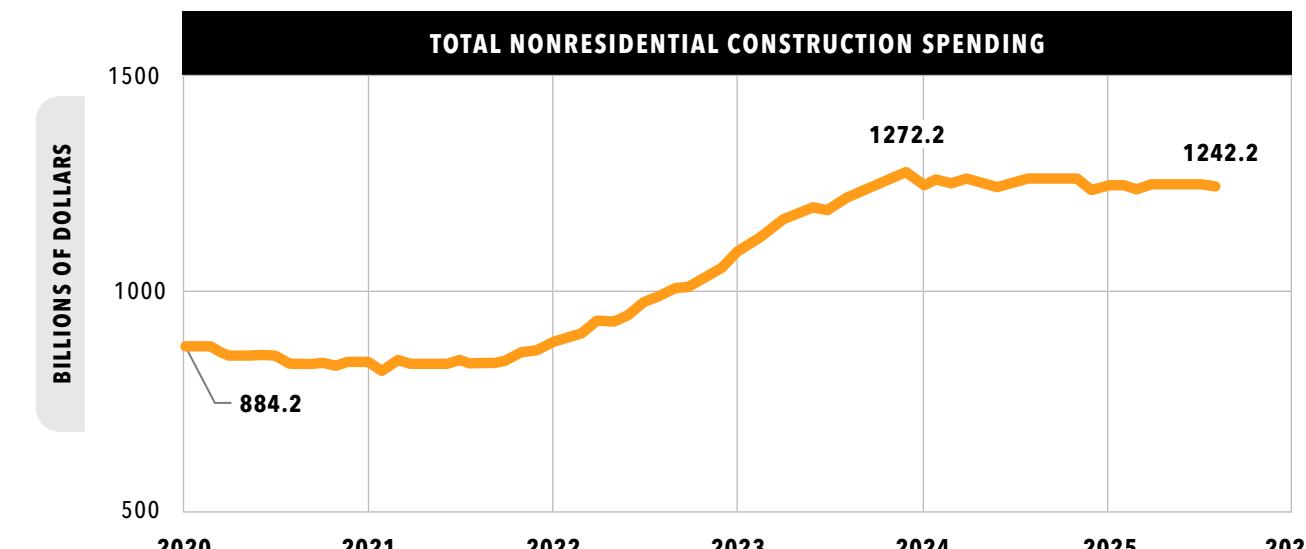


CONSTRUCTION OUTLOOK

The recent government shutdown resulted in the most severe direct and indirect costs in U.S. history. The Congressional Budget Office estimates approximately \$90 billion in permanent economic activity was lost, with partial recovery expected in early 2026. The shutdown also delayed key economic data releases—including inflation and jobs reports—creating uncertainty for the Federal Reserve.

Recent rate cuts have aligned more closely with Treasury yields, potentially lowering long-term borrowing costs and supporting a resurgence in construction investment. The December quarter point cut was made due to increasing fourth quarter GDP growth expectations coupled with unemployment rate decrease projections for 2026.

