



March 2025

ECONOMIC NEWSLETTER

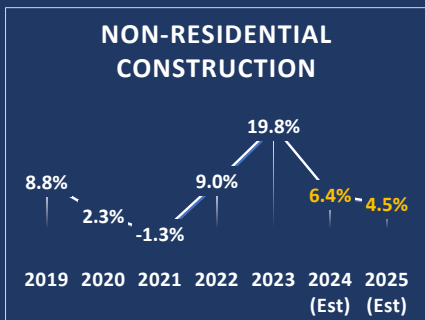
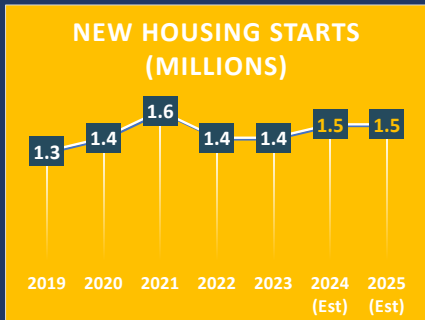
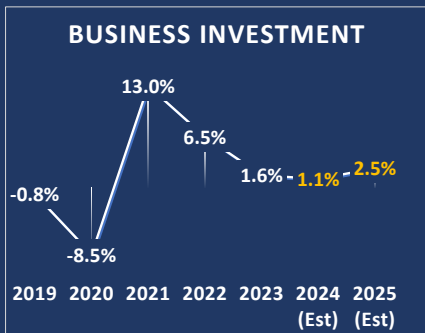
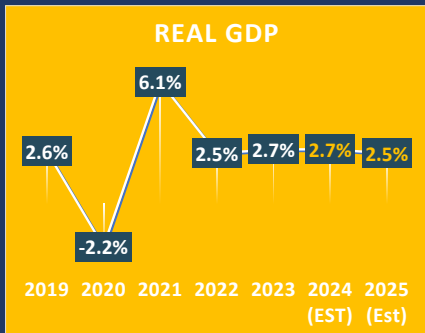
for the Construction Industry

EGP CPAs
& Consultants

COLIN GORMAN, CPA/PFS, CVA, CCIFP, CIT
Managing Partner
cgorman@egpcpas.com

Exclusive
Member of **CICPAC** 
CPAs WHO KNOW CONSTRUCTION

Selected Indices



Big Items

Real GDP: Q1 GDP is showing some pressure through this “transition” period. There was a significant amount of gold imported into the US in Q1, which is skewing GDP data. Without the adjustment for gold imports, GDP is currently contracting at 1.8%. When adjusting that data, the economy was managing mild growth of 0.4%-0.8%. Consumer spending, residential and corporate investment was still ‘stable’, but were beginning to show some signs of stress.

Raw Material Prices/Availability: Amid tariff risk, construction material prices are heavily mixed. Some commodities are seeing price deflation as global demand softens and supply increases (such as nickel and nickel-based commodities). Hot-Rolled Steel prices have also not reacted to 25% tariffs, prices were still down 5.8% Y/Y despite rising by 4% YTD. But other areas are surging. Copper for instance, is up 26.3% YTD and 24.9% Y/Y, pushing prices for copper-based products higher. At the time of writing, tariffs were still being implemented, and exclusion grants were not clear, which could affect prices when the full tariff impact is understood (could push them higher or lower).

Labor Situation / Labor Costs: In general, the costs of labor in construction started to ease at the end of 2024. The Labor Cost Index grew at 2.8% through Q4, down for the 5th consecutive month. The broader wage measures for the macroeconomic environment were still growing between 3.8% and 4% through February, which is in-line with growth rates over the past two years. There are many questions about the role of deportations (although most estimates suggest that impact to actual workers may be less than expected), government layoffs (and resulting private sector layoffs), and aging demographics and the impact of retirements. There were still 7.7 million jobs open across the country with more than 236,000, which was down 42% from a year ago (but was 15% higher between December and January).

Manufacturing: The latest manufacturing data showed some weakness. The Flash PMI report through mid-March came in at 49.8, down from 52.7 last month and in slight contraction. There was a lot of speculation that companies had pre-ordered merchandise to try and get ahead of tariff risk and this helped spur February activity. New orders around the world were generally sluggish in March (based on preliminary reports) and some pullback in investment and spending was taking place elsewhere. But the US is likely to be in a different situation because Federal actions to push US manufacturing is ramping up. Reshoring activity will take time to materialize, and there isn’t recognition of this year in measures like the Architectural Billings Index, but that will come.

Risks

Tariffs: This has been the biggest concern among business owners and one that continues to develop. At the time of writing, reciprocal tariffs had not yet been announced and negotiations between the US and foreign trading partners were still ongoing. Tariffs will obviously work in two directions for the construction industry. Of course, it will spur nonresidential construction activity but could push inflation risk for project costs higher and could lead to some supply chain shortages of certain materials. Some purchasing managers are holding off on new orders for key raw materials and components waiting for tariff decisions, and some have received heavy orders from customers in the interim trying to get ahead of this risk. That is running some supplies low, which is likely a Q2/Q3 concern before the market stabilizes thereafter.

For most new construction projects, despite some new easing of permitting, projects will not likely be shovel ready until 2026 (especially for projects that are new facilities and not add-on expansions to existing facilities). Again, data could show a sharp and rapid change in activity, but for now foot traffic at A&E firms was still muted based on the latest data. After the April 2nd deadline for reciprocal tariffs (making tariff policy clearer for all), more firms may move on new reshoring activity.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

“Unprecedented” is the word of the day. Any time the media, economists, or government figures use words like ‘unprecedented’ or ‘historic’, market conditions get hard to predict. Unprecedented tariffs, historic government trimming, “record mass deportations” and other aggressive actions create a lot of uncertainty, and that can create near term implications. In general, most analysts are looking at the current global economic situation and are using phrases like “short term pain for long term gain” and other similar notions.

But the transition period can be a difficult one. There are two assessments of government spending as a percentage of GDP. When we use Total Government Spending, it accounts for 33.9% of total government spending (versus the historical average of 25.7% from 1900-2023). Focusing on just the direct spending that drives GDP, it accounted for 18% of GDP in Q4, and it is this component that the administration wants to try and trim 25% from. The urgency is that the current US debt-to-GDP ratio is 122% and the net interest payments on that debt is more than \$952B (larger than the Department of Defense budget). More importantly, key peers (those that compete for bond investors and foreign direct investments) have lower debt-to-GDP ratios. Among the US’ top 10 trading partners, the US had a higher debt-to-GDP ratio than all but one (Japan at 252% and there is some speculation that China’s is understated at 88%). Transitioning the economy to more private spending can be a lengthy process, and some near term pain can be felt in the interim.

Government incentives (both carrot-philosophy with tax cuts, easing regulation, and speedier permitting and stick-philosophy through tariffs, quotas, and taxes) are going to help drive nonresidential construction in the long-term (12-16 months). Tariffs will also impact construction material costs in the near term, and much will still depend on tariff exclusions, retaliatory actions, and other factors developing out of a volatile global trade environment. But that will sort itself out over time.

For residential construction, much will depend on the labor environment. We know that, historically, adding government jobs was the means to keep unemployment numbers down in the midst of what was a 100-year global crisis event. The big surge in hiring started as part of the pandemic response but too many of these were “make work” jobs. Too many were hired, and it can also be argued that too many are now being fired (granted there is a strong need for trimming and right-sizing). But government efforts can overreach and there are some unintended consequences that can follow from overreaching.

The wild card in all this remains the chronic worker shortage. Can those leaving their old job find a new one? Is AI appropriate for the companies that need staff? The shortages of workers (estimated job openings were still running more than 7.7 million in the last estimate) are concentrated in sectors like construction, manufacturing, transportation etc. and these are generally not the skill sets possessed by former government workers and these are not jobs that AI can easily do (without reasonable humanoid robotics which are still a year or more away). Retraining and education to move from office-driven jobs to historically blue collar positions can take place, but not all individuals can physically make that transition.

We are not yet convinced that this series of “unprecedented” actions trigger a recession, but we can easily talk ourselves into one. As recession fears grow, consumers and executives make decisions to keep themselves liquid because of the uncertainty, and spending can stall to a degree. For now, credit markets remain conducive to growth and show little signs of strain. For 2025, most forecasts still have the US economy growing, but growth expectations have eased from 2.1% to 1.5-1.7%. – KP

The CICPAC Quarterly Economic Report is published quarterly for the Construction Industry CPAs and Consultants. Its contents are solely for informational purposes and any use thereof or reliance thereon is at the sole and independent discretion and responsibility of the reader. While the information contained in this report is believed to be accurate as of the date of publication, CICPAC and the author disclaim all warranties, express or implied, as to its accuracy and completeness.

