CONSTRUCTION INSIGHTS

FOR GLOBAL OCCUPIERS

FALL 2025 AND OUTLOOK FOR 2026

Better never settles

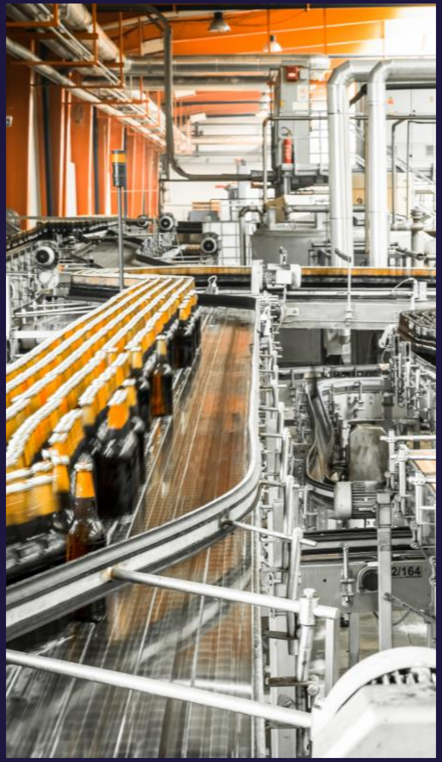
CONTENTS

INTRODUCTION

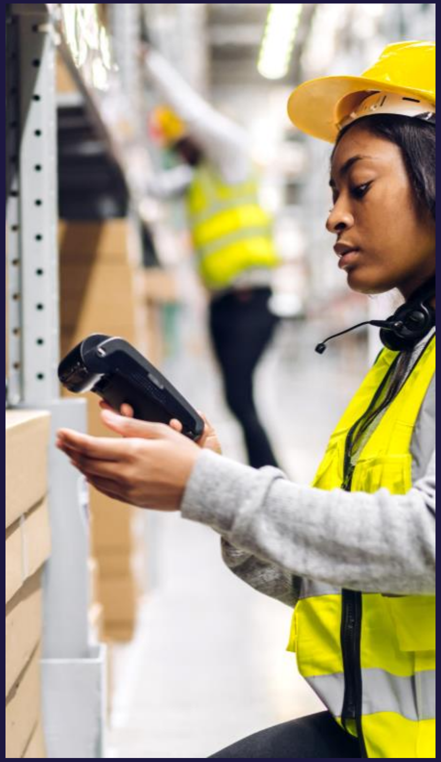
Uncertainty defined 2025, but clarity is expected to shape 2026. Most of the geopolitical tensions and fiscal policies that drove construction price swings in 2025 have been resolved.

Sentiment across the construction sector has improved, and most companies expect increased activity in 2026. Clarity around costs and policy will allow companies to focus on planning for the year ahead.

Risks remain, including inflationary pressures from higher tariffs and ongoing labor constraints. However, companies have adapted to this high-cost environment, using creative strategies to keep projects moving.



The Global Supply Chain Stress Index (GSCSI) is stable and expected to remain so through 2026, though it remains vulnerable to shifts in trade policy, geopolitical tensions and disruptions in key shipping lanes.



Global labor constraints have eased, but regional challenges persist, and shortages of skilled workers continue to push project costs higher.

