

**Information as of 5/30/2025*

HESITATION

Continued inflation remains a significant concern for both the global and U.S. economies. Business investment is increasing amidst moderate consumer spending, moving cautiously as the economy is facing tariff increases, trade tensions, and policy uncertainty. Construction spending remains historically high but is beginning to show signs of slowing, which could bring much-needed relief to the industry regarding its continued labor challenges and the rising cost of materials. Many economists do not expect a recession in 2025, just suggestions of slower growth with continued low unemployment figures.

QUARTERLY KEY TAKEAWAYS

GDP

Although slightly negative in Q1 and subject to revisions, the GDP calculation included a 2% penalty for the increased import of products secured in advance of the tariffs.

TARIFFS

China will continue to be the focus through finalization efforts. The projected net tariff rate with this country is expected to settle around 23%—a 7% reduction from the current 30% rate. This projection accounts for currency exchange advantages and anticipated shifts in manufacturing.

MATERIAL PRICING

Following increased predictability and recent flattening, most materials prices are projected to increase with impending tariff and related market adjustments.

INTEREST RATES

The Fed is stuck between two crosscurrents: Not stable to hike and too strong to ease. Meanwhile, the U.S. Treasury is working to reduce the 10-year Treasury rate below 4%.

WORKFORCE

Low unemployment rates continue, direct worker losses due to deportation efforts are relatively low and not having an impact.

TARIFF UPDATE*

Consumers and businesses are starting to anticipate the impact of tariffs and potential import declines that will materialize in the coming months. The President's administration have focused on addressing the trade imbalance by increasing export volumes to countries that previously had restrictions.

RECENT POST APRIL 2ND LIBERATION DAY TARIFF HIGHLIGHTS INCLUDE:

- % DRASTIC EASING** of proposed tariff amounts (10% export and 30% import) with China until August 12th, 2025.
- % RECENT TRADE AGREEMENT** with the United Kingdom (U.K.) that settled at 10% tariff on goods that enter the U.S. Note that equipment, machinery, furniture, steel and aluminum are exempt. This will have more of an impact on agriculture than on construction.
- % ELECTRONICS** in most cases are now excluded but may be subject to other tariffs or baseline figures already in place.
- % STEEPENED STEEL & ALUMINUM TARIFFS** have been announced, moving from 25% to now 50% on these materials imported to the United States. This will increase the cost of aluminum but bolster the domestic steel sector.

U.S. BASED COMPANIES ARE ENCOURAGED TO USE THE CURRENT PAUSE TO PLAN & EXPLORE OPTIONS INCLUDING:

- %** First, understand the rules of engagement which may not seem logical and make smart decisions based on facts, not the news.
- %** Explore production shift and supply chain alternatives to manage impacts.
- %** Research bonded warehouses and hold goods in hope of tariffs being reduced.
- %** Develop supply chain diversification, especially involving China. Mexico can largely compete against China across most industries, especially materials used in nonresidential construction.

Economists are circling early July 2025 as the next milestone regarding tariffs. Many are predicting settling at a 10% universal baseline tariff along with 17-18 additional trade deals between the U.S. and major countries where we trade.

COST FORECAST

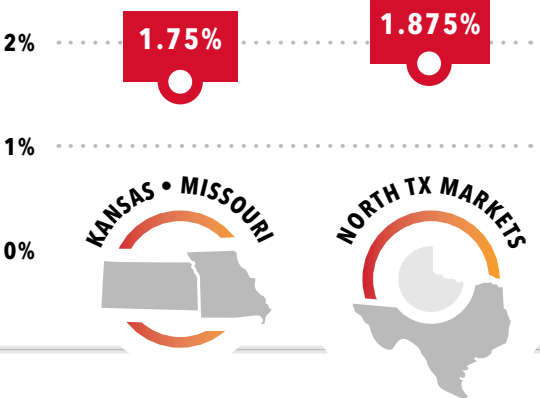
Project and bidding opportunities in McCownGordon's primary markets and office regions remain above average levels. In general, trade partner bid participation is slightly elevated with many contractors looking to secure financed projects in advance of possible economic disturbance. Pricing remains competitive, but not necessarily aggressive due to current industry skilled labor shortages, taking on the risk of rising materials costs, and overall backlog levels. Despite elevated bid participation with definitive pricing exercises on completed design documents, final costs remain predictable and routinely fall within +/-2% of target budget.