Regional MSA Construction Potential Index

The following section shows the Construction Potential Index developed by Armada in conjunction with Pioneer IQ for the largest Metropolitan Statistical Areas (MSAs) in the country. This index measures growth potential and construction spending per capita to create a construction potential index. The score itself is not as important as the index in relation to all other markets, which is important in understanding and the index incorporates both residential and nonresidential construction potential. Q3 data is the latest available.

| Rank | MSA | NAED Construction Scoring System | Change in Gross Construction GDP | | BEA Region |
|------|--|----------------------------------|--|--|------------|
| | | Construction Potential Score | Q3 2024 Q/Q Change in Gross Construction GDP | Q3 2024 Y/Y Change in Gross Construction GDP | |
| 1 | Dallas-Fort Worth-Arlington, TX | 2720.0 | 1.9% | 13.1% | SW |
| 2 | Houston-The Woodlands-Sugar Land, TX | 2525.6 | 1.9% | 13.1% | SW |
| 3 | Chicago-Naperville-Elgin, IL-IN-WI | 2500.7 | 1.5% | 7.5% | GL |
| 4 | New York-Newark-Jersey City, NY-NJ-PA | 2474.9 | 0.3% | 4.2% | ME |
| 5 | Washington-Arlington-Alexandria, DC-VA-MD-WV | 2341.3 | 1.1% | 4.9% | ME |
| 6 | Los Angeles-Long Beach-Anaheim, CA | 2154.6 | 0.1% | 5.1% | FW |
| 7 | Phoenix-Mesa-Scottsdale, AZ | 1886.7 | 1.3% | 14.1% | SW |
| 8 | Atlanta-Sandy Springs-Roswell, GA | 1689.4 | -0.3% | 6.2% | SE |
| 9 | Miami-Fort Lauderdale-West Palm Beach, FL | 1510.0 | 2.4% | 11.4% | SE |
| 10 | San Francisco-Oakland-Hayward, CA | 1413.2 | 0.1% | 5.1% | FW |
| 11 | Seattle-Tacoma-Bellevue, WA | 1332.4 | 0.7% | 2.7% | FW |
| 12 | Boston-Cambridge-Newton, MA-NH | 1230.0 | 0.9% | 7.1% | NE |
| 13 | Minneapolis-St. Paul-Bloomington, MN-WI | 1215.5 | 0.4% | 5.2% | GL |
| 14 | Denver-Aurora-Lakewood, CO | 1097.7 | 1.5% | 4.7% | RM |
| 15 | Las Vegas-Henderson-Paradise, NV | 1080.7 | 1.3% | 1.1% | FW |
| 16 | Riverside-San Bernardino-Ontario, CA | 1016.1 | 0.1% | 5.1% | FW |
| 17 | Baltimore-Columbia-Towson, MD | 1008.5 | 0.3% | -1.1% | ME |
| 18 | Austin-Round Rock, TX | 972.6 | 1.9% | 13.1% | SW |
| 19 | Orlando-Kissimmee-Sanford, FL | 971.3 | 2.4% | 11.4% | SE |
| 20 | Tampa-St. Petersburg-Clearwater, FL | 924.2 | 2.4% | 11.4% | SE |
| 21 | Portland-Vancouver-Hillsboro, OR-WA | 914.2 | 0.5% | 1.8% | FW |
| 22 | Salt Lake City, UT | 870.6 | 2.4% | 14.0% | RM |
| 23 | Nashville-Davidson-Murfreesboro-Franklin, TN | 789.4 | 1.9% | 11.8% | SE |
| 24 | Indianapolis-Carmel-Anderson, IN | 783.9 | 1.6% | 12.1% | GL |
| 25 | Sacramento-Roseville-Arden-Arcade, CA | 725.7 | 0.1% | 5.1% | FW |
| 26 | Charlotte-Concord-Gastonia, NC-SC | 706.4 | 1.2% | 11.2% | SE |
| 27 | St. Louis, MO-IL | 693.7 | 1.4% | 8.0% | P |
| 28 | Detroit-Warren-Dearborn, MI | 687.0 | -0.1% | 12.5% | GL |
| 29 | San Diego-Carlsbad, CA | 678.6 | 0.1% | 5.1% | FW |
| 30 | Raleigh, NC | 650.8 | 1.2% | 11.2% | SE |
| 31 | San Antonio-New Braunfels, TX | 637.3 | 1.9% | 13.1% | SW |
| 32 | Columbus, OH | 631.8 | 0.1% | 7.4% | GL |
| 33 | Kansas City, MO-KS | 553.3 | 0.6% | 10.8% | P |
| 34 | San Jose-Sunnyvale-Santa Clara, CA | 548.0 | 0.1% | 5.1% | FW |
| 35 | Cincinnati, OH-KY-IN | 542.6 | 0.8% | 9.2% | GL |
| 36 | Baton Rouge, LA | 542.2 | 0.1% | 17.6% | SE |
| 37 | Jacksonville, FL | 519.0 | 2.4% | 11.4% | SE |
| 38 | Provo-Orem, UT | 420.9 | 2.4% | 14.0% | RM |
| 39 | Charleston-North Charleston, SC | 386.5 | 0.1% | 7.7% | SE |

| Rank | MSA | NAED Construction Scoring System | Change in Gross Construction GDP | | BEA Region |
|------|---|---|--|--|------------|
| | | Construction Potential Score | Q3 2024 Q/Q Change in Gross Construction GDP | Q3 2024 Y/Y Change in Gross Construction GDP | |
| 40 | Boise City, ID | 382.5 | -0.3% | 7.5% | RM |
| 41 | Richmond, VA | 363.2 | 1.8% | 10.8% | SE |
| 42 | Louisville-Jefferson County, KY-IN | 359.8 | 1.6% | 10.9% | SE |
| 43 | Grand Rapids-Wyoming, MI | 327.8 | -0.1% | 12.5% | GL |
| 44 | North Port-Sarasota-Bradenton, FL | 318.8 | 2.4% | 11.4% | SE |
| 45 | Cape Coral-Fort Myers, FL | 310.2 | 2.4% | 11.4% | SE |
| 46 | Urban Honolulu, HI | 310.0 | 0.3% | 10.1% | FW |
| 47 | Philadelphia-Camden-Wilmington, PA-NJ-DE-MD | 309.9 | 0.3% | 3.0% | ME |
| 48 | Ogden-Clearfield, UT | 308.8 | 2.4% | 14.0% | RM |
| 49 | New Orleans-Metairie, LA | 304.6 | 0.1% | 17.6% | SE |
| 50 | Reno, NV | 303.7 | 1.3% | 1.1% | FW |
| 51 | Milwaukee-Waukesha-West Allis, WI | 287.1 | 1.1% | 4.7% | GL |
| 52 | Des Moines-West Des Moines, IA | 278.2 | 0.7% | 12.4% | P |
| 53 | Greenville-Anderson-Mauldin, SC | 277.6 | 0.1% | 7.7% | SE |
| 54 | Oklahoma City, OK | 271.3 | 2.1% | 11.5% | SW |
| 55 | Colorado Springs, CO | 253.8 | 1.5% | 4.7% | RM |
| 56 | Omaha-Council Bluffs, NE-IA | 231.6 | 0.8% | 10.2% | P |
| 57 | Columbia, SC | 224.1 | 0.1% | 7.7% | SE |
| 58 | Memphis, TN-MS-AR | 214.4 | 1.3% | 12.3% | SE |
| 59 | Lakeland-Winter Haven, FL | 213.7 | 2.4% | 11.4% | SE |
| 60 | Tucson, AZ | 212.2 | 1.3% | 14.1% | SW |
| 61 | Birmingham-Hoover, AL | 211.7 | 1.1% | 11.3% | SE |
| 62 | Durham-Chapel Hill, NC | 202.8 | 1.2% | 11.2% | SE |
| 63 | Tulsa, OK | 198.1 | 2.1% | 11.5% | SW |
| 64 | Myrtle Beach-Conway-North Myrtle Beach, SC-NC | 195.5 | 0.9% | 10.1% | SE |
| 65 | Madison, WI | 185.6 | 1.1% | 4.7% | GL |
| 66 | Greensboro-High Point, NC | 180.9 | 1.2% | 11.2% | SE |
| 67 | Fresno, CA | 175.1 | 0.1% | 5.1% | FW |
| 68 | Naples-Immokalee-Marco Island, FL | 174.7 | 2.4% | 11.4% | SE |
| 69 | Deltona-Daytona Beach-Ormond Beach, FL | 171.7 | 2.4% | 11.4% | SE |
| 70 | Albuquerque, NM | 168.5 | 0.3% | 4.7% | SW |
| 71 | Palm Bay-Melbourne-Titusville, FL | 163.6 | 2.4% | 11.4% | SE |
| 72 | Fayetteville-Springdale-Rogers, AR-MO | 162.9 | 0.6% | 11.7% | SE |
| 73 | Lancaster, PA | 161.1 | 0.7% | 6.7% | ME |
| 74 | Stockton-Lodi, CA | 159.2 | 0.1% | 5.1% | FW |
| 75 | Bridgeport-Stamford-Norwalk, CT | 158.3 | -0.4% | 10.3% | NE |
| 76 | Albany-Schenectady-Troy, NY | 158.3 | 0.2% | 3.7% | ME |
| 77 | Knoxville, TN | 154.9 | 1.9% | 11.8% | SE |
| 78 | Greeley, CO | 153.1 | 1.5% | 4.7% | RM |
| 79 | Augusta-Richmond County, GA-SC | 148.3 | -0.2% | 6.7% | SE |
| 80 | Little Rock-North Little Rock-Conway, AR | 147.0 | -0.2% | 12.1% | SE |
| 81 | Santa Rosa, CA | 147.0 | 0.1% | 5.1% | FW |
| 82 | Rochester, NY | 145.2 | 0.2% | 3.7% | ME |
| 83 | Corpus Christi, TX | 137.3 | 1.9% | 13.1% | SW |
| 84 | Lexington-Fayette, KY | 136.6 | 1.4% | 8.6% | SE |
| 85 | Bakersfield, CA | 136.4 | 0.1% | 5.1% | FW |
| 86 | Huntsville, AL | 135.7 | 0.1% | 17.6% | SE |
| 87 | Oxnard-Thousand Oaks-Ventura, CA | 127.5 | 0.1% | 5.1% | FW |
| 88 | Fort Collins, CO | 126.9 | 1.5% | 4.7% | RM |
| 89 | Salisbury, MD-DE | 123.7 | 0.2% | -0.1% | ME |
| 90 | Pensacola-Ferry Pass-Brent, FL | 123.0 | 2.4% | 11.4% | SE |
| 91 | Anchorage, AK | 119.1 | 0.2% | 20.3% | FW |
| 92 | Spokane-Spokane Valley, WA | 117.5 | 0.7% | 2.7% | FW |
| 93 | Vallejo-Fairfield, CA | 117.4 | 0.1% | 5.1% | FW |
| 94 | Wichita, KS | 113.0 | -0.1% | 9.1% | P |
| 95 | Port St. Lucie, FL | 111.7 | 2.4% | 11.4% | SE |
| 96 | Killeen-Temple, TX | 102.0 | 1.9% | 13.1% | SW |
| 97 | Savannah, GA | 100.4 | -0.3% | 6.2% | SE |
| 98 | Fargo, ND-MN | 99.7 | 0.1% | 5.5% | P |
| 99 | Kennewick-Richland, WA | 97.0 | 0.7% | 2.7% | FW |

