Construction Industry Trends & Outlook

Nationwide | Q4 2025

Our analysis of the current economic conditions of the construction industry and the events and key factors that drive current and future trends.

	Trends	Outlook
Construction Industry	High costs, elevated interest rates have slowed nonresidential building outside of strong investment for data centers	Interest rates and policy uncertainty should ease in 2026, providing positive boost to activity
Labor	Demand for construction workers has slowed, but a larger decrease in supply, driven by changes in immigration policy, has kept upward pressure on wages and labor costs	Construction hiring is expected to be subdued over 2026. While construction activity is expected to accelerate, finding qualified workers could remain a challenge and boost wages higher
Input Cost	Material cost increases have picked up in certain pockets in response to tariffs	Input costs are expected to continue rising in 2026, but may level off after tariff-related impacts fade
Building Construction	Spending on manufacturing, infrastructure, and commercial construction remains sluggish in 2025	Activity is expected to pick up in the back half of 2026 as fiscal support and secular trends promote domestic construction
Heavy & Civil Engineering	The 2021 Infrastructure Act continues to boost spending on highways and water systems, expanding engineering firms despite labor and tariff challenges	Funding cuts and the expiration of the Infrastructure Act pose risks for highway, water, and sewage projects in coming years
Specialty Trade Contractors	Worker shortages, tariffs, and slowing demand have impacted specialty trade in 2025	Labor shortages and tariffs are raising costs, but fiscal stimulus and tax incentives should increase demand in 2026

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they will not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. © 2025 Nationwide.

NFM-24900AO

Industry Trends

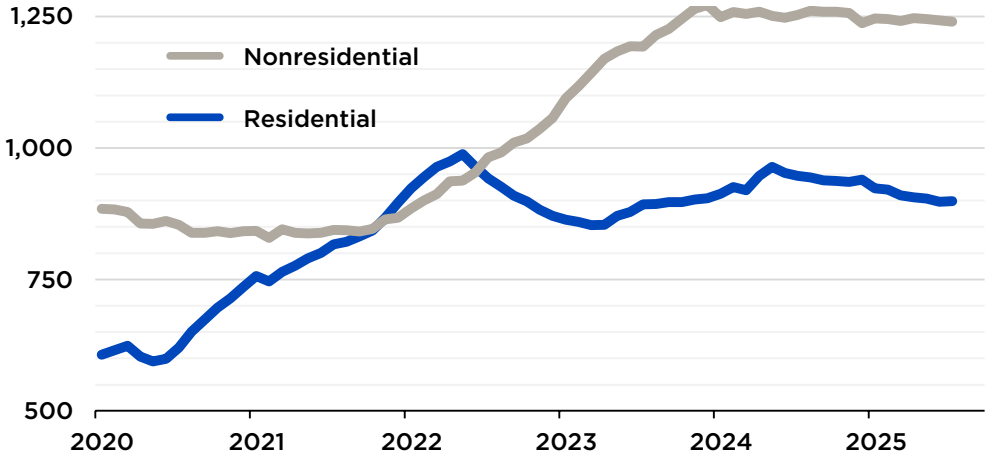
Extended slump in construction spending

High costs and policy uncertainty slow residential and nonresidential building

Investment in residential and nonresidential projects has been sluggish over the past year as elevated costs and policy uncertainty have weighed on activity. Gains in commercial construction have been concentrated within education, health care and technology with a strong boost from government spending initiatives and significant investment in data centers for AI output. The Dodge Construction Index, a key indicator of business construction, remains soft as many businesses are reluctant to spend in the current environment.