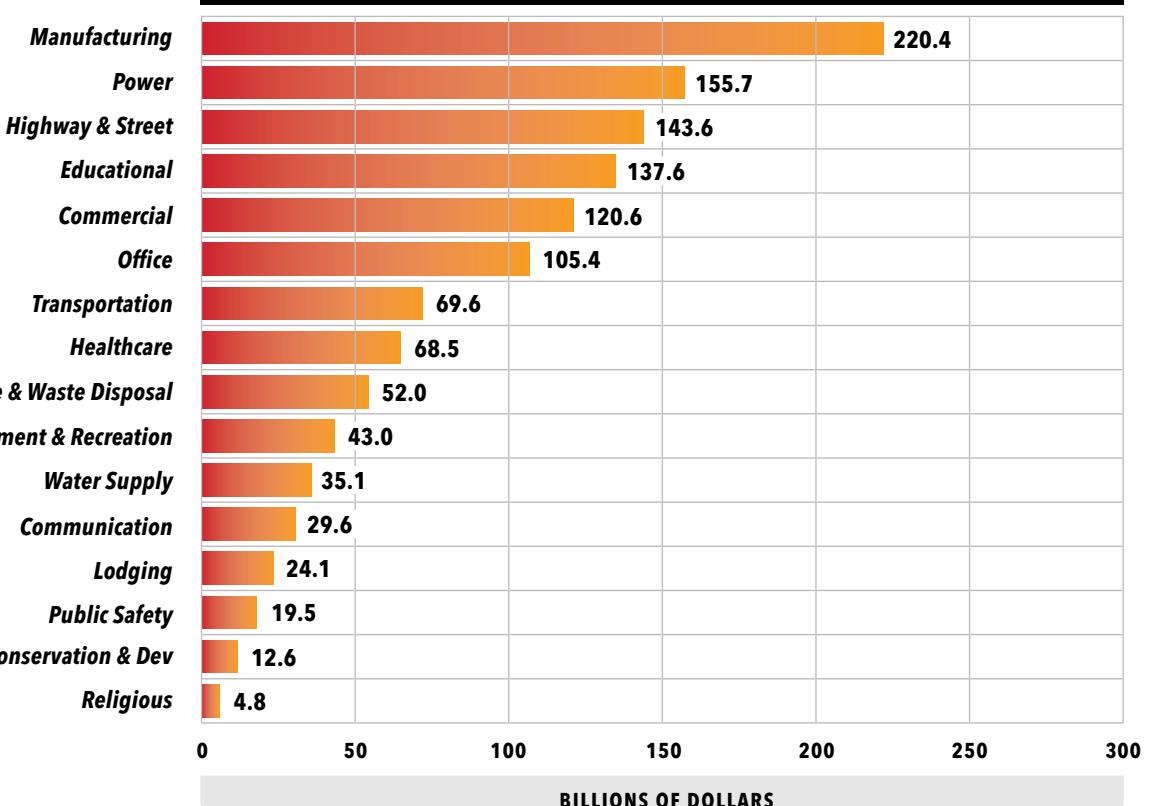
The rate at year end is 3.6% with an anticipated additional quarter point reduction in the later portion of quarter one in 2026.



SOURCE: US BUREAU OF LABOR STATISTICS (BLS)

Construction spending shows signs of slowing, though comparisons are against historically strong growth over the past two to three years following the global supply chain crisis and pandemic. **Nonresidential spending is projected to grow 1.7% in 2025 and 2.0% in 2026, suggesting a continued "wait-and-see" approach.**

TOTAL NONRESIDENTIAL CONSTRUCTION SPENDING BY SECTOR: AUG 2025



SOURCE: US BUREAU OF LABOR STATISTICS (BLS)

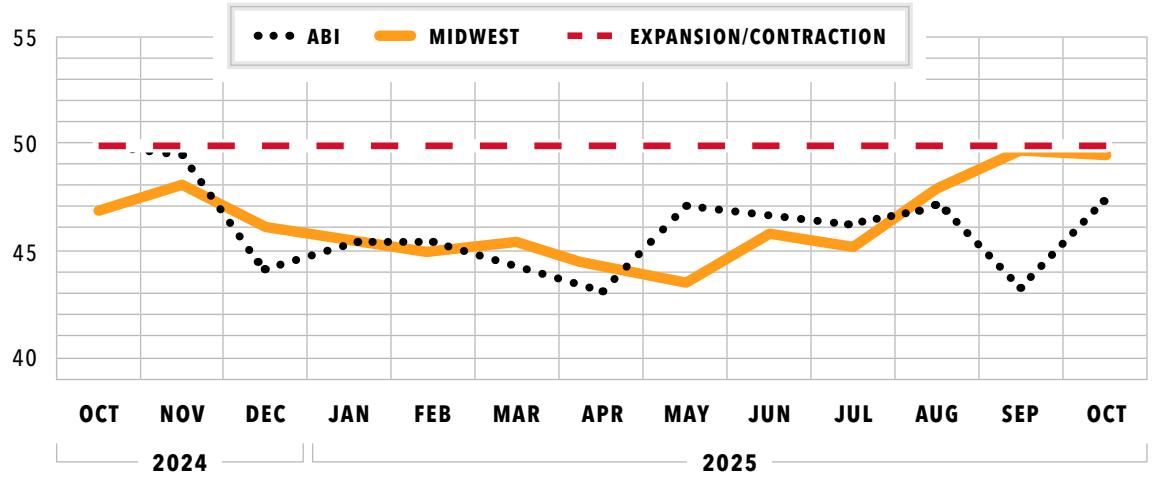
If key economic catalysts materialize, project acceleration could occur by mid-2026. Combined with freight forecasts for less-than-truckload and truckload products, growth opportunities have been identified in:

