

TARIFF UPDATE*

AGILITY

While recent tariffs have introduced some uncertainty into the global economy, industry consensus now points to a one-time price adjustment expected before the end of 2025, providing a more stable outlook for planning and investment. Despite potential risks, key indicators across the U.S. economy and construction sector remain strong, and market sentiment continues to be optimistic. The current short-term slowdown in the construction pipeline is expected to be brief, with significant growth on the horizon. Emerging opportunities in logistics, manufacturing, critical infrastructure, and data centers are gaining momentum—driven in part by the passage of the One Big Beautiful Bill Act. This represents a prime moment to align with forward-looking strategies and capitalize on the next wave of development.

QUARTERLY KEY TAKEAWAYS



INTEREST RATES

A minimum of two federal interest rate cuts is expected before the end of 2025; this will likely fuel development and release projects that have been in a holding pattern.



LABOR UPDATE

Workforce development, prefabrication, and AI are helping, but the industry is still suffering from a sizeable number of job openings.



TARIFFS

Trade negotiations and tariff rates are now in effect, leading to short term material cost increases.



THE ONE BIG BEAUTIFUL BILL ACT

Economic stimulation and opportunities outweigh potential risks with recent passing of this federal bill.



CONSTRUCTION COST INCREASES

In addition to tariffs, price adjustments will include pass-through effects, supply chain mark-ups, and the domestic price response.

Construction costs are expected to rise between now and the end of 2025 due to the impact of tariffs. While many material suppliers are currently holding their pricing, a one-time spike is anticipated, after which further increases are unlikely. There remains a possibility that the U.S. Court of Appeals could rule against the validity of certain tariffs in the coming months, and the Presidential Administration is actively working to finalize trade agreements that could override existing tariff structures.

Although a temporary truce with China is in place until November 10, the headline tariff rate of 30% on Chinese imports remains in effect. Additionally, many countries have implemented import tariffs ranging from 10% to 50%, most of which took effect on August 7. We continue to closely monitor key construction materials—particularly steel, copper, and aluminum—as they have the greatest influence on pricing and procurement.

In addition to the direct tariff rates, several other factors will contribute to upcoming pricing adjustments, including:



PASS-THROUGH EFFECTS

How much of that tariff cost suppliers adjust the selling price in the U.S., this could be more or less than the quoted tariff %.



DOMESTIC PRICE RESPONSE

U.S. producers often raise their prices when imports become more expensive, even if their costs haven't changed.

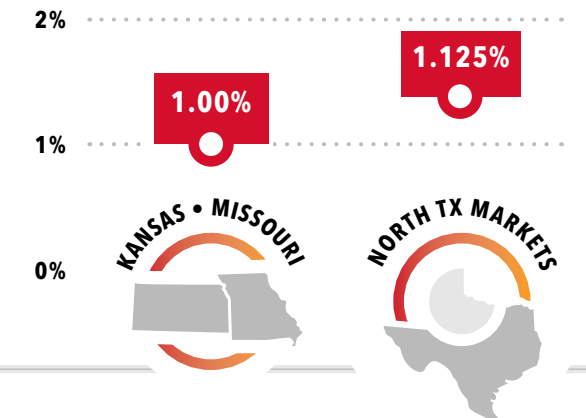


SUPPLY CHAIN MARKUPS

Distributors, wholesalers, and contractors add their own percentage to cover higher purchase costs, shipping surcharges, and risk premiums.

% PER QUARTER ESCALATION
TO CURRENT PRICING OF WORK

Note: These figures are in addition to tariff cost impacts.



COST FORECAST

Above figures are subject to change and

will be continuously monitored and updated based on actual market developments. For a tailored evaluation of your project's procurement timeline and proposed materials, we encourage you to contact a member of the McCownGordon Preconstruction team. We'll provide a detailed supply chain review to help you navigate potential risks and opportunities.

Proactive communication remains essential, especially when it comes to identifying schedule exposure and securing pre-tariff pricing or domestic alternative material sources. Our bid solicitation process is designed to account for known tariffs and is structured to issue a limited notice to proceed in cases where the prime contract is not yet executed or bids cannot be held for a minimum of thirty days.