Construction Spending

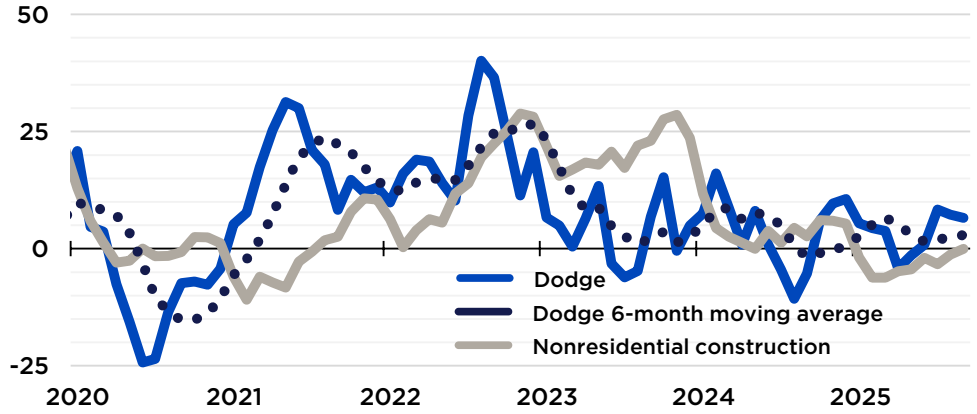
Billions U.S. dollar



Construction spending has leveled off

Dodge Construction Index

Year-over-year percent change



The Dodge index suggests modest near-term growth in non-residential construction

Outlook for 2026 may be brighter

Policy headwinds from 2025 could turn into tailwinds in 2026

Outside of data centers, construction activity should remain soft into 2026. Costs for construction materials are expected to climb due to tariffs on imports, which will continue to limit investment plans by many businesses. Moreover, uncertainty about consumer demand has many firms taking a wait-and-see approach to expanding operations. But policy uncertainty should fade in 2026, while tax incentives from the OB3 budget bill should boost business investment in structures later in the year and beyond. Reduced Federal government spending remains a downside risk for infrastructure and public construction projects.

Source: (top chart) Census Bureau; Haver Analytics; (bottom chart) Bloomberg, Dodge Construction Network, Haver Analytics

Labor

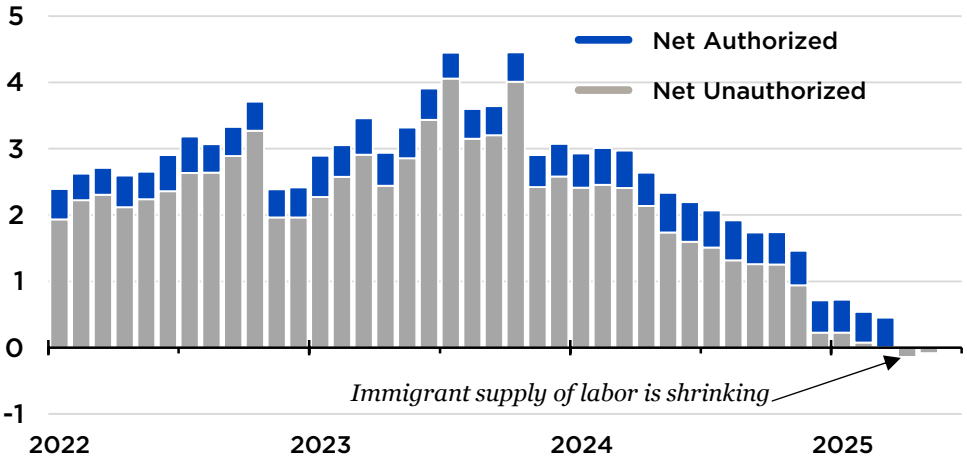
Shrinking labor supply risks worker shortages

Construction labor pool remains restricted

The labor market for construction recovered rapidly from the negative shock of the pandemic, outpacing gains in the overall private sector by nearly 10 percent since early 2020. But demand for construction workers has eased over the past year with sector job openings falling sharply due to reduced residential and nonresidential projects. Still, demand for construction labor is outpacing supply. A recent national survey by the Association of General Contractors (AGC) found the 72 percent of contractors reported worsening labor shortages, with 40 percent attributing this to increased immigration enforcement. The lack of experienced workers is also applying upward pressure to wages.