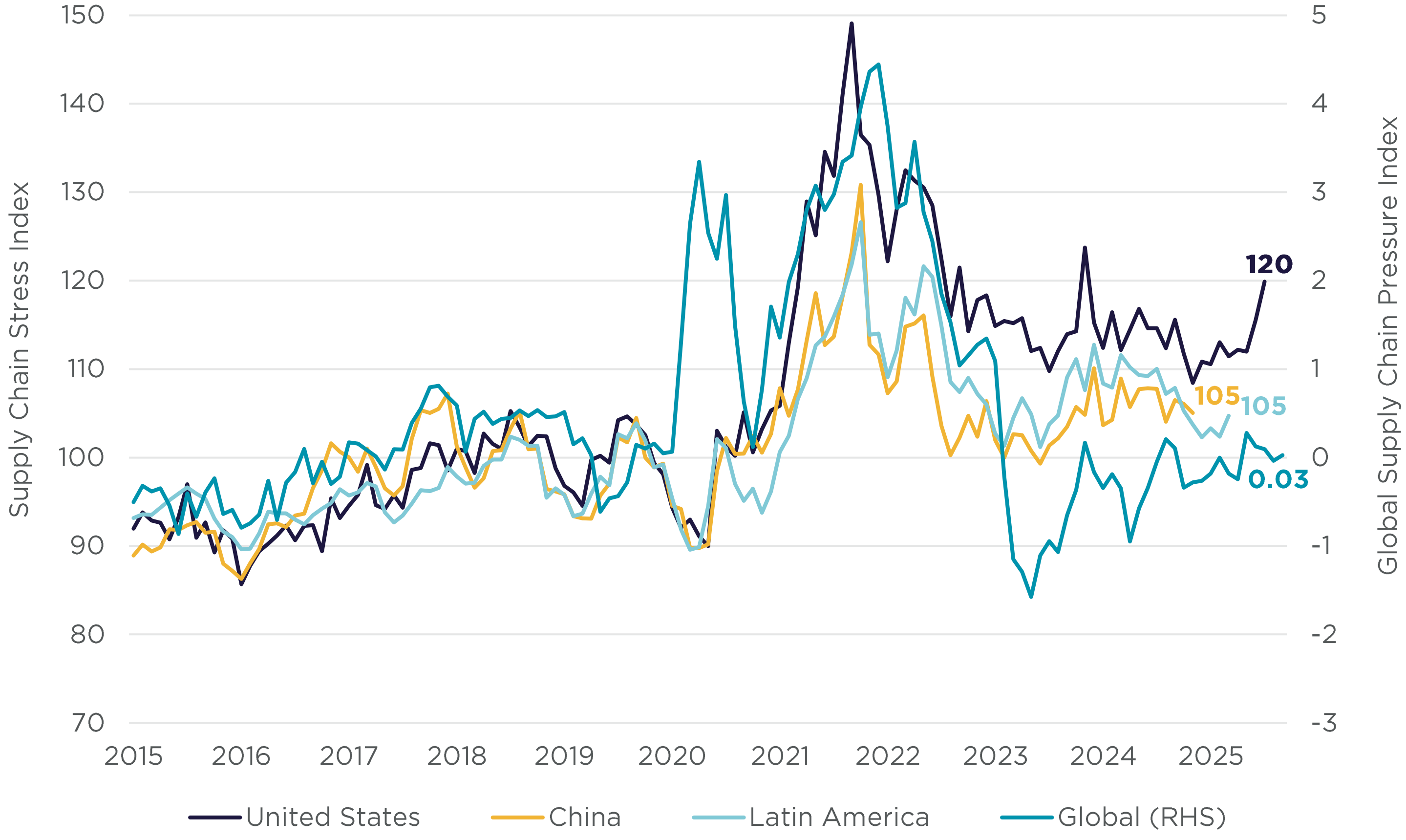
The global office and industrial construction pipelines contracted through 2025, with activity still concentrated in the APAC region.