Receipt of increase letters from suppliers, many plumbing and mechanical suppliers, have started in earnest. Increases thus far are falling in the 5-10% range of material costs noting the following themes of: *market condition dynamics, evolving tariff announcements, changes and adjustments in global trade policies and ongoing economic pressures.* **Based on our understating and forecast of the current tariff negotiations, we anticipate construction project costs on average will still adjust upward between two and three percent.** This is our forecast at time of publication and subject to adjustment; there may be some exemptions and date extensions exercised by the President's administration in the coming months as tariff and trade deals are solidified.

With continued uncertainty and the increased demand forecast for domestic product prices increases, our escalation numbers remain elevated again this quarter. As a reminder, these figures are short term inflation adjustments applied to the period between current market construction costs dollars and commencement of construction work. This is our attempt to capture tariff increases for projects estimated today that are at least a year out from commencement of construction.

Projects breaking ground within the next year will require a more detailed evaluation of the procurement timeline, proposed materials with their source and supply chain review. **Please contact a member of the McCownGordon preconstruction team for a tailored evaluation of your project.**

% PER QUARTER ESCALATION TO CURRENT PRICING OF WORK



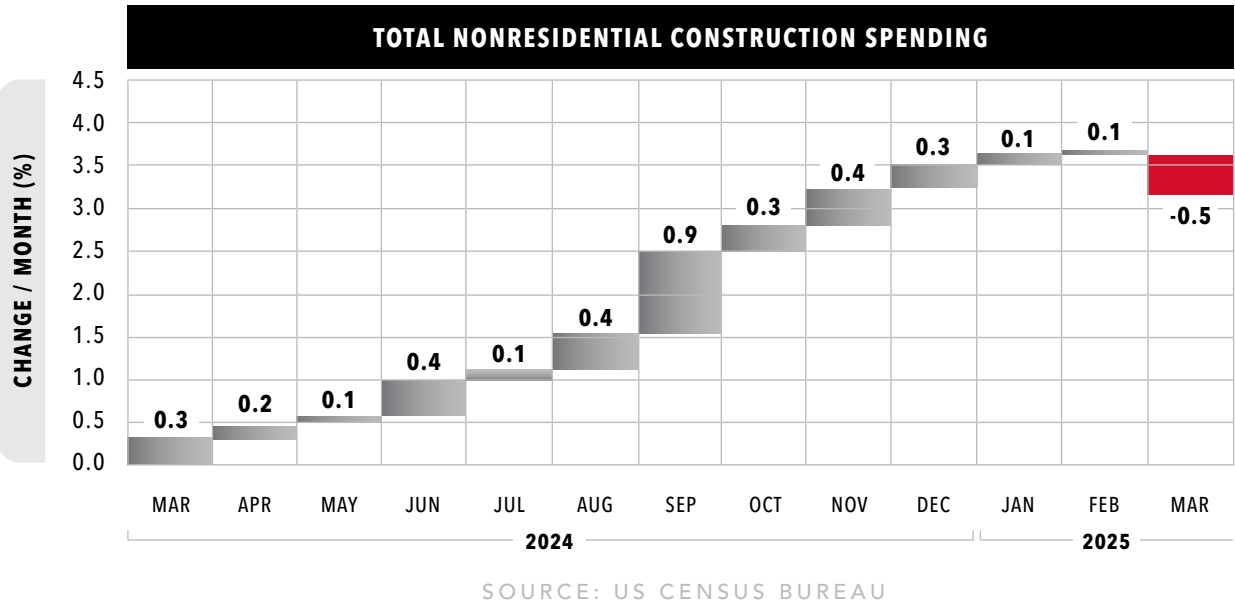
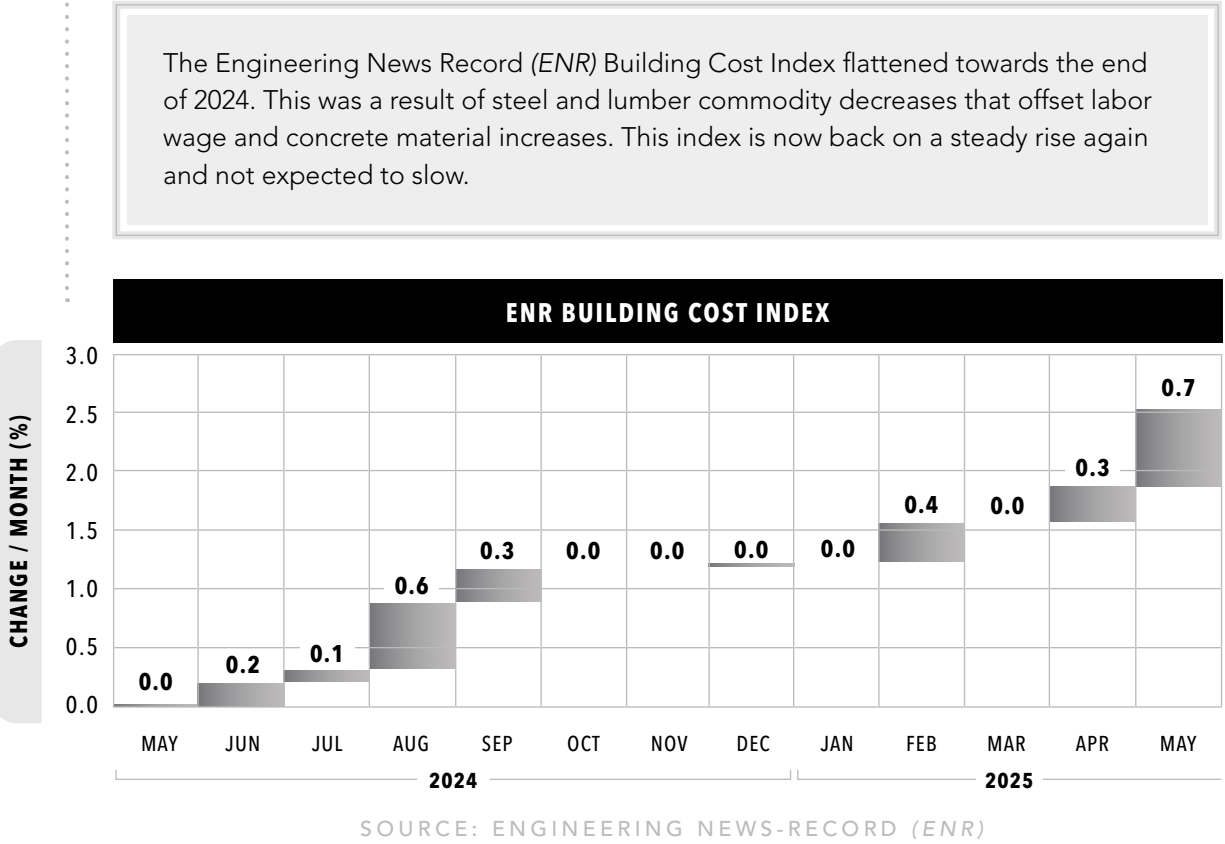
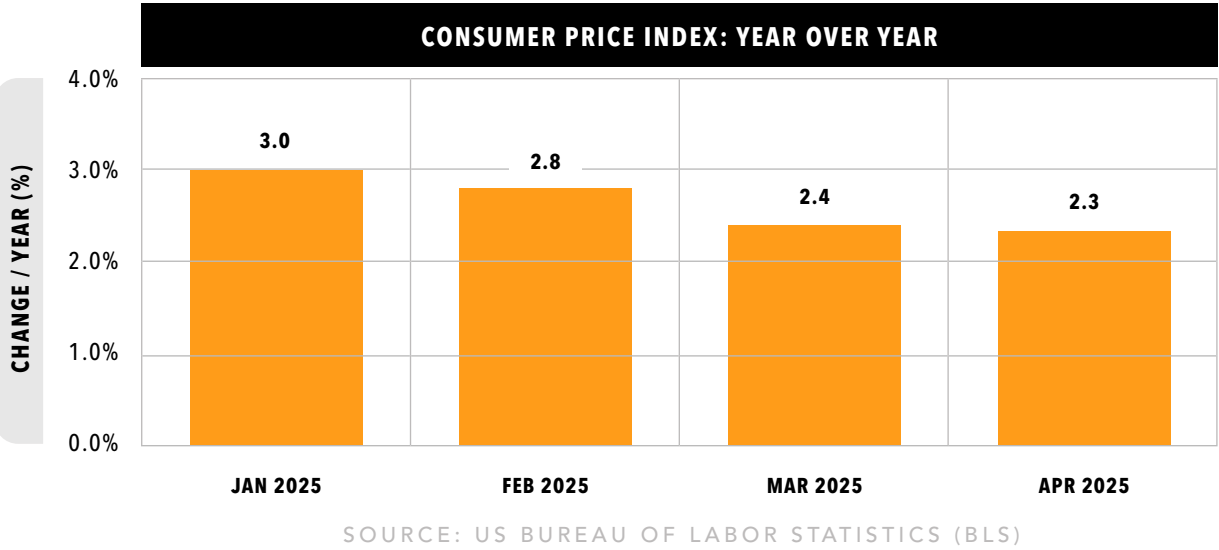
CONSTRUCTION OUTLOOK