Net Immigration by Category

In millions, annualized

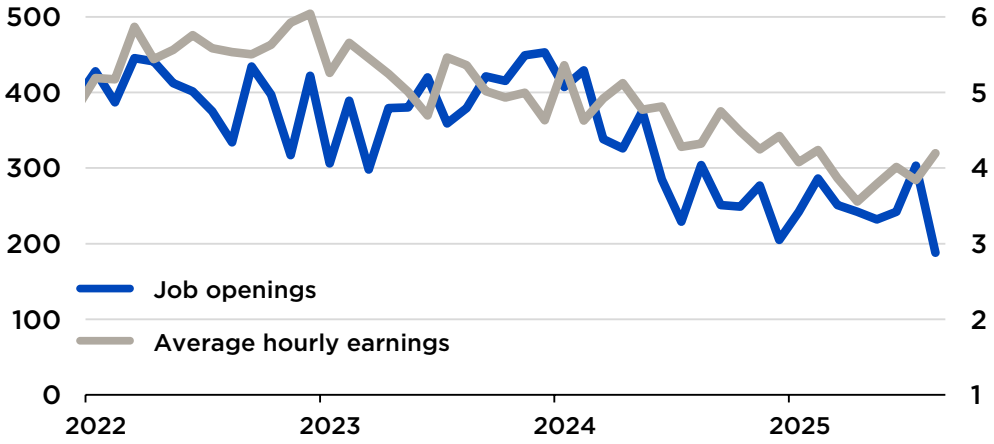


The construction industry relies on immigrant workers for about 32% of its workforce

U.S. construction labor market

Left: Thousands of job openings

Right: Year-over-year percent change in average hourly earnings



Construction wage growth remains higher than normal while job openings have dropped

Outlook for hiring limited in 2026

Construction hiring may remain constrained in 2026 as firms have difficulty finding workers in the labor market

Aligning with the sluggish pace of construction spending, demand for construction workers should be soft heading into 2026. Home construction and business investment on structures are projected to improve in 2026 as policy uncertainty lessens and firms restart expansion plans, but this may be delayed until later in the year. Changes to immigration policy should continue to limit the supply of workers in the construction sector — curbing hires while boosting wages and labor costs.

Source: (top chart) : CBP, DHS, DOS, Haver Analytics, Nationwide Economics; (bottom charts) Bureau of Labor Statistics, Haver Analytics

Input Costs

Cost increases, amid tariffs, have stayed subdued

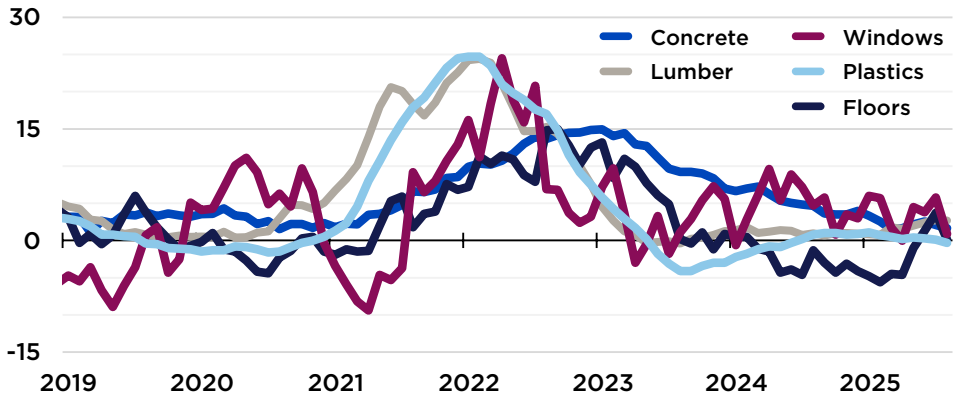
Material cost increases tied to tariffs have been less than expected

Price increases for most construction materials have been mostly stable over 2025. To this point, cost increases from tariffs have been modest and mostly delayed, but we expect additional passthrough once pre-existing inventory levels are depleted. Effective tariffs on steel and other metals as well as proposed tariffs on imported lumber are areas to watch in coming months.

The "One Big Beautiful Bill" (OB3) included incentives for companies, such as 100 percent "bonus" depreciation write-offs in the first year of a construction project and increased deductions for new manufacturing projects targeted towards small businesses. These incentives should help to boost spending beyond what it otherwise would have been but concerns about consumer demand may be a limiting factor.