01

ECONOMIC DRIVERS

SUPPLY CHAIN PRESSURES DIVERGE

Global stability versus U.S. strain



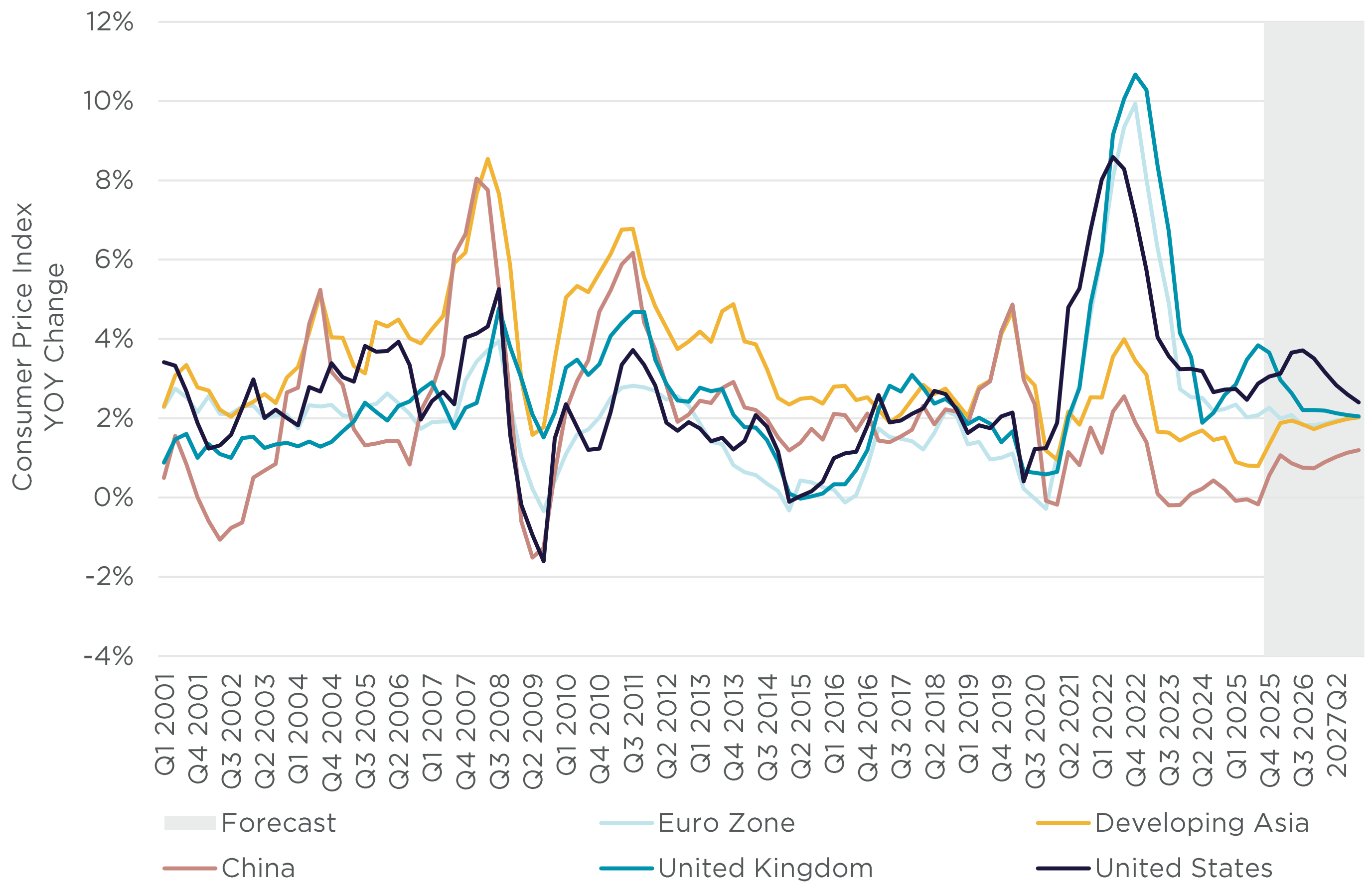
Source: Federal Reserve Bank of New York