Since the beginning of the year, the Consumer Price Index (CPI), published by the U.S. Bureau of Labor Statistics, has been on a steady decline, a positive sign the general economy is headed in the right direction. This decrease provides businesses with more purchasing power with the opportunity to expand and invest.

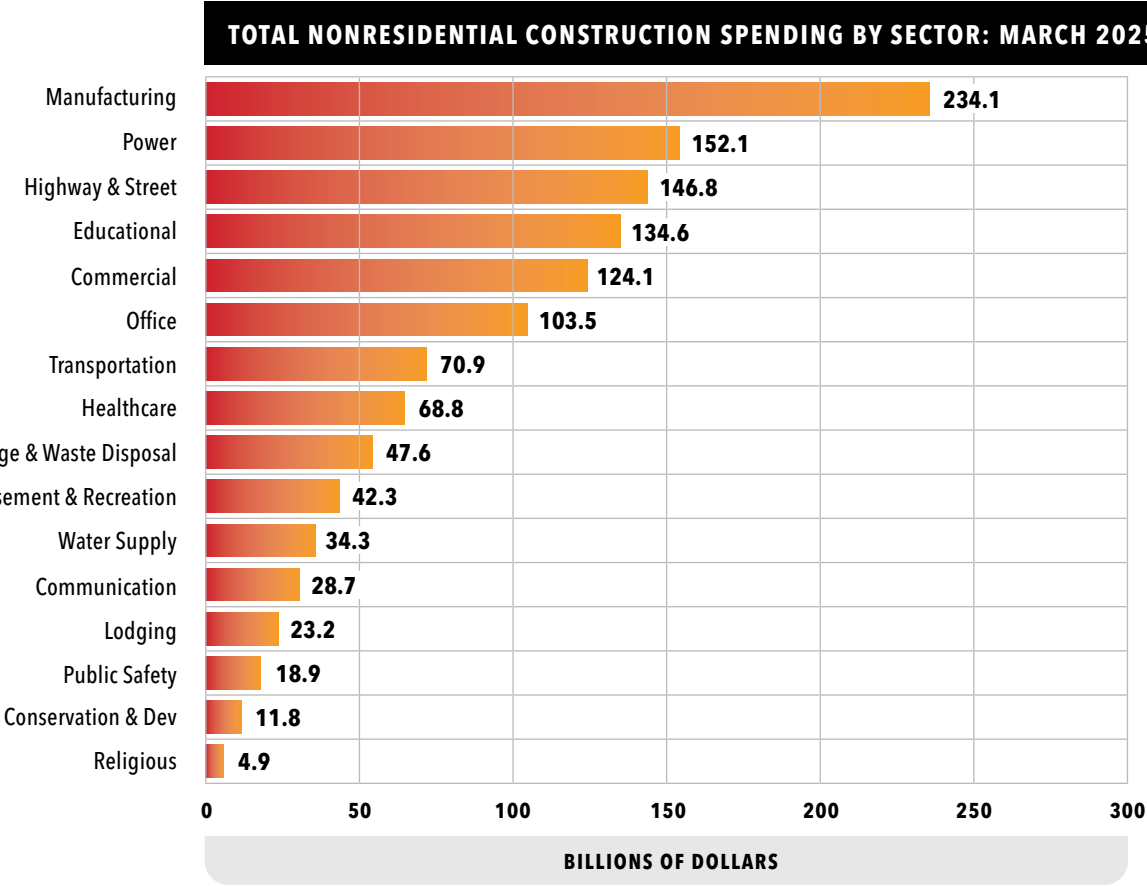
The stock market has mostly rebounded since the early April correction following the initial tariff announcements. U.S. Treasury Secretary Scott Bessent is working to adjust bond issuance strategies to bring the 10-year treasury note below 4% through publication of deficit reduction progress coupled with issuance of longer term (30 year) treasury notes. This will serve as the catalyst for large commercial projects and residential market expansion.