| Rank | MSA | NAED Construction Scoring System | Change in Gross Construction GDP | | BEA Region |
|------|-------------------------------|----------------------------------|--|--|------------|
| | | Construction Potential Score | Q3 2024 Q/Q Change in Gross Construction GDP | Q3 2024 Y/Y Change in Gross Construction GDP | |
| 100 | McAllen-Edinburg-Mission, TX | 95.0 | 1.9% | 13.1% | SW |
| 101 | Sioux Falls, SD | 93.5 | 2.8% | 7.1% | P |
| 102 | Modesto, CA | 84.3 | 0.1% | 5.1% | FW |
| 103 | Santa Maria-Santa Barbara, CA | 74.9 | 0.1% | 5.1% | FW |
| 104 | Lafayette, LA | 69.6 | 0.1% | 17.6% | SE |
| 105 | Visalia-Porterville, CA | 48.2 | 0.1% | 5.1% | FW |

Residential Construction

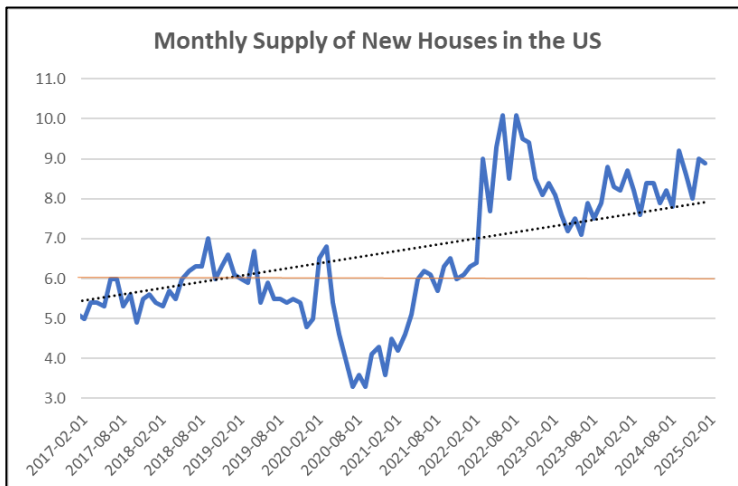
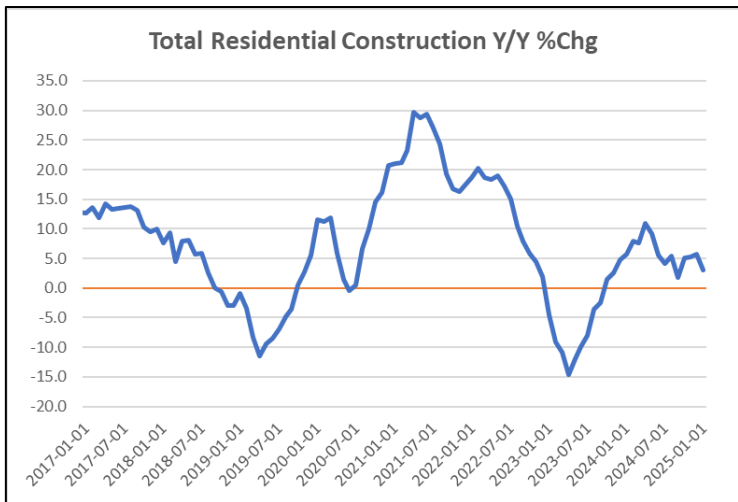
The following section includes viewpoints on factors in the residential construction sector.

Total Residential Construction (PRRESCONS)

- Total residential construction in January (latest available), was up by 3.1% Y/Y (up 5.7% last month). It was down 0.4% M/M (1.3% higher last month).
- Outlook:** Bond rates are still experiencing pressure, the 10 year Treasury (which is what most mortgage rates are anchored to), inched up of late to 4.375%, up from 4.2% at the beginning of March. Inflation fears were driving most of this increase in the bond rate, coming on the heels of tariff increases. There is also some concern that the unemployment rate could increase to 4.6%-4.8%, up from 4.3% as government layoffs and budget trimming begin to ripple through the economy. Most forecasts show the residential housing market flattening out across the rest of the year at approximately 1.4 million units.

Monthly Supply of Homes (MSACSR)

- The monthly supply of homes came in at 8.9, which is down slightly from the 9.0 registered last month. But it is nearly in-line with the 8.7 months registered a year ago. A balanced market would be roughly 6 months of inventory on hand.
- Outlook:** 6 months of inventory on hand is considered to be "normal", and inventories are somewhat elevated. But note that the housing industry is highly regionalized. There will be pockets of the country that undergo significant impacts from government layoffs (at least three primary markets with dense government worker populations), but other markets in the south and Midwest could see a tighter home environment.



| Month | United States | | | | |
|----------|---------------|--------|---------|--------------|-----------------|
| | Total | 1 unit | 2 units | 3 to 4 units | 5 units or more |
| Jan 2024 | 114.8 | 75.9 | 2.1 | 1.7 | 35.1 |
| Feb 2024 | 119.1 | 79.4 | 2.5 | 1.6 | 35.6 |
| Mar 2024 | 124.3 | 85.2 | 2.8 | 1.5 | 34.8 |
| Apr 2024 | 132.3 | 93.6 | 3.5 | 1.6 | 33.7 |
| May 2024 | 132.4 | 94.1 | 3.5 | 1.7 | 33.1 |
| Jun 2024 | 125.7 | 83.7 | 2.6 | 1.5 | 37.8 |
| Jul 2024 | 126.5 | 85.8 | 2.8 | 1.7 | 36.1 |
| Aug 2024 | 131.9 | 86.1 | 3.4 | 1.9 | 40.5 |
| Sep 2024 | 113.5 | 76.7 | 3.3 | 1.5 | 32.1 |
| Oct 2024 | 125.1 | 84.4 | 3.2 | 1.8 | 35.8 |
| Nov 2024 | 107.3 | 66.6 | 2.4 | 1.5 | 36.8 |
| Dec 2024 | 112.6 | 68.3 | 2.4 | 1.6 | 40.3 |
| Jan 2025 | 111.5 | 73.1 | 2.7 | 1.5 | 34.2 |