Note: Global data is based on the Global Supply Chain Pressure Index while non-global data is based off Supply Chain Stress Indices

- Global supply chain stress levels held relatively steady in 2025. As of September, stress levels were slightly higher month-over-month (MOM), but lower year-over-year (YOY) compared with September 2024.
- In the U.S., supply chain stress levels climbed throughout 2025 and are now at a two-year high. Contributing factors include tariff-driven uncertainty, domestic capacity constraints and port-related delays. Given current conditions, a near-term reduction in stress is unlikely.
- **Outlook:** Despite recent global supply chain stability, risks persist. Geopolitical tensions pose maritime threats to key shipping lanes, which could elevate stress levels in the future.

INFLATION EASES GLOBALLY

Regional pressures persist through 2026

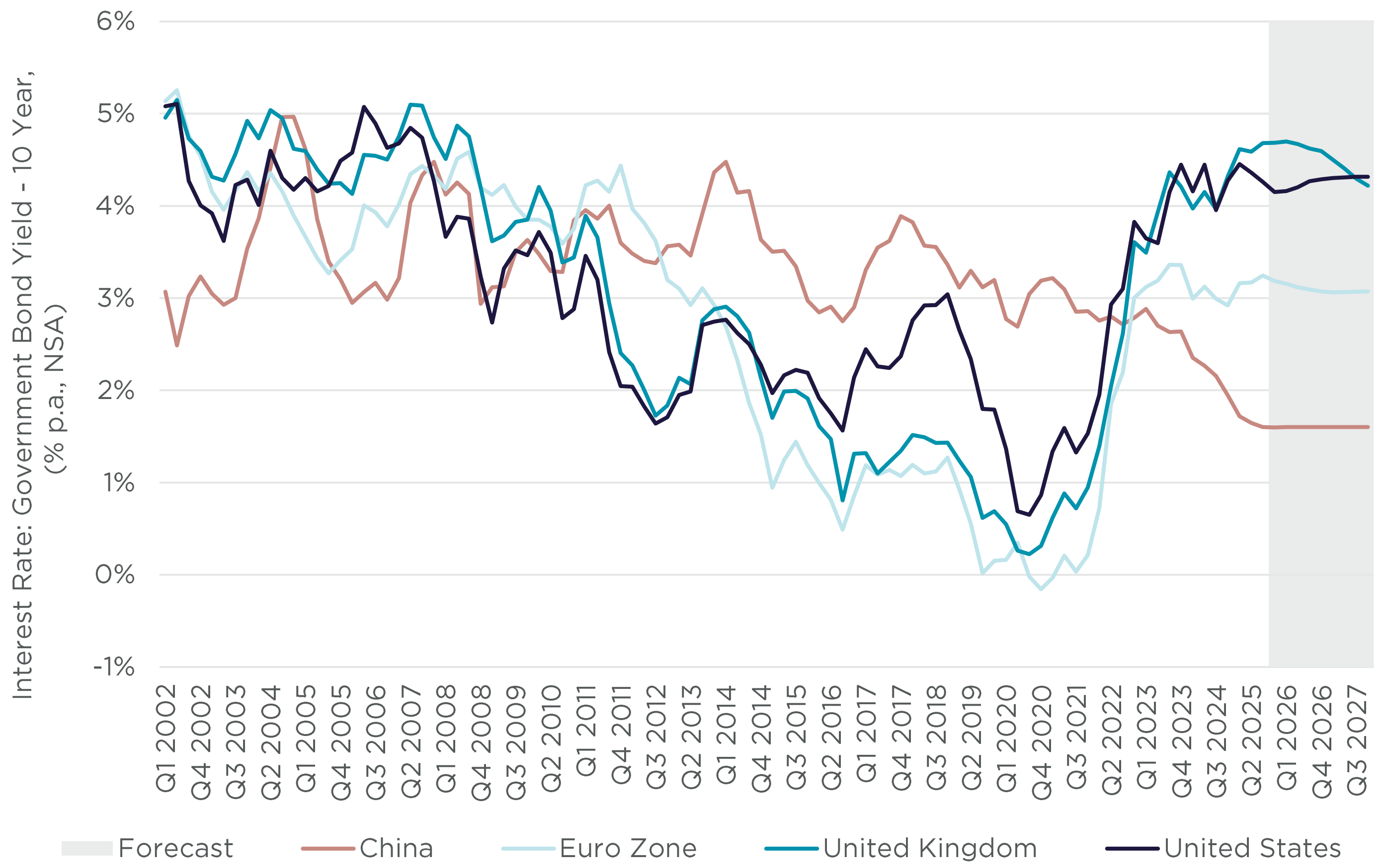


Source: The World Bank; Moody's Analytics

- Global inflation continues to ease from earlier highs. The IMF's October 2025 Outlook projects global inflation to fall to 4.2% in 2025 and decline further to 3.7% in 2026.
- While global inflation is expected to ease, regional differences vary. In the U.K., structural pressures have pushed inflation higher in 2025 after its post-pandemic decline, driven by higher wages and services costs.