Somewhere between **five and ten trillion dollars of foreign investment** is anticipated by the U.S. President’s administration. The influx is expected to stimulate the economy, increase the amount of U.S. Treasury market funds, and provide incentives for manufacturing. Additionally, Congressional passing of the proposed Federal Budget Bill by early July could be the biggest driver of economic growth to build momentum for the second half of 2025. It is anticipated that the federal corporate income tax rate will drop from 21% down to 15% plus restore 100% bonus depreciation for industrial and manufacturing assets.

Construction spending, as reported by the U.S. Census Bureau, remains elevated compared to historical trends and continues to be driven by a multi-year surge in the manufacturing sector. However, March marked the first negative spending figure in recent months. The last two declines occurred in July 2023 and September 2021, both lasting only one month. Consecutive declines are a possibility that could lead to a slowdown.

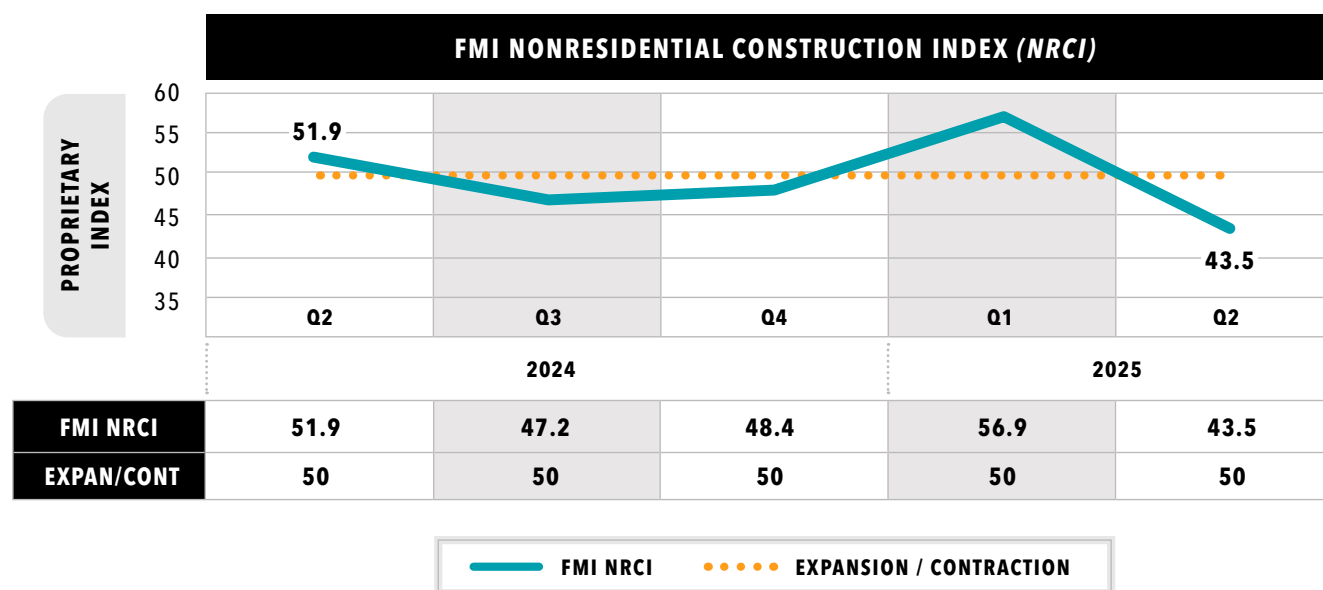


The manufacturing sector, along with publicly funded power, highway, and street sectors, continue to lead the spending categories of the nonresidential construction spending figures. Projected increases in exports and re-shoring efforts resulting from supply chain shifts due to enacted tariffs and finalized trade agreements will continue to fuel the U.S. manufacturing sector.