Construction input costs

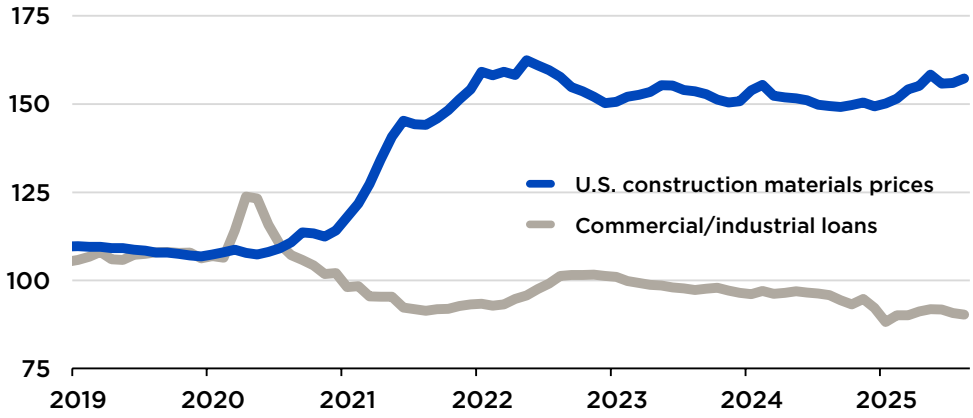
Year-over-year percent change



Inflation for most materials has remained modest

Loan demand

Index Jan. 2017 = 100



Loans are down heavily from pre-Covid levels due to the high-interest rate environment

Outlook for input costs remains uncertain

Lingering uncertainty for input costs adds to the headwinds for construction activity

With a significant share of construction materials imported, effective tariffs on key trading partners like China, Canada, and Mexico should continue to affect prices into 2026. While tariffs represent a one-time move up in costs, the high degree of uncertainty surrounding trade policy could lift materials costs. Beyond tariffs, tax incentive within the OB3 bill could increase demand for construction loans and projects in 2026 which would boost demand and prices for construction inputs. Higher prices may induce increased domestic production of materials like lumber and concrete, limiting the impact of tariffs.

Source: (top chart) Bureau of Labor Statistics, Haver Analytics; (bottom chart) Census Bureau, Haver Analytics, Bloomberg, Bureau of Economic Analysis, Federal Reserve Board

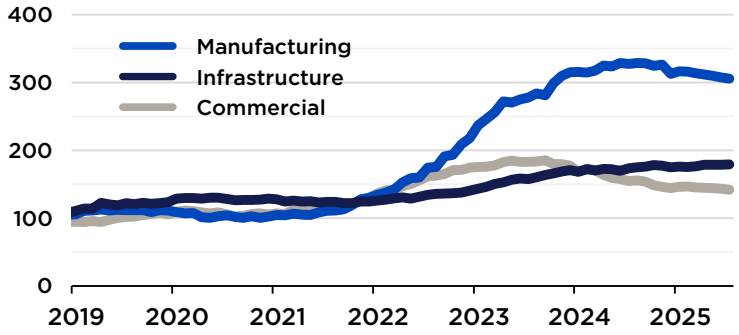
Building Construction

Construction spending has stalled amid uncertainty and higher costs but could see a boost in 2026

Amid pressure from elevated interest rates and economic and policy uncertainty, spending and hiring for the construction of new buildings has declined. Manufacturing construction rode the wave of spending on computers and electronics from the 2022 CHIPS Act but has pulled back since mid-2024. Infrastructure construction spending is still benefitting from the Infrastructure Investment and Jobs Act of 2021. The OB3 budget bill, which includes a multitude of tax write-off extensions and additions could shift construction spending and hiring out of stall speed in coming years.