- In the U.S., tariff tensions have not yet fueled inflation, but that is expected to change.
- **Outlook:** U.S. inflation is expected to rise in 2026 before easing in 2027. Inflation is also expected to climb in China and developing Asia through 2026 and 2027 as these regions contend with higher global prices and tariff impacts.

INTEREST RATES CONTINUE TO EASE

Policy divergence emerges



Source: The World Bank; Moody's Analytics

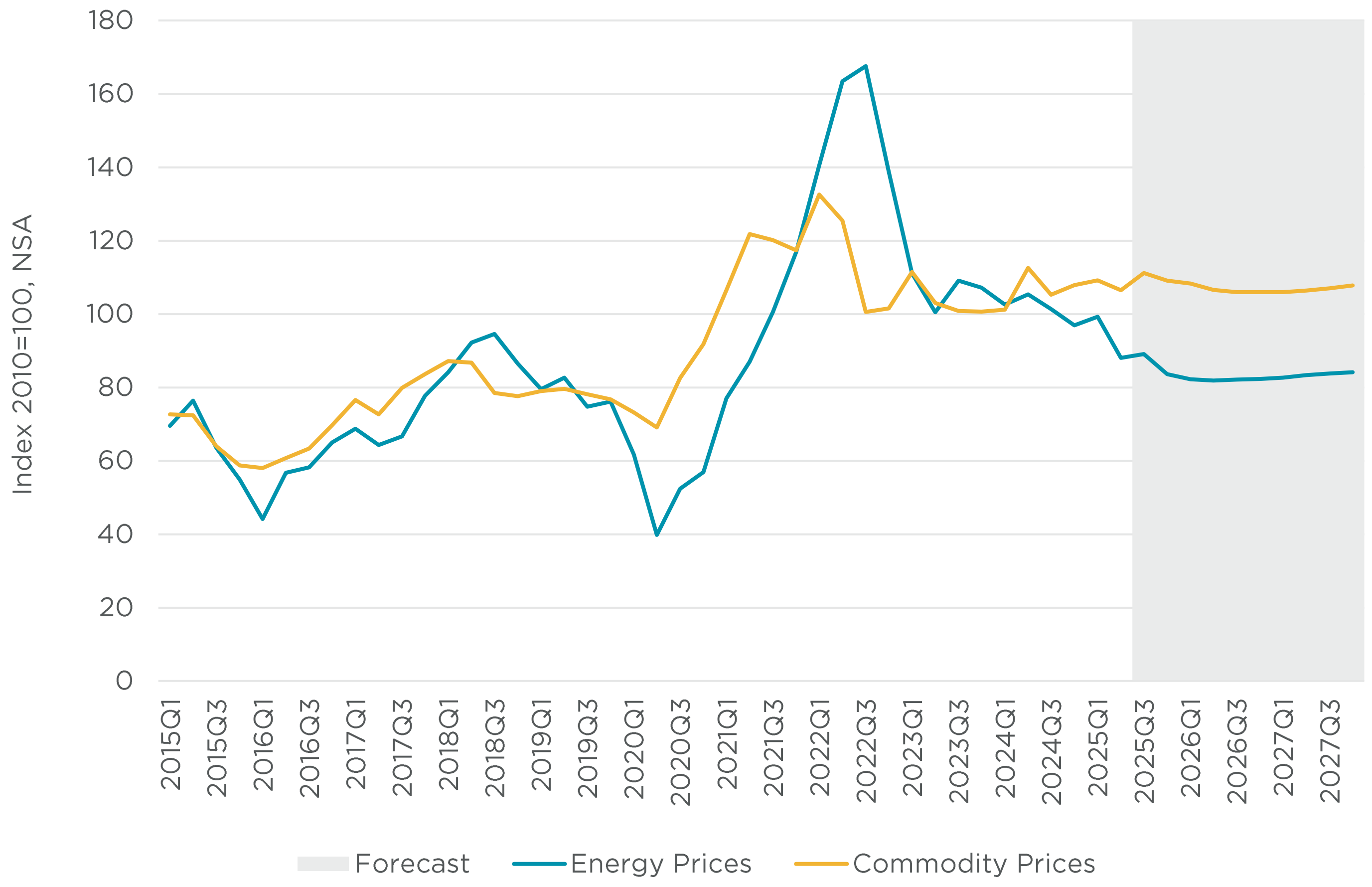
- Most central banks have maintained monetary easing as global interest rates fall from recent highs, though policy divergence persists in markets that continue to struggle with inflation.
- Regionally, the U.S. and Canada have cut rates in earnest, while the eurozone takes a more measured approach. In emerging markets, easing depends on inflation rates.
- Persistently high interest rates have created headwinds for the construction sector, making projects more costly.
- **Outlook:** Based on the IMF's October 2025 Outlook, continued rate cuts are expected through 2026, though markets with sticky core inflation may need to slow the pace. Construction sentiment points to a lower-rate environment in 2026, which could drive increased global activity.