TARIFF COST IMPACT BY SCOPE

*Information as of 9/1/2025

Initial trade negotiations suggested a 2-3% average price increase. However, after factoring in copper adjustments and higher-than-expected finalized tariff rates from individual country agreements, the projected increase is now closer to 4%, summarized as follows:



STEEL +7-9%



ALUMINUM PANELS/
EXTRUSIONS +6-8%



MECHANICAL +4-6%



ELECTRICAL +5-7%



OTHER WORK <5%



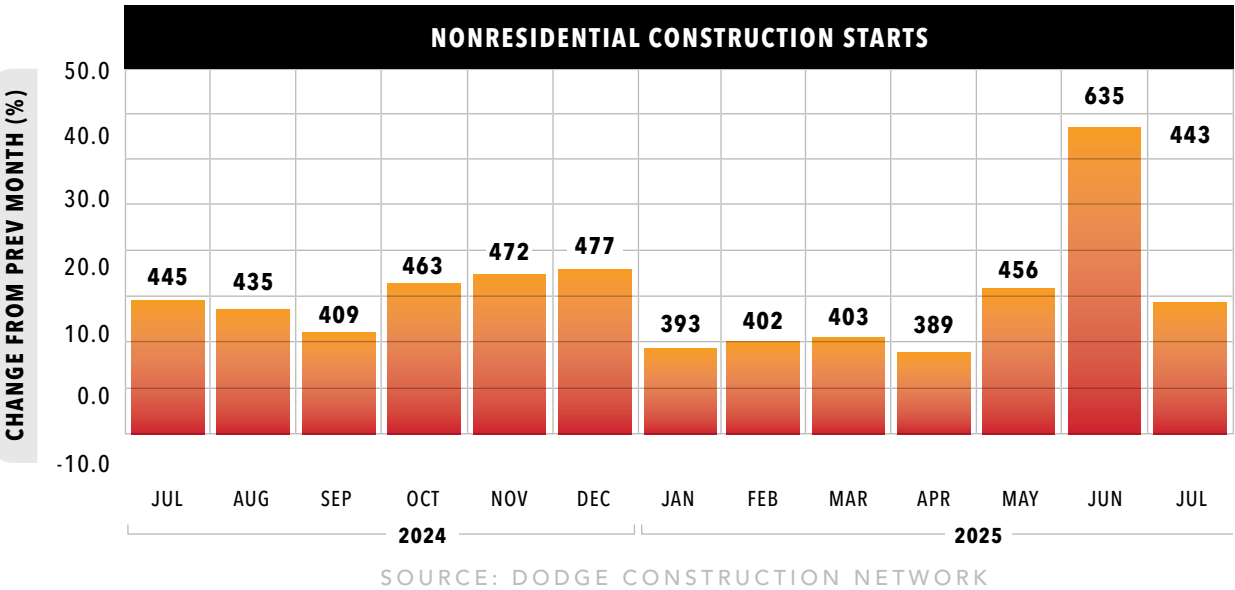
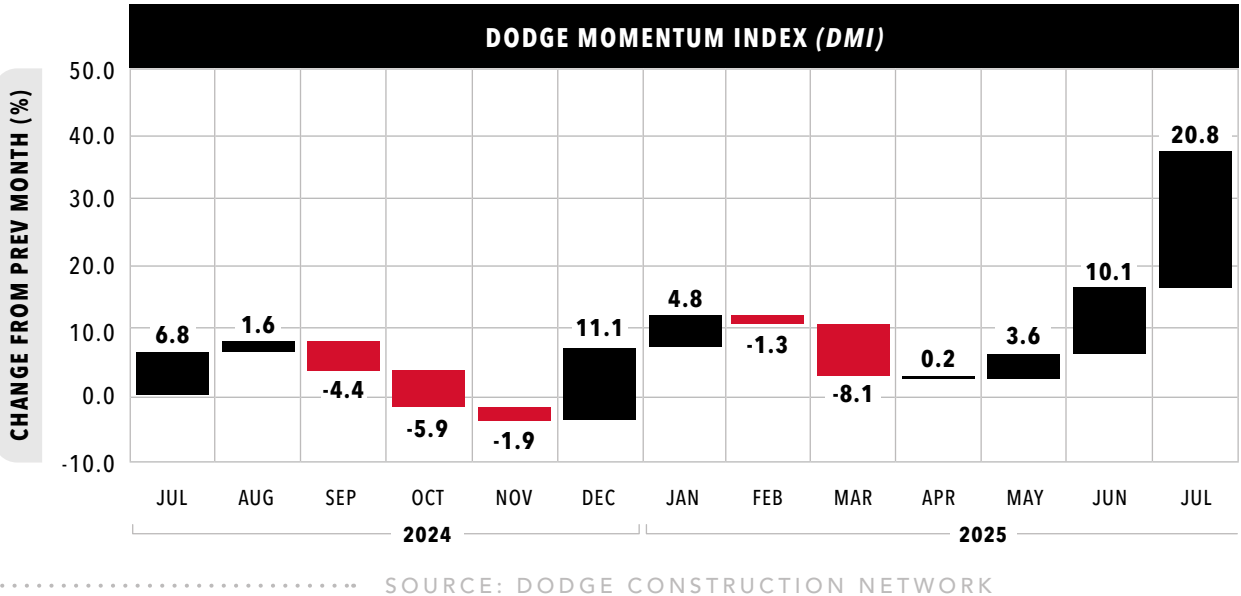
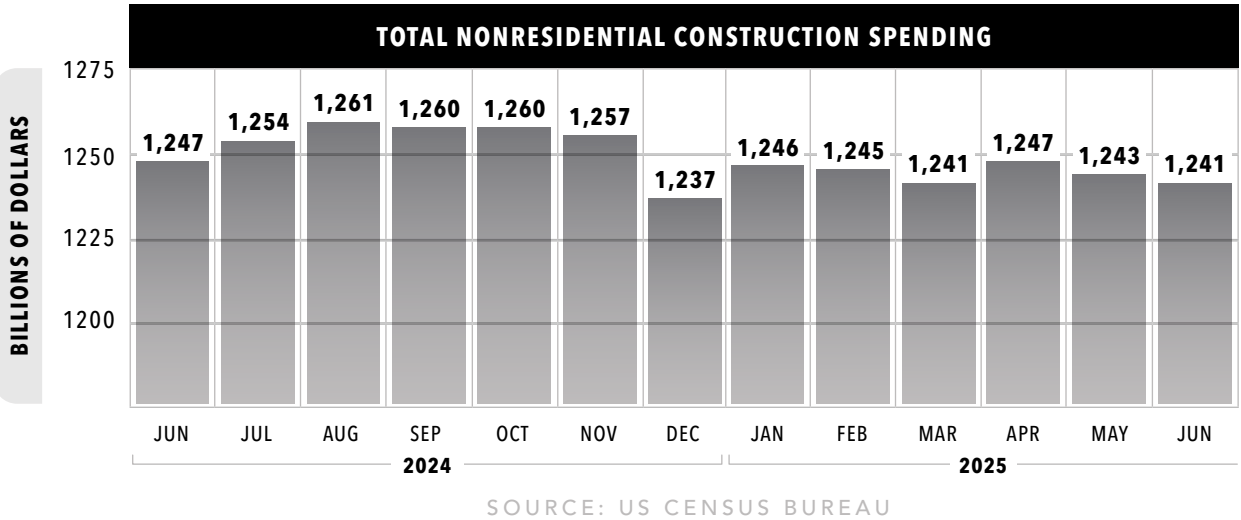
PROJECT AVG +4%