U.S. construction spending

Index; Jan. 2017 = 100

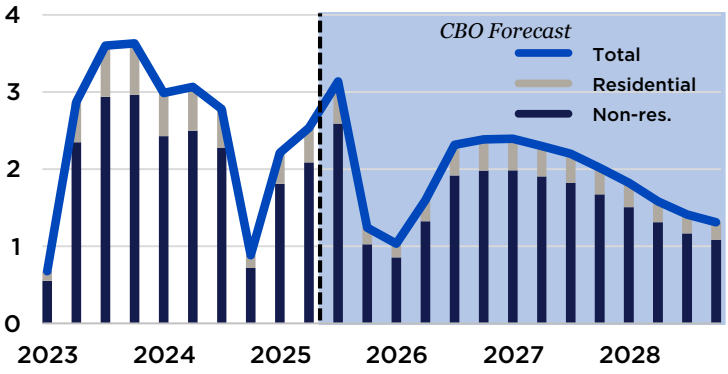


The strong runup in manufacturing construction spending has faded over the past year

CBO Forecast for Total Private Fixed Investment

Percentage Point Contribution

Note: fixed investment is spending on construction and equipment by businesses in a given quarter



After falling off in late 2025, fixed investment is projected to see a boost from OB3 over 2026 and 2027

Cautious optimism for the outlook

Construction activity, while in neutral now, could improve in 2026-27

The expected boost in construction activity of new buildings might start off slowly due to lingering concerns about costs and economic uncertainty. Spending on commercial construction spending may continue to be uneven over the next 12 months as businesses contend with tariff disruptions and conflicting secular trends in investment for data centers and office space. But improved economic growth, combined with tax incentives for investment in structure is expected to boost business fixed investment later in 2026 and into 2027. Manufacturing construction may surprise to the upside if reshoring is stronger than expected, while reduced government spending may limit infrastructure investment in coming years.

Source: (top chart) Census Bureau, Haver Analytics; (bottom chart) CBO, Nationwide Economics

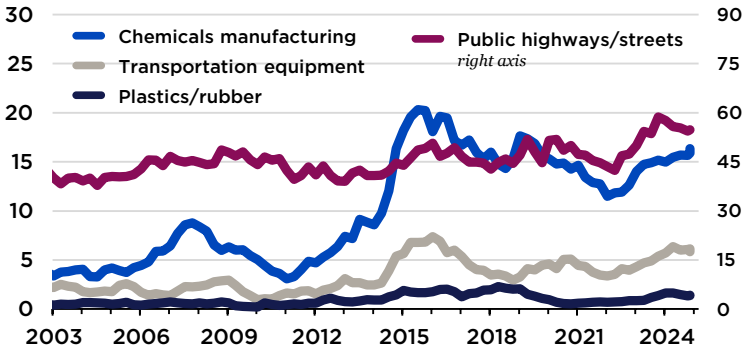
Heavy & Civil Engineering

The 2021 Infrastructure Act, which has boosted spending on highways and water systems, is winding down

The passage of the Infrastructure Investment and Jobs Act in 2021 led to a jump in spending on public highways and streets, as well as investment in water and sewage systems. The number of heavy and civil engineering establishments expanded to meet market needs despite large barriers to entry for smaller firms. Labor costs continue to grow as a percentage of overall costs and currently accounts for nearly 20-35 percent of overall costs. Prices for concrete and other materials could face tariff-related increases, but impacts have been minimal to this point.