02

CONSTRUCTION COSTS

ENERGY AND COMMODITIES

Global energy prices continue to soften

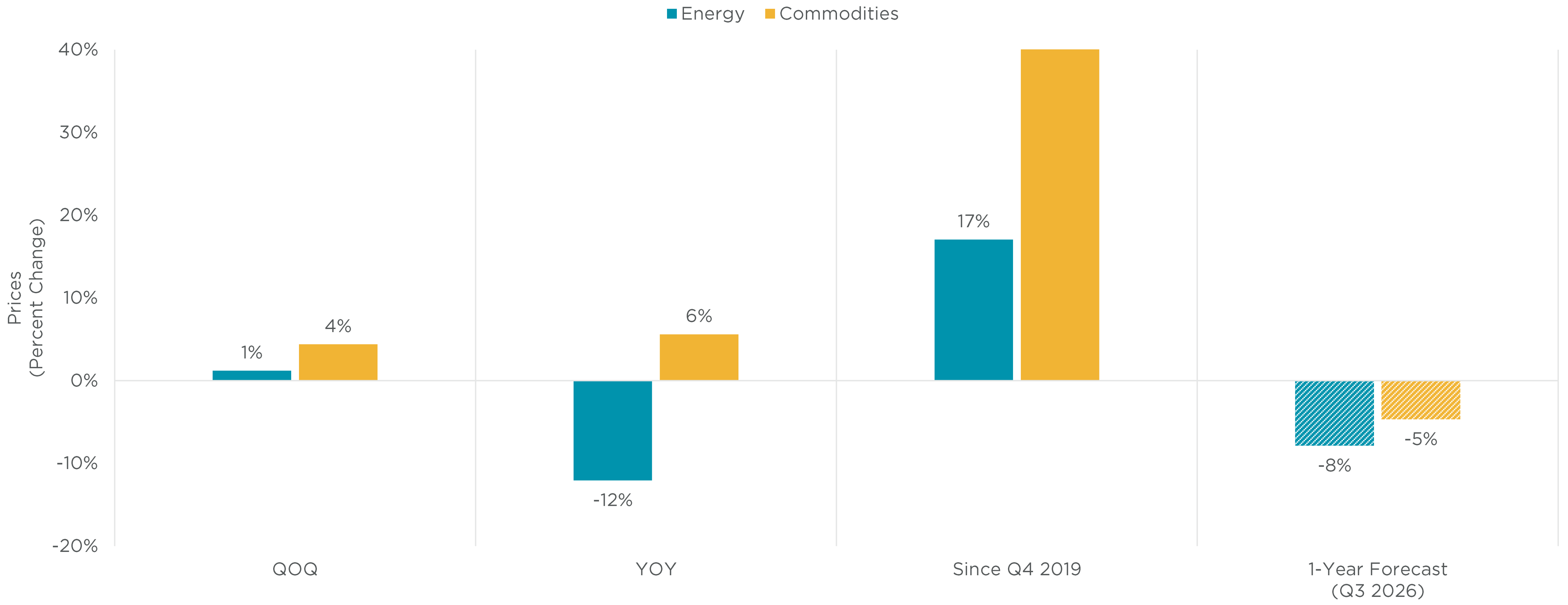


Source: The World Bank; Moody's Analytics

- Global energy prices rose 1.2% in the third quarter but were down 12% from a year ago. Energy prices have continued to soften, driven in part by the global shift toward renewable energy. Still, geopolitical instability poses risks that could disrupt oil supplies and alter price projections.
- Global commodity prices climbed 4.4% quarter-over-quarter (QOQ) and 5.6% YOY as demand for metals softened. Global manufacturing Purchasing Managers' Indexes (PMIs) expanded in October, marking the second-highest reading in nearly two years and signaling increased manufacturing activity.
- **Outlook:** Energy and commodity prices are expected to decline from current levels and remain stable through 2026, assuming no major economic or geopolitical shocks.

ENERGY AND COMMODITIES

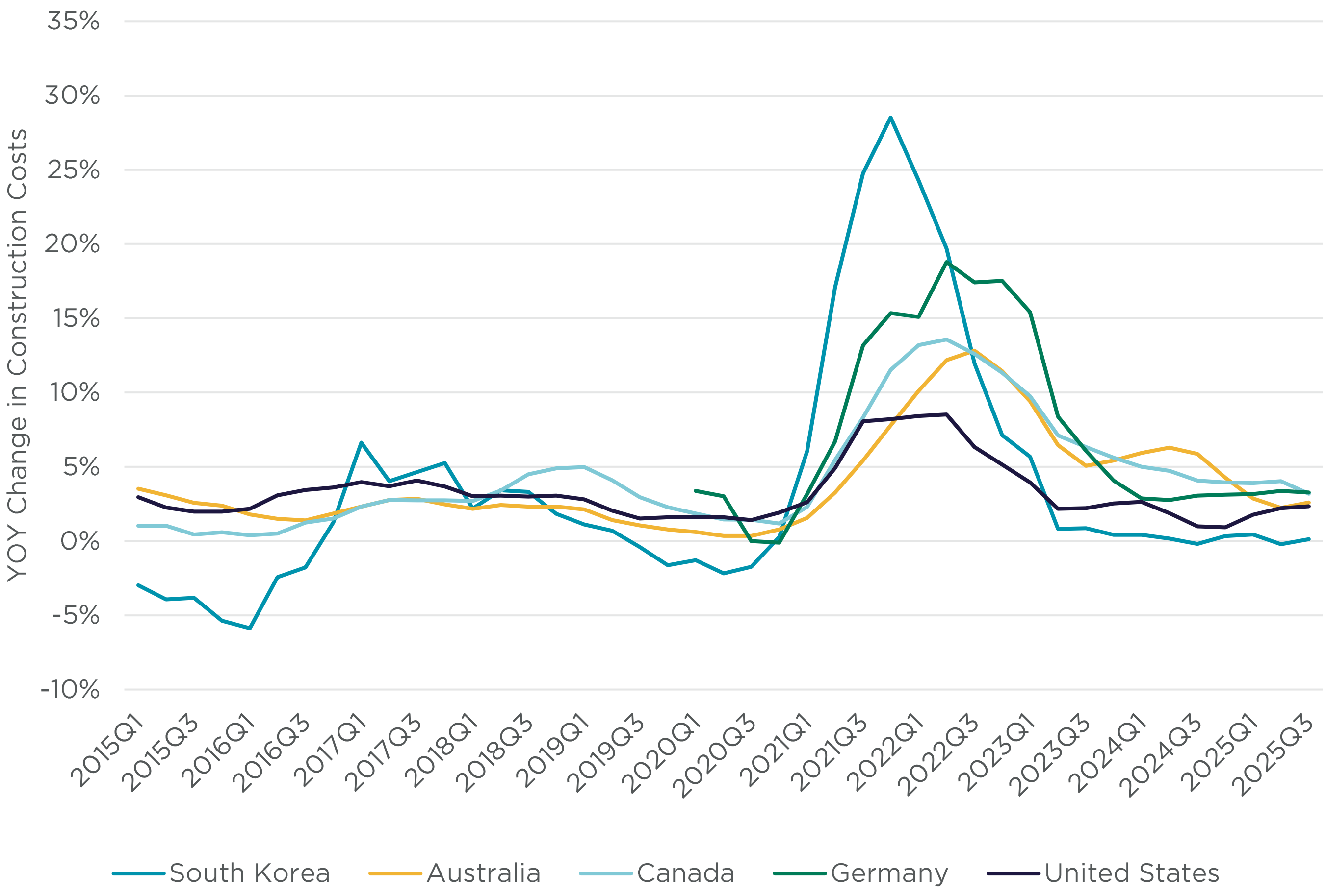
Prices are expected to continue declining over the next 12 months