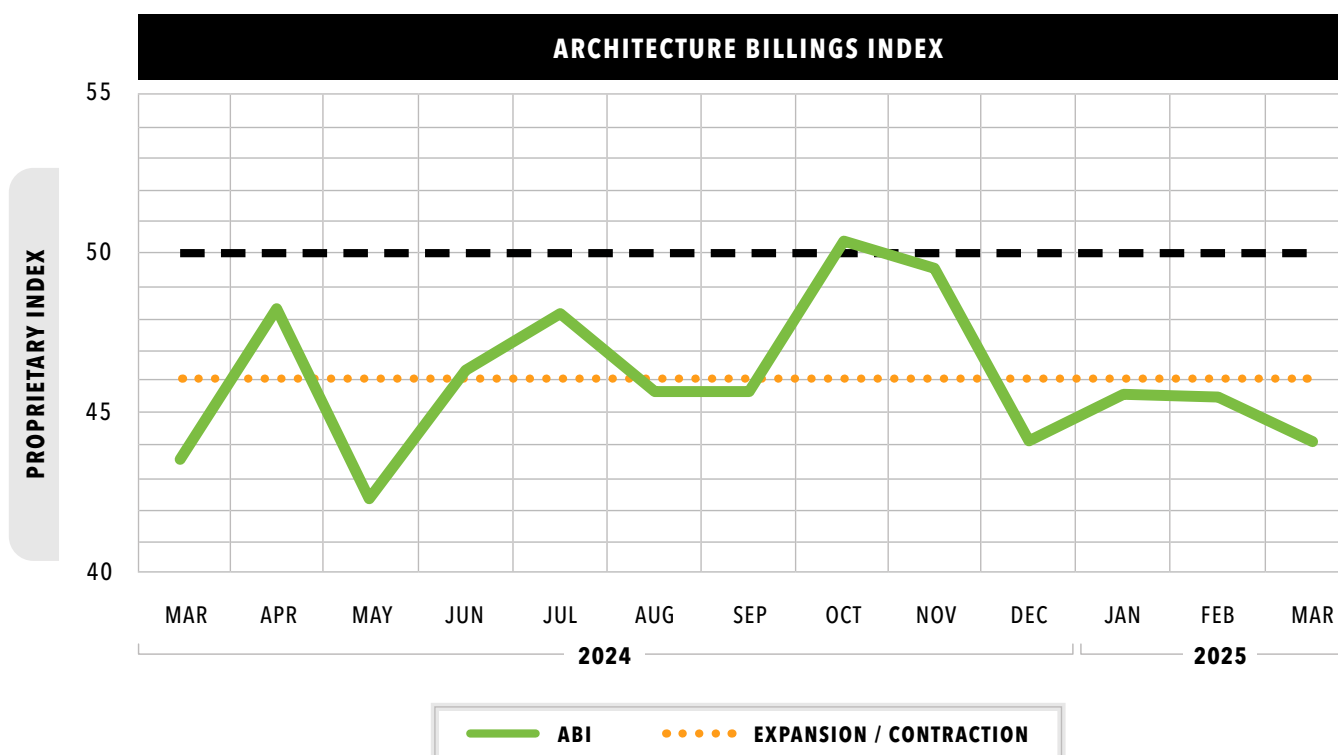




Construction project delays due to the tariff announcements and economic uncertainty are being witnessed from at least two leading indicator sources; those being Fails Management Institute (FMI) and the Architectural Billings Index (ABI). They're both below the expansion/contraction line and trending downward.



SOURCE: FMI CORP



SOURCE: AMERICAN INSTITUTE OF ARCHITECTS (AIA)

PROCUREMENT

LEAD TIME UPDATES

Construction material procurement remains top of mind in our changing economic climate. The 40% increase in U.S. material imports that occurred during Q1 in anticipation of the tariffs may extend these durations further, if demand increases. Current procurement lead times including 60 weeks for utility transformers and sectionalizes are holding steady with exemption of:



20
WEEKS

DISTRIBUTION PANELS

600 - 800 AMPS



08
WEEKS

PANELBOARDS

<600 AMPS



90
WEEKS

GENERATOR

-2MW+



25
WEEKS

INDOOR AIR HANDLERS

UP TO 20,000 CFM



24
WEEKS

ROOFTOP UNIT

60 - 80 TONS



24
WEEKS

ROOFTOP UNIT

90 - 150 TONS



20
WEEKS

DEDICATED OUTDOOR AIR SYSTEM



15
WEEKS

FAN COIL UNITS



06
WEEKS

VARIABLE FREQUENCY DRIVES

McCOWNGORDON MARKET INDICATOR

Our McCownGordon Market Indicator remains relatively flat, only increasing by 0.8% this past quarter. As a reminder, this indicator is a weighted composition of seventeen economic indicators that have both a relevant and indirect influence on the health of the construction industry.

During Q1, the net of the construction materials category moved from a flattening trend to increasing. The steel market experienced some continued decreases in Q1 but will be reversing course in Q2 with the evolving tariff announcements and notable market-related increases. Also, The GDP calculation subtracts imports; these were 40% more than average as U.S. suppliers stockpiled materials in advance of tariffs. Without this subtraction, the GDP would have been over +2%.