One time premium to current pricing of work

Economists remain confident that the Federal Reserve will implement two interest rate cuts by the end of 2025. These anticipated adjustments are expected to re-energize projects that have been on hold, while also accelerating activity driven by the estimated \$5 to \$8 trillion in direct foreign investment and re-shoring initiatives recently highlighted by the Presidential Administration. This influx of capital and renewed momentum will likely have a significant impact on Nonresidential Construction Spending, which has remained flat over the past seven months.

Dodge Momentum Index (DMI), a twelve-month look-ahead indicator of non-residential construction spending that focuses on patterns in the commercial and institutional segments, skyrocketed in July following many months of wait-and-see due to tariff uncertainty. Many owners and developers have begun to move forward with projects and assumed higher costs for them.



Additionally, Dodge Construction Network construction start data had an abnormal increase in the June data release before reverting to slightly above average since the beginning of 2025:

The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4, 2025. This will have a significant effect on federal taxes, credits and deductions. Although it cancels many green energy initiatives and may have a negative impact on the labor market, it does have many positives for the business community, manufacturing, and construction sector of the economy such as:

- 100% BONUS DEPRECIATION MADE PERMANENT
- 100% EXPENSING OF DEDUCTIONS FOR QUALIFIED PRODUCTION PROPERTY

- SECTION 179 TAX CUTS AND JOBS ACT EXPANDED
- PERMANENT EXTENSION OF 2017 BUSINESS TAX CUTS
- EXPANSION OF CERTAIN TAX CREDITS FOR MULTIFAMILY, MIXED-USE DEVELOPMENT AND ADVANCED SEMICONDUCTOR MANUFACTURING FACILITIES
- INCREASED DEFENSE SPENDING IN THE AMOUNT OF \$150 BILLION

CONSTRUCTION LABOR FORCE

The construction industry is rapidly embracing AI technologies—particularly in areas like scanning, layout, and prefabrication to improve efficiency and precision. However, with over 246,000 open construction jobs still to be filled, skilled labor remains essential across field operations and trade disciplines.

In response, the industry has made significant progress in strengthening its workforce, especially through targeted training programs designed to replace a retiring generation and support long-term career engagement. These efforts are proving effective through the following strategies:

- CLEAR PATHWAYS**
Structured training aligned with defined career steps, offering measurable milestones that guide individuals through their professional development.
- INDUSTRY-DRIVEN CURRICULUM**
Programs built on real-world expertise to ensure training reflects current jobsite demands and industry standards.
- STRATEGIC PARTNERSHIPS**
Collaboration with secondary and post-secondary institutions, as well as community organizations, is helping cultivate local talent pipelines and connect individuals to meaningful careers in construction.



PROCUREMENT

LEAD TIME UPDATES

Procurement durations remained relatively steady from the prior quarter, with only minor increases and decreases with select items. We anticipate there may be some minor disruptions and delays in the supply chain now that most tariff amounts and trade negotiations are finalized. These will be monitored and reviewed regularly; additional early procurement options may need to be exercised on certain projects as the global supply chain reacts and adjusts.



34
WEEKS

**BUS
DUCTS**



45
WEEKS

SWITCHBOARDS
<2,000 AMPS



28
WEEKS

GENERATOR
<300KW



27
WEEKS

GENERATOR
300 - 500KW



14
WEEKS

SCROLL AIR COOLED CHILLER
10 - 200 TONS



25
WEEKS

**SCREW AIR
COOLED CHILLER**



40
WEEKS

ROOFTOP UNIT
90 - 150 TONS



21
WEEKS

**CUSTOM
AHU**



06
WEEKS

**FAN COIL
UNITS**

McCOWNGORDON MARKET INDICATOR

Our six-to-nine-month outlook on the overall health of the construction market has declined for the second consecutive quarter, now falling below the ten-year trend line. This assessment is based on seventeen individual indicators used in the McCownGordon Quarterly Market Evaluation, which includes a mix of material costs, economic data, and sector-specific metrics.

1

MATERIAL COSTS Q2 experienced a significant drop in oil prices—other material categories experienced increases. These figures are expected to shift notably upward following tariff implementation.

2

THE ARCHITECTURAL BILLINGS INDEX (ABI) The ABI remains slightly below the expansion/contraction threshold, continuing a year-long trend that signals cautious design activity.

3

NONRESIDENTIAL SPENDING Although overall spending has declined, it remains well above historical averages. Manufacturing and data center projects continue to be strong contributors.

4

MARKET CONFIDENCE Confidence indicators are on the rise, supported by recent upward movement in the S&P 500.

5

GROSS DOMESTIC PROJECT (GDP) GDP reversed its previous quarter's trajectory and is now projected to grow steadily in the coming months—assuming no major economic disruptions.

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, Associated Builders & Contractors, Engineering News Record, Dodge Construction Network, 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.