Private and public construction put-in-place

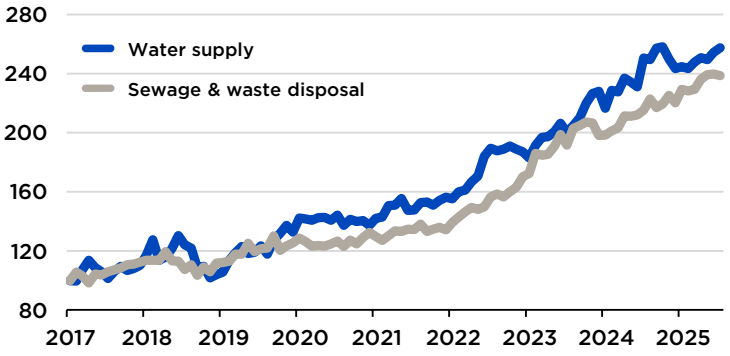
Billions of dollars
Deflated with PPI



Public spending on highways and streets jumped due to recent fiscal stimulus

Total Construction

Index
Jan. 2017 = 100



Sewage, waste, and water infrastructure spending continues to grow

Infrastructure funding faces future risks

Fiscal stimulus boosts highways and infrastructure, but funding cuts pose risks

Funding from Infrastructure Investment and Jobs Act of 2021 is scheduled to continue into 2026. Highways continue to receive a sizeable share of the infrastructure awards, but construction in sewage, water, and waste operations should also continue to expand. But the act expires on October 1, 2026 and contracts for infrastructure outflows have slowed amid a broader push from the Trump administration to reduce government spending. Appetite within Congress to approve additional infrastructure stimulus may be limited, creating downside risk for federal investment in coming years.

Source: (top and bottom chart) Census Bureau, Haver Analytics

Specialty Trade Contractors

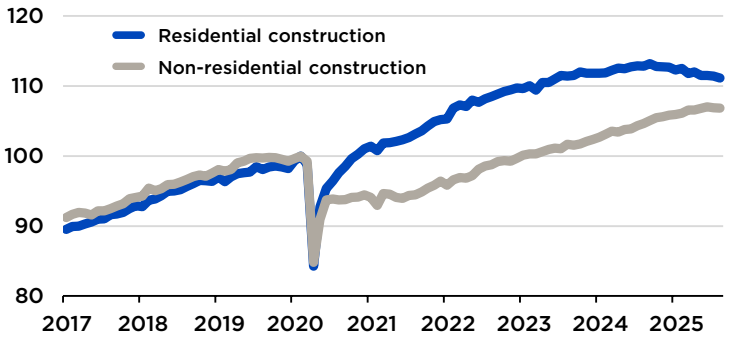
Worker shortages and high labor costs impact specialty trade contractors

Specialty trade contractors continue to experience high labor costs due to worker shortages. Electricians (the largest group) in particular represent a diminishing workforce as annual retirees outpace new trainees. In addition to labor cost pressures, inflation for material costs such as copper, steel, and plastics has climbed due to tariffs.

The residential sector saw a quick recovery from the Covid disruptions but has contracted over the last couple years as elevated mortgage rates weigh on buyer demand. Employment for nonresidential specialty trade contractors has continued to expand and is closing the gap with the residential trade market.

Specialty trade employment

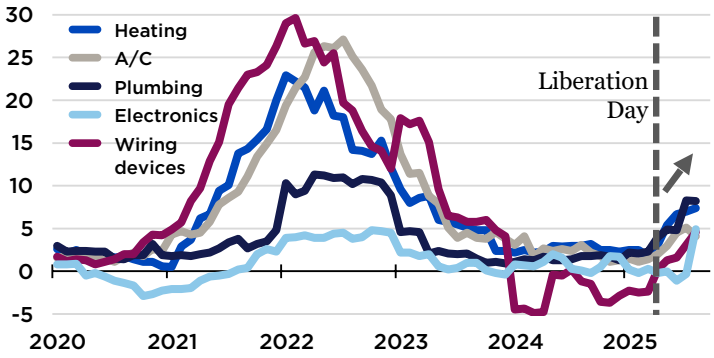
Index
Jan. 2017 = 100



The gap between residential and nonresidential construction employment is closing

Producer prices

Year-over-year percent change



Cost increases for construction materials have experienced a "one-time" tariff jump post liberation day.

Construction trade businesses at a tipping point

Labor shortages and tariffs loom, but fiscal stimulus may skew risks to upside

Demand for upkeep and maintenance remains solid, helping to drive up labor costs along with shortages of expert contractors. While interest rates are being cut, we still see mortgages rates as an impediment to demand in the near-term. When added to the tariff-related rise in costs, headwinds to construction activity in both the residential and nonresidential sectors are substantial. However, input prices should stabilize as tariff uncertainty dissipates and supply chains settle. Additionally, the OB3 benefits, which removes overtime tax, should lead to a greater supply of workers. As a result, there is reason for optimism going forward for the specialty trade segment if construction spending sees a boost in 2026.

Source: (top chart) Census Bureau, Haver Analytics; (bottom chart) Bureau of Labor Statistics , Haver Analytics