Housing Permits

(<https://www.census.gov/construction/bps/>)

- Housing Permits were down 0.6% M/M in January (latest available) vs. December and were 2.3% lower year-over-year. Single-family permits were down 0.2% M/M and were 3.6% lower vs. Jan of last year. Multi-family was a bigger story, permits were down 2.5% M/M in Jan and were down just 0.9% Y/Y.
- Looking Ahead:** Permits are our best gauge looking forward into the future. The 10Y Treasury rate is finally starting to ease, but higher yields on the key US bond have kept mortgage rates at 6.6% or higher. Treasuries were not responding to Federal Reserve rate trimming activity in 2024 (shaving 100 basis points off of the Effective Fed Funds Rate) because of higher US deficit and inflation risks. The US Treasury is changing its bond issuance strategy, which should help lower rates more aggressively by this summer.

The following section shows housing permits authorized by region for total, single-family, and multi-family.

| Month | Northeast | | | | | | | | | | | |
|----------|-----------|--------|---------------------|--------|--------|-------|---------------------|--------|--------|--------|---------------------|--------|
| | Total | Y/Y | 3-Month Moving Avg. | M/M | 1 unit | Y/Y | 3-Month Moving Avg. | M/M | 5 unit | Y/Y | 3-Month Moving Avg. | M/M |
| Jan 2024 | 10.7 | 42.7% | 4.6% | 32.1% | 4.4 | 18.9% | -1.7% | 25.7% | 6.3 | 65.8% | 17.1% | 37.0% |
| Feb 2024 | 14.3 | 95.9% | 26.6% | 33.6% | 4.2 | 27.3% | 0.9% | -4.5% | 10.1 | 152.5% | 53.9% | 60.3% |
| Mar 2024 | 12.4 | -1.6% | 17.5% | -13.3% | 4.4 | -2.2% | 8.6% | 4.8% | 8.0 | -1.2% | 25.5% | -20.8% |
| Apr 2024 | 12.1 | 42.4% | 6.0% | -2.4% | 5.6 | 19.1% | 9.2% | 27.3% | 6.5 | 71.1% | 6.9% | -18.8% |
| May 2024 | 10.9 | -11.4% | -8.5% | -9.9% | 5.8 | 5.5% | 11.9% | 3.6% | 5.1 | -25.0% | -20.4% | -21.5% |
| Jun 2024 | 11.8 | 12.4% | -1.4% | 8.3% | 5.7 | -1.7% | 9.7% | -1.7% | 6.1 | 29.8% | -6.9% | 19.6% |
| Jul 2024 | 12.3 | 38.2% | 0.9% | 4.2% | 5.4 | 20.0% | -1.1% | -5.3% | 6.9 | 56.8% | 3.7% | 13.1% |
| Aug 2024 | 12.6 | 14.5% | 5.0% | 2.4% | 6.0 | 15.4% | 1.4% | 11.1% | 6.6 | 13.8% | 9.5% | -4.3% |
| Sep 2024 | 10.1 | 20.2% | -4.4% | -19.8% | 5.1 | 10.9% | -3.1% | -15.0% | 5.0 | 31.6% | -5.2% | -24.2% |
| Oct 2024 | 11.1 | 5.7% | -2.5% | 9.9% | 5.8 | 18.4% | 3.3% | 13.7% | 5.3 | -5.4% | -7.5% | 6.0% |
| Nov 2024 | 11.0 | 54.9% | -3.6% | -0.9% | 4.3 | 0.0% | -9.0% | -25.9% | 6.7 | 139.3% | 2.7% | 26.4% |
| Dec 2024 | 13.9 | 71.6% | 11.8% | 26.4% | 4.4 | 25.7% | -3.3% | 2.3% | 9.5 | 106.5% | 24.7% | 41.8% |
| Jan 2025 | 9.8 | -8.4% | -1.3% | -29.5% | 4.4 | 0.0% | -7.8% | 0.0% | 5.4 | -14.3% | 8.3% | -43.2% |

| Month | Midwest | | | | | | | | | | | |
|----------|---------|-------|---------------------|--------|--------|-------|---------------------|--------|--------|--------|---------------------|--------|
| | Total | Y/Y | 3-Month Moving Avg. | M/M | 1 unit | Y/Y | 3-Month Moving Avg. | M/M | 5 unit | Y/Y | 3-Month Moving Avg. | M/M |
| Jan 2024 | 12.3 | 25.5% | -8.9% | 4.2% | 6.6 | 37.5% | -14.3% | -4.3% | 5.7 | 14.0% | -0.3% | 16.3% |
| Feb 2024 | 14.3 | 34.9% | -0.1% | 16.3% | 8.8 | 49.2% | 3.1% | 33.3% | 5.5 | 17.0% | -3.1% | -3.5% |
| Mar 2024 | 15.9 | -9.7% | 10.6% | 11.2% | 10.6 | 14.0% | 16.5% | 20.5% | 5.3 | -36.1% | 3.1% | -3.6% |
| Apr 2024 | 16.2 | 6.6% | 9.8% | 1.9% | 12.2 | 22.0% | 23.0% | 15.1% | 4.0 | -23.1% | -10.6% | -24.5% |
| May 2024 | 18.3 | -3.7% | 8.7% | 13.0% | 11.8 | 3.5% | 10.8% | -3.3% | 6.5 | -14.5% | 11.4% | 62.5% |
| Jun 2024 | 18.1 | -4.2% | 4.6% | -1.1% | 11.2 | -2.6% | 2.2% | -5.1% | 6.9 | -6.8% | 14.7% | 6.2% |
| Jul 2024 | 17.3 | 12.3% | 2.5% | -4.4% | 11.3 | 10.8% | -2.5% | 0.9% | 6.0 | 15.4% | 18.5% | -13.0% |
| Aug 2024 | 19.8 | -2.9% | 3.0% | 14.5% | 11.6 | 0.0% | -0.5% | 2.7% | 8.2 | -6.8% | 9.9% | 36.7% |
| Sep 2024 | 18.3 | 6.4% | 0.8% | -7.6% | 11.6 | 10.5% | 1.2% | 0.0% | 6.7 | 0.0% | 1.8% | -18.3% |
| Oct 2024 | 20.5 | 23.5% | 6.3% | 12.0% | 12.6 | 18.9% | 3.8% | 8.6% | 7.9 | 31.7% | 12.1% | 17.9% |
| Nov 2024 | 16.6 | 11.4% | -4.9% | -19.0% | 8.9 | 3.5% | -6.9% | -29.4% | 7.7 | 22.2% | -1.0% | -2.5% |
| Dec 2024 | 14.2 | 20.3% | -7.2% | -14.5% | 7.6 | 10.1% | -11.8% | -14.6% | 6.6 | 34.7% | 0.4% | -14.3% |
| Jan 2025 | 12.9 | 4.9% | -14.2% | -9.2% | 7.3 | 10.6% | -16.0% | -3.9% | 5.6 | -1.8% | -10.7% | -15.2% |