- COLD CHAIN WAREHOUSING**
- FOOD & BEVERAGE PROCESSING**
- E-COMMERCE & REVERSE LOGISTICS**
- DATA CENTERS**
- SPECIALTY CHEMICALS & PHARMACEUTICALS**
- SEMICONDUCTORS & MEDICAL DEVICE MANUFACTURING**

ARCHITECTURAL BILLINGS INDEX

The American Institute of Architects (AIA) Billings Index has remained soft since 2022 and has recently shown increased volatility. Despite the implementation of the One Big Beautiful Bill Act (OBBBA), which offers 100% depreciation benefits, national momentum has been slow to translate into tangible activity and billings. In contrast, the Midwest has demonstrated resilience, with the index trending upward since May of this year—a positive signal for regional market strength.

ARCHITECTURAL BILLINGS INDEX: NATIONAL VS. MIDWEST



SOURCE: AMERICAN INSTITUTE OF ARCHITECTS (AIA)

The unemployment rate has edged up slightly to 4.4%, and economists are closely monitoring rising layoff figures over the past few months. Much of this trend correlates with the rapid adoption of AI technologies. While AI has proven to be a powerful tool for automating repetitive tasks and improving efficiency, many executives are exercising caution. Some organizations have begun to scale back employee reliance on AI due to concerns about data accuracy. Findings indicate that outputs from large language models can be error-prone—approximately 10% inaccurate with internal company data and up to 60% inaccurate when using externally sourced data.

PROCUREMENT

LEAD TIME UPDATES



38
WEEKS

**BUS
DUCTS**



27
WEEKS

GENERATOR
1MW-1.8MW



42
WEEKS

SWITCHBOARDS
>1,200 AMPS



78
WEEKS

GENERATOR
2MW+



31
WEEKS

GENERATOR
0-500KW



17
WEEKS

**AUTOMATIC
TRANSFER SWITCH**

McCOWNGORDON MARKET INDICATOR

After three consecutive quarterly declines, the McCownGordon Market Indicator rebounded with a 3.5% improvement. Quarterly highlights include:

1

MATERIALS: Construction materials rose by a composite of 1.73%, driven primarily by elevated steel costs. Relevant steel increases parallel with other steel industry sources including DBM Global per their November 2025 report stating price increases are being driven by a combination of tariff-related demand and predictions of future market growth.

2

SENTIMENT & EQUITIES: The largest gains were recorded in Consumer Confidence (+5.1%) and the S&P 500 Index (+12.1%).

3

OTHER CATEGORIES: Remaining components showed negligible change or minor directional shifts from last quarter.