Increasing

CONSTRUCTION MATERIALS

Steel, Concrete, Copper, Lumber, Oil



Flat

KEY CONSTRUCTION INDICATORS

ENR Building Cost Index, Construction Spending



Decreasing

SUPPLY & DEMAND

Manufacturing/Services PMI, Architecture Billings Index



Decreasing

CONSUMER CONFIDENCE

Consumer Confidence Index, S&P 500 Index



Increasing

INFLATION

Consumer Price Index, Producer Price Index



Flat

EMPLOYMENT

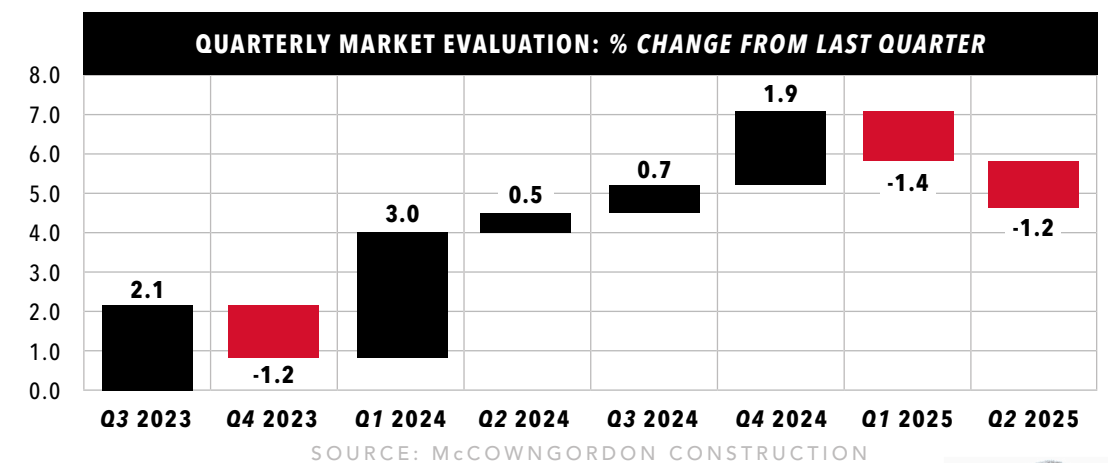
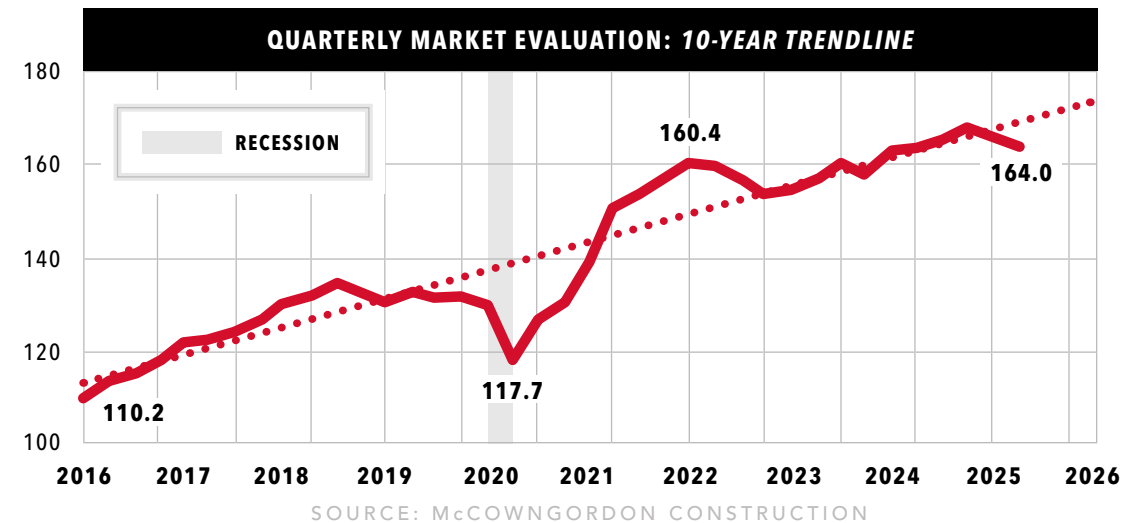
U-3 Unemployment Rate



Increasing

NATIONAL PRODUCTION

Real Gross Domestic Product (GDP)



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