Source: The World Bank; Moody's Analytics

REGIONAL CONSTRUCTION COSTS VARY

Slower demand has curbed price growth in some regions, while others see increases ahead



Source: Moody's Analytics

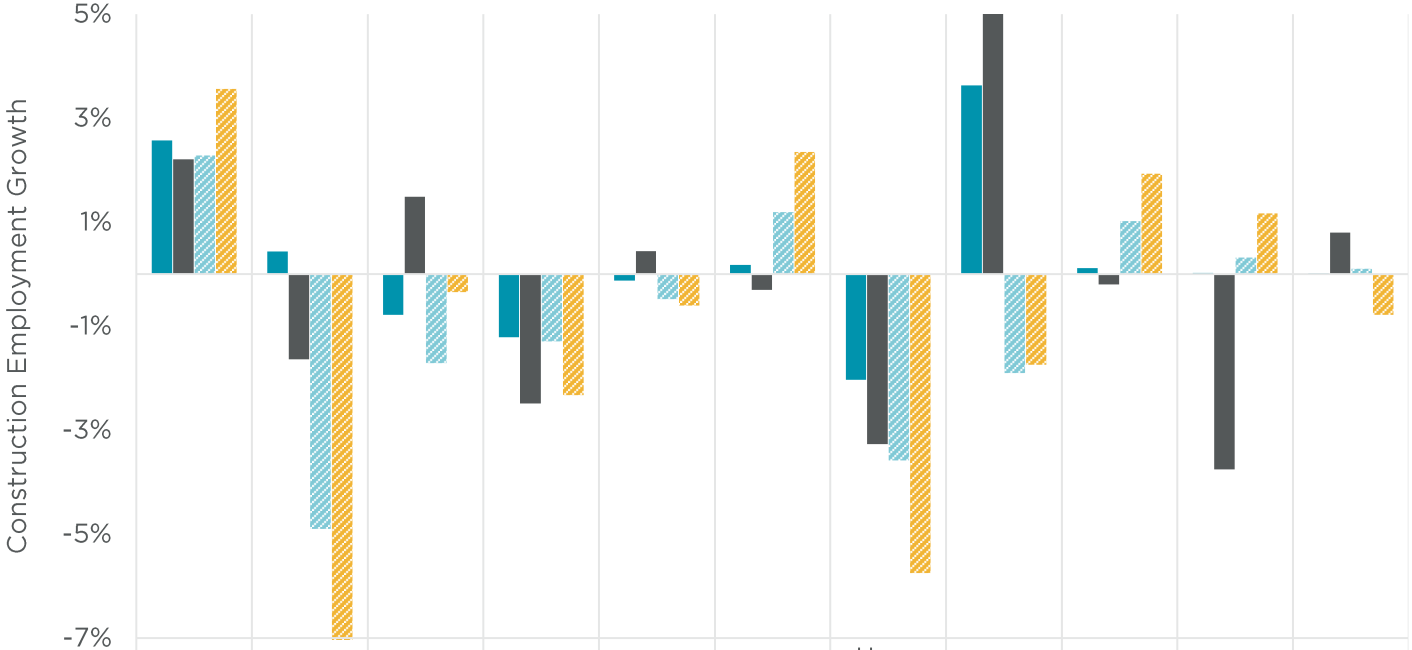
- Globally, construction cost increases have eased from recent highs. As of the third quarter of 2025, YOY construction cost growth across major countries fell below the 10-year average. Still, prices remain elevated worldwide.
- Most countries in this chart saw construction costs increase in the third quarter compared with midyear, except for Canada and Germany. Canada's price growth slowed from 4% at midyear to 3.2%, while Germany dipped slightly from 3.4% to 3.3%.
- **Outlook:** Global construction price growth is expected to remain stable in 2026, barring major economic shocks. In the U.S., construction costs are expected to accelerate, with quarterly increases exceeding 1% for each of the next three quarters.