CONSTRUCTION MATERIALS

Steel, Concrete, Copper, Lumber, Oil

Increasing



KEY CONSTRUCTION INDICATORS

ENR Building Cost Index, Construction Spending

Flat



SUPPLY & DEMAND

Manufacturing/Services PMI, Architecture Billings Index

Decreasing



CONSUMER CONFIDENCE

Consumer Confidence Index, S&P 500 Index

Decreasing



INFLATION

Consumer Price Index, Producer Price Index

Increasing



EMPLOYMENT

U-3 Unemployment Rate

Flat

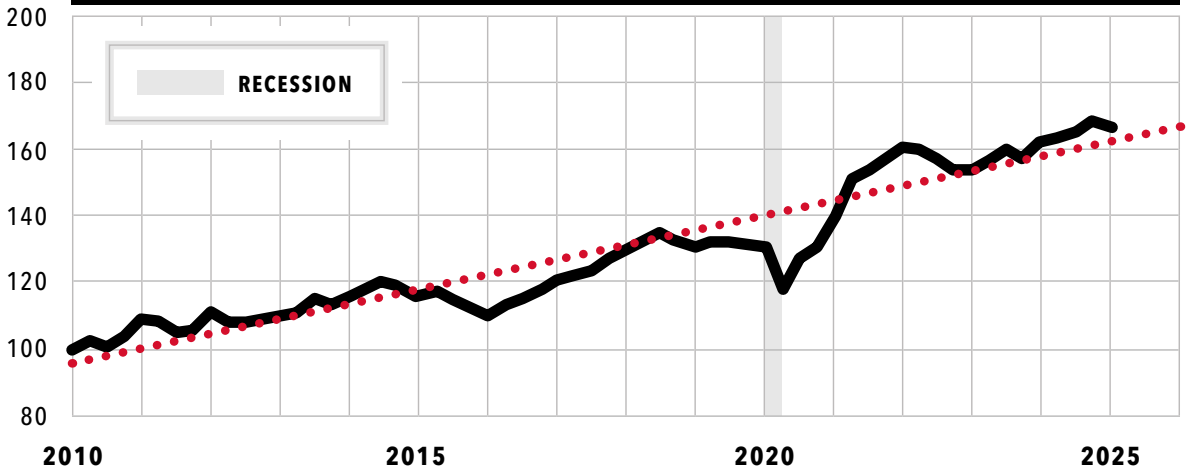


NATIONAL PRODUCTION

Real Gross Domestic Product (GDP)

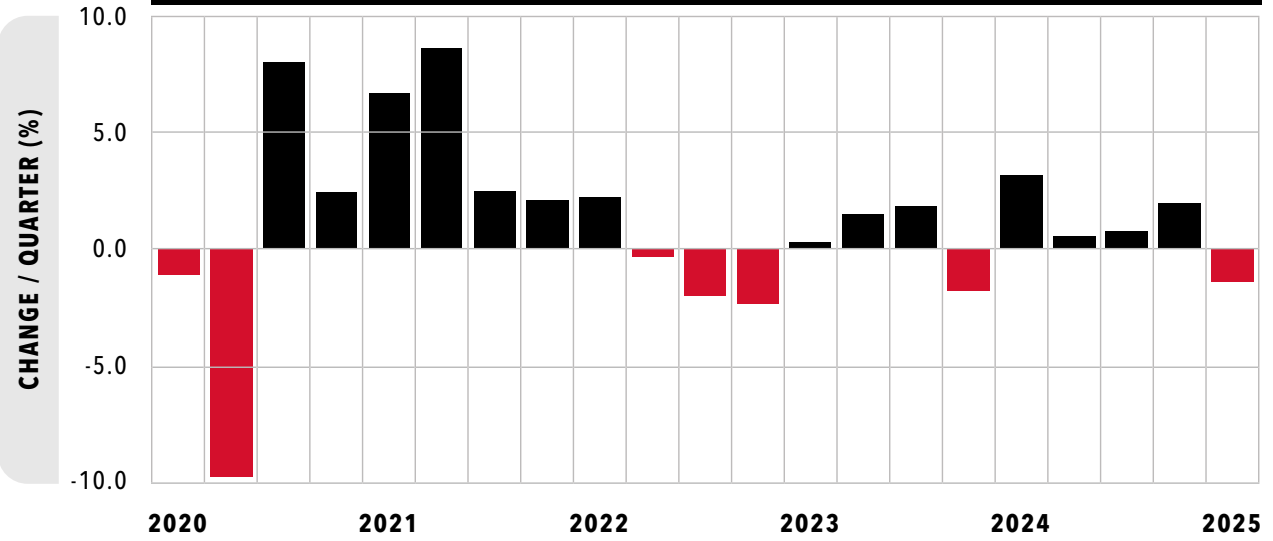
Slightly decreasing

QUARTERLY MARKET EVALUATION: Q1 2025



SOURCE: McCOWNGORDON CONSTRUCTION

QUARTERLY MARKET EVALUATION



SOURCE: McCOWNGORDON CONSTRUCTION

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.

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, Grant Thornton, Engineering News Record, American Institute of Architects, Fails Management Institute, 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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