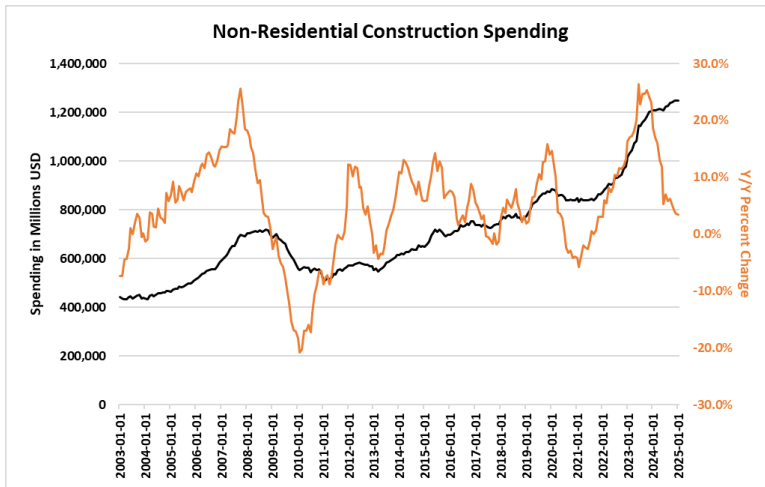
| Month | South | | | | | | | | | | | |
|----------|----------------|-------|-------|--------|--------|-------|----------------|--------|--------|--------|----------------|--------|
| | 3-Month Moving | | | | 1 unit | Y/Y | 3-Month Moving | | 5 unit | Y/Y | 3-Month Moving | |
| | Total | Y/Y | Avg. | M/M | | | Avg. | M/M | | | Avg. | M/M |
| Jan 2024 | 66.7 | 7.2% | -0.8% | 12.9% | 48.0 | 39.5% | 1.2% | 21.8% | 18.7 | -32.7% | -2.8% | -5.1% |
| Feb 2024 | 64.9 | -0.9% | 5.1% | -2.7% | 49.5 | 31.0% | 6.9% | 3.1% | 15.4 | -44.4% | 2.6% | -17.6% |
| Mar 2024 | 67.2 | -6.4% | 4.6% | 3.5% | 51.2 | 4.5% | 9.5% | 3.4% | 16.0 | -29.8% | -6.3% | 3.9% |
| Apr 2024 | 77.5 | 17.6% | 5.4% | 15.3% | 56.0 | 23.6% | 5.3% | 9.4% | 21.5 | 4.4% | 6.9% | 34.4% |
| May 2024 | 73.2 | -3.7% | 4.4% | -5.5% | 55.8 | 6.1% | 4.2% | -0.4% | 17.4 | -25.6% | 6.4% | -19.1% |
| Jun 2024 | 67.2 | -8.3% | 0.5% | -8.2% | 48.3 | -9.7% | -1.5% | -13.4% | 18.9 | -4.5% | 8.0% | 8.6% |
| Jul 2024 | 69.9 | 5.1% | -3.2% | 4.0% | 50.7 | 9.5% | -2.9% | 5.0% | 19.2 | -5.0% | -3.0% | 1.6% |
| Aug 2024 | 72.6 | -5.1% | -0.1% | 3.9% | 50.1 | -4.6% | -3.2% | -1.2% | 22.5 | -6.3% | 9.1% | 17.2% |
| Sep 2024 | 59.1 | -7.8% | -3.6% | -18.6% | 43.0 | -5.9% | -3.5% | -14.2% | 16.1 | -12.5% | -3.2% | -28.4% |
| Oct 2024 | 65.6 | -7.1% | -1.2% | 11.0% | 47.9 | 0.2% | -1.3% | 11.4% | 17.7 | -22.4% | -0.4% | 9.9% |
| Nov 2024 | 54.7 | -2.7% | -8.1% | -16.6% | 38.9 | -5.4% | -7.2% | -18.8% | 15.8 | 4.6% | -9.7% | -10.7% |
| Dec 2024 | 59.9 | 1.4% | 1.3% | 9.5% | 41.3 | 4.8% | -0.4% | 6.2% | 18.6 | -5.6% | 5.6% | 17.7% |
| Jan 2025 | 66.0 | -1.0% | 1.0% | 10.2% | 44.8 | -6.7% | -1.4% | 8.5% | 21.2 | 13.4% | 7.0% | 14.0% |

| Month | West | | | | | | | | | | | |
|----------|----------------|--------|-------|--------|--------|-------|----------------|--------|--------|--------|----------------|--------|
| | 3-Month Moving | | | | 1 unit | Y/Y | 3-Month Moving | | 5 unit | Y/Y | 3-Month Moving | |
| | Total | Y/Y | Avg. | M/M | | | Avg. | M/M | | | Avg. | M/M |
| Jan 2024 | 25.1 | 16.7% | -2.5% | -3.5% | 17.0 | 66.7% | 1.3% | 12.6% | 8.1 | -28.3% | -6.0% | -25.7% |
| Feb 2024 | 25.6 | -6.6% | -5.5% | 2.0% | 16.9 | 45.7% | 2.9% | -0.6% | 8.7 | -44.9% | -15.2% | 7.4% |
| Mar 2024 | 28.8 | -1.7% | 3.7% | 12.5% | 18.9 | 13.9% | 7.9% | 11.8% | 9.9 | -22.0% | -1.5% | 13.8% |
| Apr 2024 | 26.5 | -5.4% | 2.2% | -8.0% | 19.8 | 30.3% | 5.3% | 4.8% | 6.7 | -47.7% | -3.7% | -32.3% |
| May 2024 | 30.0 | -6.8% | 5.9% | 13.2% | 20.6 | 5.6% | 6.9% | 4.0% | 9.4 | -26.0% | 7.3% | 40.3% |
| Jun 2024 | 28.6 | -13.1% | 0.2% | -4.7% | 18.5 | -8.4% | -0.5% | -10.2% | 10.1 | -20.5% | 5.1% | 7.4% |
| Jul 2024 | 27.1 | -2.5% | 1.1% | -5.2% | 18.5 | 10.1% | -2.1% | 0.0% | 8.6 | -21.8% | 11.0% | -14.9% |
| Aug 2024 | 26.9 | -20.6% | -3.5% | -0.7% | 18.3 | -3.7% | -3.8% | -1.1% | 8.6 | -42.3% | -2.5% | 0.0% |
| Sep 2024 | 25.9 | -4.4% | -3.2% | -3.7% | 17.0 | 8.3% | -2.7% | -7.1% | 8.9 | -21.9% | -3.8% | 3.5% |
| Oct 2024 | 27.8 | 0.7% | 1.0% | 7.3% | 18.1 | 9.7% | -0.6% | 6.5% | 9.7 | -12.6% | 4.2% | 9.0% |
| Nov 2024 | 25.0 | -18.3% | -2.2% | -10.1% | 14.5 | -7.1% | -6.8% | -19.9% | 10.5 | -30.0% | 6.9% | 8.2% |
| Dec 2024 | 24.6 | -5.4% | -1.4% | -1.6% | 15.0 | -0.7% | -3.3% | 3.4% | 9.6 | -11.9% | 2.9% | -8.6% |
| Jan 2025 | 22.8 | -9.2% | -6.3% | -7.3% | 16.6 | -2.4% | -1.9% | 10.7% | 6.2 | -23.5% | -11.9% | -35.4% |

| Housing and Interest Rate Forecast, 03/06/2025 | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Housing Activity (000) | | | | | | | |
| Total Housing Starts | 1,394 | 1,605 | 1,552 | 1,421 | 1,367 | 1,353 | 1,393 |
| Single Family | 1,000 | 1,131 | 1,006 | 949 | 1,013 | 1,021 | 1,051 |
| Multifamily | 393 | 474 | 546 | 473 | 354 | 333 | 342 |
| New Single Family Sales | 831 | 770 | 637 | 666 | 686 | 697 | 743 |
| Existing Single-Family Home Sales | 5,057 | 5,425 | 4,533 | 3,674 | 3,673 | 3,735 | 4,310 |
| Interest Rates | | | | | | | |
| Federal Funds Rate | 0.36% | 0.08% | 1.68% | 5.03% | 5.15% | 4.22% | 3.90% |
| US Ten Year Bond Maturity | 0.89% | 1.44% | 2.95% | 3.96% | 4.21% | 4.36% | 4.10% |
| Fixed Rate Mortgages | 3.11% | 2.96% | 5.34% | 6.81% | 6.72% | 6.65% | 6.19% |
| Prime Rate | 3.54% | 3.25% | 4.85% | 8.19% | 8.31% | 7.36% | 7.03% |

For more forecast details, visit www.nahb.org.

Nonresidential Construction



Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in January (latest available) was 3.4% higher than it was a year ago (3.6% higher last month) and was 0.1% higher M/M (-0.1% in the last report). Overall spending was still near all-time highs at \$1.248T (the prior annualized run rate peak of \$900B was in September of 2022).
- Outlook:** The nonresidential construction sector continues to grow at a moderate rate at 3.4% Y/Y, but when adjusted for inflation it comes across flat. The sub-sectors are mixed (shown in detail below), many of them are waiting for private spending to take off (so-called animal spirits). But many private firms are moving back into a conservative stance and are sitting on cash at the moment. Architectural Billings data shows that foot traffic and activity are still in contraction.

Table 1. Value of Construction Put in Place in the United States, Seasonally Adjusted Annual Rate (Millions of dollars. Details may not add to totals due to rounding.)