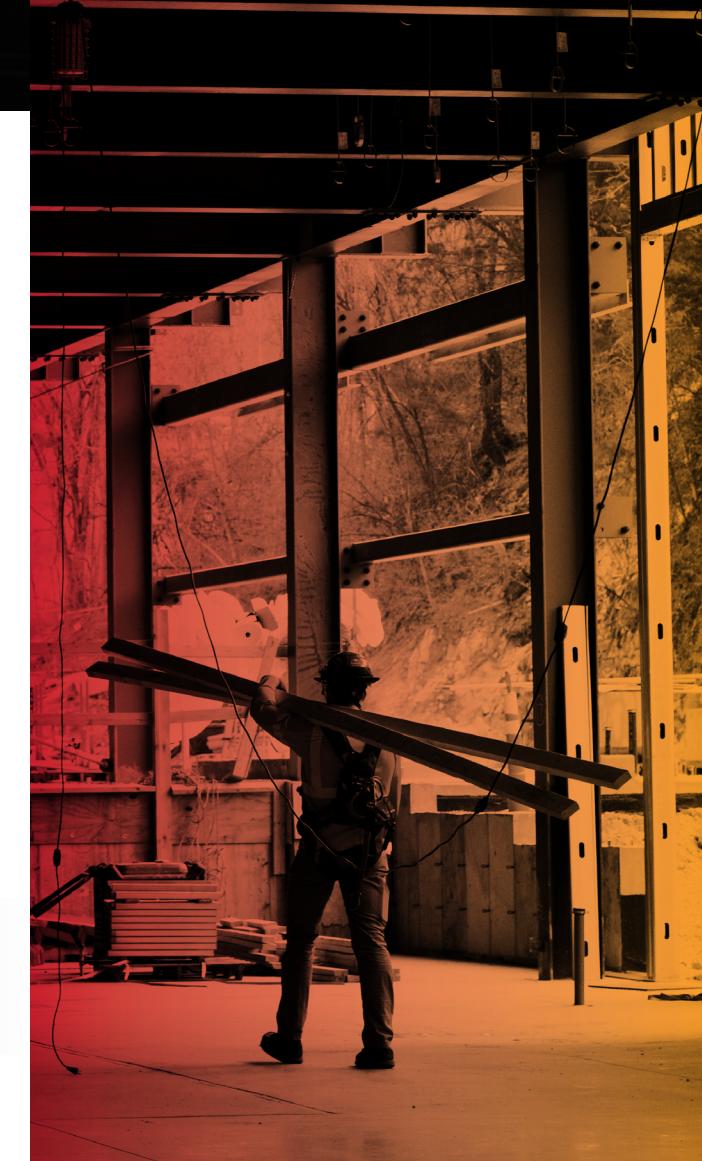
Because the government shutdown delayed or prevented the release of certain datasets, we applied prudent assumptions to maintain continuity for two of our seventeen indicators:

4

CONSTRUCTION SPENDING: With 2025 spending relatively flat, we assumed September figures to match August due to delayed publication.

5

Q3 GROSS DOMESTIC PRODUCT (GDP): Using the Atlanta Fed GDPNow model and although it is currently trending at 3.5%, we used 3.3% which reflects the average end of month growth figures for July, August and September. The official release was delayed and scheduled for December 23.





McCownGordon's Quarterly Market Evaluation (QME) is a six-to-nine-month look ahead of the overall health of the construction market. It is comprised of seventeen individual indicators; some are material costs with the remaining a mixture of data sources and economic indicators pertinent to the construction sector of the economy.



In the communities and markets McCownGordon serves, we strive to recommend strategies and options to provide the best value and schedule for your projects based on our understanding of current economic conditions combined with ongoing relationships with manufacturers, suppliers, design firms, and trade partners.

CONSTRUCTION MATERIALS **INCREASING**

Steel, Concrete, Copper, Lumber, Oil

KEY CONSTRUCTION INDICATORS **SLIGHTLY INCREASING**

ENR Building Cost Index, Construction Spending

SUPPLY & DEMAND **DECREASING**

Manufacturing/Services PMI, Architecture Billings Index

CONSUMER CONFIDENCE **INCREASING**

Consumer Confidence Index, S&P 500 Index

INFLATION **INCREASING**

Consumer Price Index, Producer Price Index

EMPLOYMENT **FLAT**

U-3 Unemployment Rate

NATIONAL PRODUCTION **INCREASING**

Real Gross Domestic Product (GDP)

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 of America, National Federation of Independent Businesses, 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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