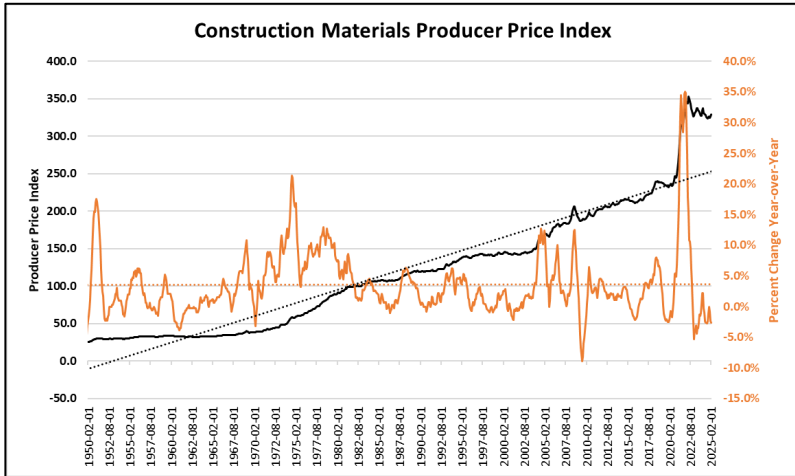
| Type of Construction | Jan 2025 ^p | Dec 2024 ^f | Nov 2024 ^f | Oct 2024 | Sep 2024 | Jan 2024 | Percent change Jan 2025 from - | |
|------------------------------|-----------------------|-----------------------|-----------------------|------------------|------------------|------------------|--------------------------------|------------|
| | | | | | | | Dec 2024 | Jan 2024 |
| Total Construction | 2,192,540 | 2,195,985 | 2,184,796 | 2,176,627 | 2,142,427 | 2,122,229 | -0.2 | 3.3 |
| Residential | 944,481 | 948,762 | 936,848 | 934,237 | 903,941 | 915,398 | -0.5 | 3.2 |
| New single family | 431,246 | 428,545 | 423,953 | 422,628 | 419,907 | 435,000 | 0.6 | -0.9 |
| New multifamily | 116,932 | 117,809 | 118,561 | 121,279 | 123,277 | 132,883 | -0.7 | -12.0 |
| Nonresidential | 1,248,058 | 1,247,223 | 1,247,949 | 1,242,391 | 1,238,485 | 1,206,831 | 0.1 | 3.4 |
| Water supply | 34,334 | 34,243 | 35,095 | 35,354 | 35,367 | 29,614 | 0.3 | 15.9 |
| Amusement and recreation | 41,363 | 41,327 | 41,886 | 41,873 | 41,506 | 36,446 | 0.1 | 13.5 |
| Public safety | 19,096 | 19,139 | 19,391 | 19,567 | 19,237 | 17,411 | -0.2 | 9.7 |
| Sewage and waste disposal | 47,015 | 46,835 | 47,135 | 47,404 | 47,242 | 43,120 | 0.4 | 9.0 |
| Transportation | 70,093 | 70,013 | 69,684 | 69,926 | 70,018 | 65,448 | 0.1 | 7.1 |
| Educational | 134,701 | 135,553 | 136,434 | 135,250 | 133,151 | 126,055 | -0.6 | 6.9 |
| Religious | 4,662 | 4,590 | 4,603 | 4,339 | 4,067 | 4,399 | 1.6 | 6.0 |
| Manufacturing | 235,749 | 236,535 | 236,377 | 236,777 | 236,805 | 223,104 | -0.3 | 5.7 |
| Office | 104,781 | 104,317 | 103,308 | 103,455 | 100,602 | 100,928 | 0.4 | 3.8 |
| Power | 151,842 | 151,329 | 151,098 | 148,803 | 148,438 | 146,801 | 0.3 | 3.4 |
| Communication | 29,139 | 29,071 | 29,093 | 28,858 | 28,760 | 28,595 | 0.2 | 1.9 |
| Lodging | 23,494 | 23,330 | 23,298 | 23,404 | 23,479 | 23,576 | 0.7 | -0.3 |
| Health care | 69,339 | 68,944 | 70,163 | 68,523 | 68,454 | 69,830 | 0.6 | -0.7 |
| Conservation and development | 11,431 | 11,360 | 11,498 | 11,459 | 11,584 | 11,593 | 0.6 | -1.4 |
| Highway and street | 146,064 | 145,172 | 143,616 | 143,019 | 144,168 | 149,196 | 0.6 | -2.1 |
| Commercial | 124,956 | 125,467 | 125,270 | 124,379 | 125,608 | 130,717 | -0.4 | -4.4 |

Non-Residential Spending by Sector

(<https://www.census.gov/construction/c30/c30index.html>)

- The fastest growing non-residential construction sector has continued to be connected to manufacturing. It is still growing at a 5.7% pace year over year against difficult comparisons on (more importantly) \$236 billion in spending. Inflation has played a role in this growth rate, but actual spending is still nearly 4 times higher than at any time in the decade prior to the pandemic. These new facilities are landing in broad swaths of the country, largely in areas with inexpensive electricity, ample labor supply, good distribution systems, and available water (among other factors). How the new energy policy and location of new power plants will drive site selection for industrial facilities is still yet to be seen. But many believe that they will be located on/near large natural gas deposits.
- Lodging, health care, conservation and development, highways and street, and commercial are all contracting year-over-year. But just as in the industrial sector, many of these sectors are still experiencing construction spending that is 2-4 times higher than it was in 2019.
- Some of the strongest sectors for current spending are still coming out of infrastructure projects, many of which were funded under the Infrastructure Bill. That funding will begin to run thin next year and into 2027, but much of the 10-year bill was front-loaded into the first 5 years.
- Looking forward, spending across most of these sectors is expected to continue to be trending near historically high levels. Industrial/manufacturing and energy should see above average growth in 2025 and over the next three years based on Trump Administration support. Health care, transportation, water supply, and commercial are likely to see some moderate growth rates. Office construction activity is also likely to pick up in some regions with more stringent back-to-office programs and corporate relocation activities.

Raw Materials



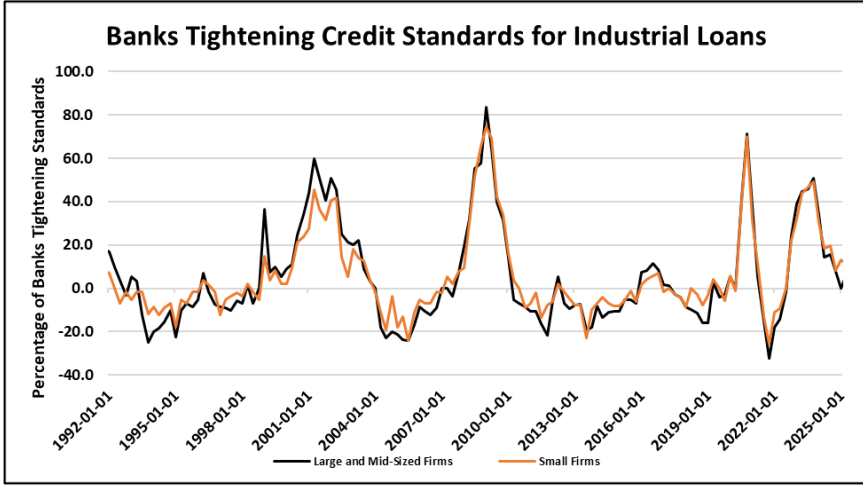
Construction Materials Price Index (WPUSI012011)

- The Producer Price Index for Construction Materials rose by 0.8% M/M and were down 2.6% Y/Y through February (latest available). The current index is at 329.0 points; the peak in the index was 349 in May of 2022.
- **Outlook:** Copper prices continue to surge on supply and tariff concerns. Other materials remain mixed as demand concerns have started to seep into the outlooks. Tariff threats are still a concern for many purchasing managers, and some are stockpiling resources to get ahead of that risk. That near term overstocking of resources is tightening global supply and pushing transportation costs higher (maritime firms are instituting general rate increases before the May 1st contract deadlines and air cargo rates have surged by 8% Y/Y).

| Producer Price Index - Key Industry Products | | | | | | |
|---|----------------|--------|--------|----------|--------|-----------|
| Category | PPI Code | Feb-25 | Jan-25 | M/M% Chg | Feb-24 | Y/Y % Chg |
| Core Materials | | | | | | |
| Copper | WPUSI019011 | 572.3 | 561.5 | 1.9% | 507.8 | 12.7% |
| Lumber | WPU081 | 268.3 | 264.0 | 1.6% | 248.6 | 7.9% |
| Nickel | WPU102504 | 205.0 | 207.9 | -1.4% | 211.3 | -3.0% |
| Cement | PCU32732032732 | 397.0 | 396.8 | 0.0% | 387.4 | 2.5% |
| Pipe, Valves and Fittings | | | | | | |
| Metal valves, except fluid power | WPU114902 | 456.3 | 453.1 | 0.7% | 440.3 | 3.6% |
| Gates, globes, angles and check valves | WPU114902011 | 176.1 | 174.9 | 0.7% | 169.8 | 3.7% |
| Ball valves | WPU11490202 | 593.4 | 576.0 | 3.0% | 557.3 | 6.5% |
| Butterfly valves (formerly W2421490203) | WPU11490203 | 336.5 | 326.0 | 3.2% | 319.8 | 5.2% |
| Industrial plug valves | WPU11490204 | 332.5 | 332.8 | -0.1% | 325.4 | 2.2% |
| Plumbing and heating valves (low pressure) | WPU11490205 | 389.8 | 389.8 | 0.0% | 389.8 | 0.0% |
| Solenoid valves | WPU11490208 | 372.2 | 372.2 | 0.0% | 372.2 | 0.0% |
| Other industrial valves, including nuclear | WPU11490209 | 410.4 | 410.4 | 0.0% | 401.1 | 2.3% |
| Automatic valves | WPU11490211 | 272.5 | 271.9 | 0.2% | 261.3 | 4.3% |
| Metal pipe fittings, flanges and unions | WPU11490301 | 497.2 | 497.2 | 0.0% | 475.8 | 4.5% |
| Steel pipe and tube | WPU101706 | 350.7 | 353.3 | -0.7% | 394.1 | -11.0% |
| Steel pipe and tube, alloy | WPU10170673 | 109.5 | 109.5 | 0.0% | 109.5 | 0.0% |
| Steel pipe and tube, stainless | WPU10170674 | 133.0 | 131.5 | 1.2% | 139.5 | -4.7% |
| Copper & copper-base alloy pipe and tube | WPU10250239 | 412.3 | 412.3 | 0.0% | 352.1 | 17.1% |
| Plastic pipe | WPU07210603 | 174.9 | 184.0 | -4.9% | 189.8 | -7.8% |
| Plastic pipe fittings and unions | WPU07210604 | 319.3 | 319.7 | -0.1% | 318.6 | 0.2% |
| Plumbing Fixtures, Fittings and Trim | WPU105402 | 410.5 | 410.5 | 0.0% | 400.0 | 2.6% |
| Bath and shower fittings | WPU10540211 | 286.7 | 286.7 | 0.0% | 286.7 | 0.0% |
| Lavatory and sink fittings | WPU10540218 | 208.6 | 208.6 | 0.0% | 207.7 | 0.4% |
| Enameled iron and metal sanitary ware | WPU1056 | 284.5 | 284.5 | 0.0% | 284.5 | 0.0% |
| Steam and Hot Water Equipment | WPU1061 | 457.9 | 457.6 | 0.1% | 428.5 | 6.9% |
| Cast iron heating boilers, radiators and convectors | WPU10610106 | 311.2 | 310.9 | 0.1% | 289.7 | 7.4% |
| Domestic water heaters | WPU106601 | 591.4 | 591.4 | 0.0% | 570.9 | 3.6% |
| Electric water heaters | WPU10660101 | 587.0 | 587.0 | 0.0% | 564.5 | 4.0% |
| Non-electric water heaters | WPU10660114 | 359.7 | 359.7 | 0.0% | 347.9 | 3.4% |
| Warehousing, Storage and Related Services | WPU321 | 145.8 | 144.0 | 1.3% | 141.1 | 3.3% |

Overall Observations: The Federal Reserve has cut interest rates 100 basis points in 2024, and new estimates suggest that there could be as many as 3, quarter-point cuts in 2025. The Fed's long-term target rate is currently 3.0%, but that could adjust higher if conditions warrant. Most anticipate hitting that target rate now by the end of 2026. But again, long-term borrowing is being driven more by the 10Year US Treasury rate and longer term bonds.

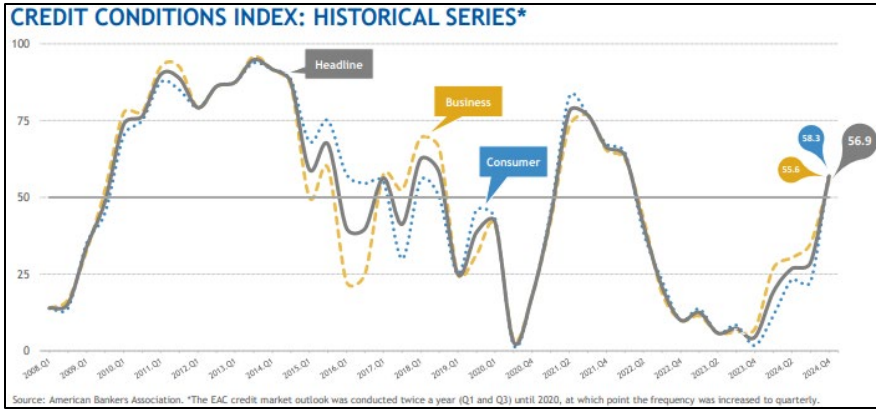
Banking Credit and Finance



Percent of Banks Tightening Conditions

(DRTSCILM; DRTSCIS)

- Fewer banks were tightening credit standards through Q1 2025, only 6.2% of banks were tightening for large and medium-sized firms and 11.1% of smaller firms were seeing tightening. This compares to -2.8% and -5.8% in 2019 respectively. Note that this is down from levels of 14.5% and 18.6% a year ago.
- **Outlook:** Although some concerns still exist, the credit markets have started to loosen up recently. Whereas many commercial projects were not even being entertained by many traditional banks, surveys suggest that many banking executives are now looking for some opportunities. The percentage of banks tightening for a wide variety of lending (not just industrial construction) is easing.

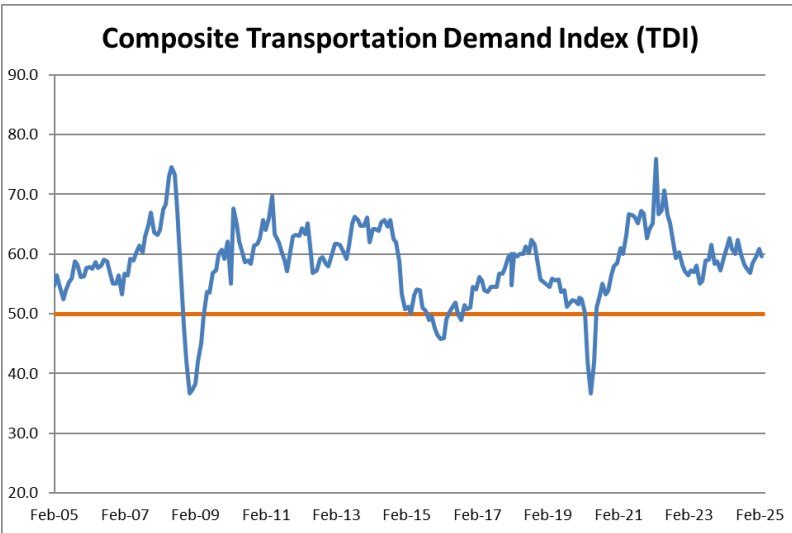


ABA Credit Conditions

(ABA)

- The American Bankers Association's Credit Conditions Index for business credit increased by 28.2 points to 56.9 in early Q4. This was the highest reading since 2022 according to the ABA and since it is above the 50 level, it suggests that bankers believe credit conditions will improve over the next 6 months.
- **Outlook:** Credit conditions for consumers and consumer loans are also above 50 early in Q4, posting 58.3 and a sharp improvement over a reading of 35.8 points in Q3. Less than half of the respondents in the survey thought that credit conditions would deteriorate in the next six months. The ABA mentioned that this was the second fastest jump in the index in more than 20 years. Business Credit also surged to 55.6 and positive sentiment concerning business access to credit improved. Conversations with credit managers suggest that there are some renewed mid-term concerns over recession amid trimmed government spending and tariff risk. But the longer-term risks are lower, and credit conditions are still expected to ease in the coming quarters.

Supply Chain and Transportation Situation



Transportation Demand Normalizing

- The Transportation Demand Index shows the current demand environment for freight services, and it has slipped again in the last 30 days. But it continued to show demand in a range commensurate with the ten-year trend prior to the pandemic.
- The composite TDI index came in 2.0% lower M/M (-2.2% last month) and was 1.8% lower Y/Y (+2.4% last month).
- **Outlook:** This month there was a tremendous amount of “noise” in the index. It was hit by winter weather and the timing of the Lunar New Year. But global supply chain activity was still sluggish because of slowing global manufacturing activity in 2024. Most estimates show a more optimistic outlook for 2025 despite this sluggish start to the year, and construction firms need to keep an eye on budgets for changes in shipping costs. More on that below, but **this year will be more mode specific** with more changes in pricing than in prior years.

| | 25-Feb | 25-Jan | 24-Feb | Y/Y Change % | M/M Change % |
|------------------|--------|--------|--------|--------------|--------------|
| Composite | 59.6 | 60.8 | 60.7 | -1.8% | -2.0% |
| Rail | 57.8 | 58.1 | 58.8 | -1.7% | -0.5% |
| Trucking | 59.4 | 60.7 | 60.7 | -2.1% | -2.1% |
| Air | 70.3 | 72.0 | 68.3 | 2.9% | -2.4% |
| Maritime | 68.6 | 70.0 | 66.8 | 2.7% | -2.0% |

Mode Demand Sluggish

- Each mode of transportation was mixed at the end of the first quarter. This index measures demand but does not have a capacity component to it. Air cargo and maritime were still giving some higher signals in February, largely as foreign sourcing firms tried to get ahead of tariff risk and the interruption stemming from the Lunar New Year celebration. US rail and trucking sectors were still sluggish in February but are expected to improve in the coming months.

What we are Watching in Transportation

Monitor Trucking Cost Budgets in 2025. This year will feel quite different from the past 24 months. A global destocking period between 2023 and 2024 kept trucking and domestic transportation activity lower than expected. Despite strong retail and consumer spending and GDP growing at nearly 2.7%, shipment activity was sluggish because inventories were overstocked. The upper end of the supply chain (inbound activity into manufacturing assembly line activity) was weaker, shutting off a significant portion of freight movement. But that is over, the destocking process is complete and less than 14% of supply chain managers believe that they are overstocked.

Impact: Trucking has been depressed, and the closure of Yellow Transportation has been largely masked by the secular recession in trucking. In past bankruptcies of that size (\$5 billion in annual transportation under management), price increases averaged 6-8% in the two years following the bankruptcy. The bankruptcy was in July of 2023, but the market has not yet felt the full impact of that exit. Prices for less-than-truckload shipping was nearly 7% higher year-over-year in January.

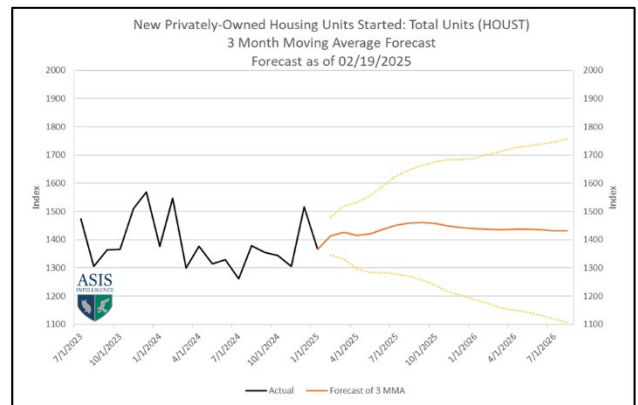
Truckload rates have not been impacted as heavily, but they are also poised to be impacted. Through the end of February, truckload capacity appeared to be as much as 35.9% lower than it was a year ago. Load-to-truck-ratios (which show how many loads are available for every available truck) surged in February amid difficult winter weather conditions. National data showed that there were nearly 7 loads for every available truck (the strongest in more than three years) – when 3.5 loads would be a normal ratio.

Construction Industry Outlook

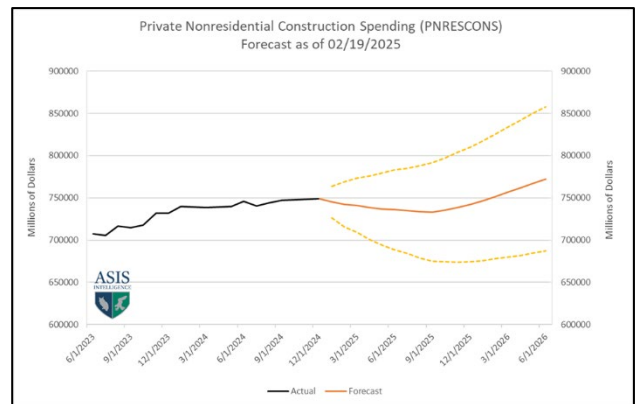
| | 2024 | | | | 2025 | | | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------------------------|------|-----|-----|-----|------|-----|-----|-----|------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | | | | | | |
| Real GDP | 1.6 | 3.0 | 3.1 | 2.3 | 1.8 | 1.5 | 1.3 | 1.4 | 2.3 | -2.8 | 5.9 | 2.1 | 2.9 | 2.7 | 1.7 | 2.0 |
| Unemployment rate (%) | 3.8 | 4.0 | 4.2 | 4.2 | 4.2 | 4.3 | 4.3 | 4.4 | 3.7 | 8.1 | 5.4 | 3.6 | 3.6 | 4.2 | 4.3 | 4.2 |
| PCE Inflation (%Y/Y) | 2.7 | 2.6 | 2.3 | 2.5 | 2.5 | 2.5 | 2.5 | 2.4 | 1.5 | 1.1 | 4.0 | 5.6 | 3.7 | 2.5 | 2.5 | 2.5 |
| Core PCE Inflation (%Y/Y) | 3.0 | 2.7 | 2.6 | 2.8 | 2.6 | 2.7 | 2.6 | 2.4 | 1.7 | 1.3 | 3.5 | 4.8 | 4.1 | 2.5 | 2.5 | 2.5 |
| Fed Funds Rate | 5.4 | 5.2 | 4.8 | 4.3 | 4.3 | 4.1 | 3.8 | 3.8 | 1.6 | 0.1 | 0.1 | 4.4 | 5.4 | 4.3 | 3.8 | 3.0 |
| Canada Real GDP | 0.6 | 0.9 | 1.0 | 1.6 | 0.6 | 0.9 | 1.0 | 1.6 | 1.8 | -5.2 | 4.5 | 3.4 | 1.1 | 1.6 | 1.8 | 1.8 |
| Unemployment rate (%) | 6.1 | 6.4 | 6.5 | 6.6 | 6.7 | 6.5 | 6.5 | 6.5 | 5.8 | 9.7 | 7.5 | 5.3 | 5.8 | 6.5 | 6.5 | 6.3 |
| Mexico Real GDP | 1.8 | 1.0 | 1.0 | 2.1 | 1.8 | 1.0 | 1.0 | 2.1 | -1.8 | -8.2 | 5.0 | 2.7 | 1.6 | 1.3 | 1.4 | 1.8 |
| Unemployment rate (%) | 2.3 | 2.9 | 3.0 | 3.2 | 3.2 | 3.4 | 3.3 | 3.2 | 5.0 | 7.9 | 7.1 | 4.1 | 2.6 | 3.2 | 3.2 | 3.2 |

The current US economic environment could be described as going through a “Black Swan Event”. Although most of us knew that the incoming administration would usher in change, the speed and depth of the change is coming so fast that industries are having a difficult time keeping pace with it. And that uncertainty can lead to a pause in spending, as executives try to figure out what these changes mean for their operating environment. Tariffs, trimmed government spending, changes in the geopolitical environment all create a “wall of worry”.

Total construction activity is still moving at a good pace, but residential construction may face some near-term slowing. The model at right shows the next 18 months of outlook for the residential construction market. It shows some slight improvement in the front end of the outlook before flattening mid-year. Many buyers will wait until the full impact of government trimming is understood. Weakness is expected in heavy government-worker metropolitan areas, but growth elsewhere is likely as the economy builds momentum in the second half of the year.



Nonresidential construction is still holding its own and growth in the sector is up 3.4% year-over-year. The chart at left is our forecast for nonresidential construction based on data algorithms and it shows mild downside risk in the outlook over the next 6 months before accelerating late in 2025 and throughout 2026 (solid orange line). The key in the forecast is that this keeps spending at all-time highs. Finding the pockets of growth is the key, and a rapid growth rate is expected across the industrial complex.



Manufacturing and industrial construction is going to continue to experience the best momentum, and the industries experiencing this expansion will remain diverse. The growth continues to be broad-based and stretches well beyond the data center industry (which will see more than \$1 trillion in new investments over the next several years). Food and beverage, durable goods manufacturing capacity expansion, consumer staples, defense, aerospace, and many other sectors will see growth. As the administration eases permitting processes on new natural gas plants, many of these facilities will be located next to those facilities. Finding pockets of heavy natural gas production will help understand where much of it will land.

Material prices have been mixed. Macro level construction material price indexes still show prices remaining near all-time highs – but they are flattening and could continue to improve with a strong US dollar and slowing of global activity elsewhere. Tariffs remain the wildcard, and will likely add to construction material prices in the near term (at least throughout 2025) before domestic production can catch up.