03

CONSTRUCTION EMPLOYMENT

CONSTRUCTION EMPLOYMENT

Hiring slows despite global easing



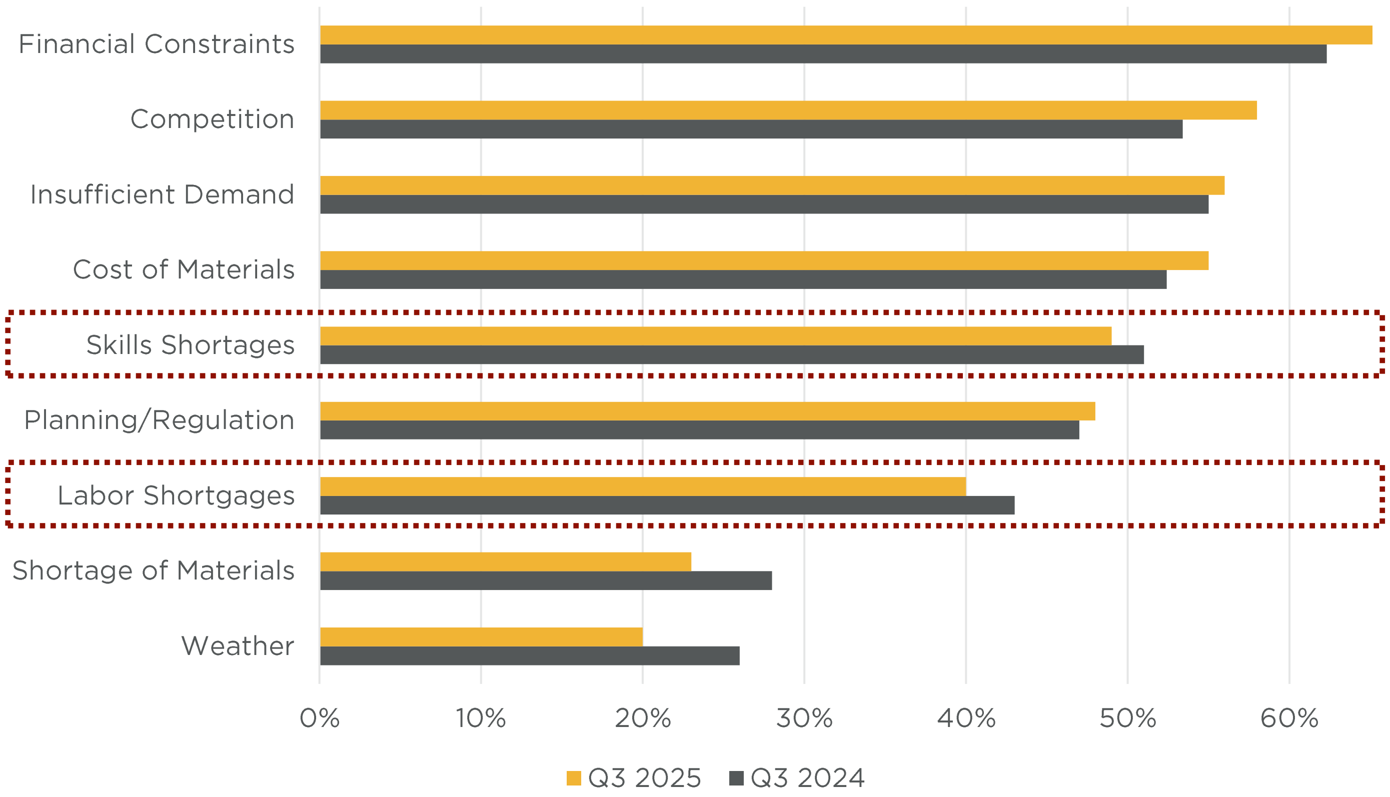
	Australia	Brazil	Canada	China	Euro Zone	United Kingdom	Hong Kong SAR (China)	India	Japan	Mexico	United States
QOQ	2.6%	0.4%	-0.8%	-1.2%	-0.1%	0.2%	-2.0%	3.6%	0.1%	0.0%	0.0%
YOY	2.2%	-1.6%	1.5%	-2.5%	0.4%	-0.3%	-3.3%	7.0%	-0.2%	-3.8%	0.8%
1-Yr F	2.3%	-4.9%	-1.7%	-1.3%	-0.5%	1.2%	-3.6%	-1.9%	1.0%	0.3%	0.1%
2-Yr F	3.6%	-9.1%	-0.3%	-2.3%	-0.6%	2.4%	-5.8%	-1.7%	1.9%	1.2%	-0.8%

Source: Moody's Analytics

- Through the third quarter of 2025, employment grew across most markets, averaging 0.3% QOQ and 0.03% YOY. Growth was strongest in India and Australia, while China and Mexico saw job losses.
- In the U.S., labor market growth slowed, largely due to weaker activity and restrictive immigration policies that have tightened the talent pool.
- **Outlook:** Moody's projects construction employment to decline 0.8% in 2026 and 1.1% in 2027, though localized growth is expected in Australia, the UK, Japan and Mexico.

GLOBAL LABOR CONCERNS EASE

Regional challenges remain



Source: Royal Institution of Chartered Surveyors (RICS) Q3 2025 Global Construction Monitor

- According to the Royal Institution of Chartered Surveyors (RICS) third-quarter 2025 survey of more than 2,300 companies worldwide, concerns about labor challenges have eased globally. While 49% of respondents cited skills shortages as a major impediment and 40% viewed labor shortages as challenging, sentiment has improved compared with the same period in 2024.
- This trend holds in Europe and Asia, but North America remains more labor constrained. In Canada and the U.S., respondents ranked both skills and labor shortages among the top reasons for slower construction activity, pointing to more restrictive labor dynamics in these markets.
- **Outlook:** RICS survey data suggests global skills and labor shortages will continue easing in 2026.

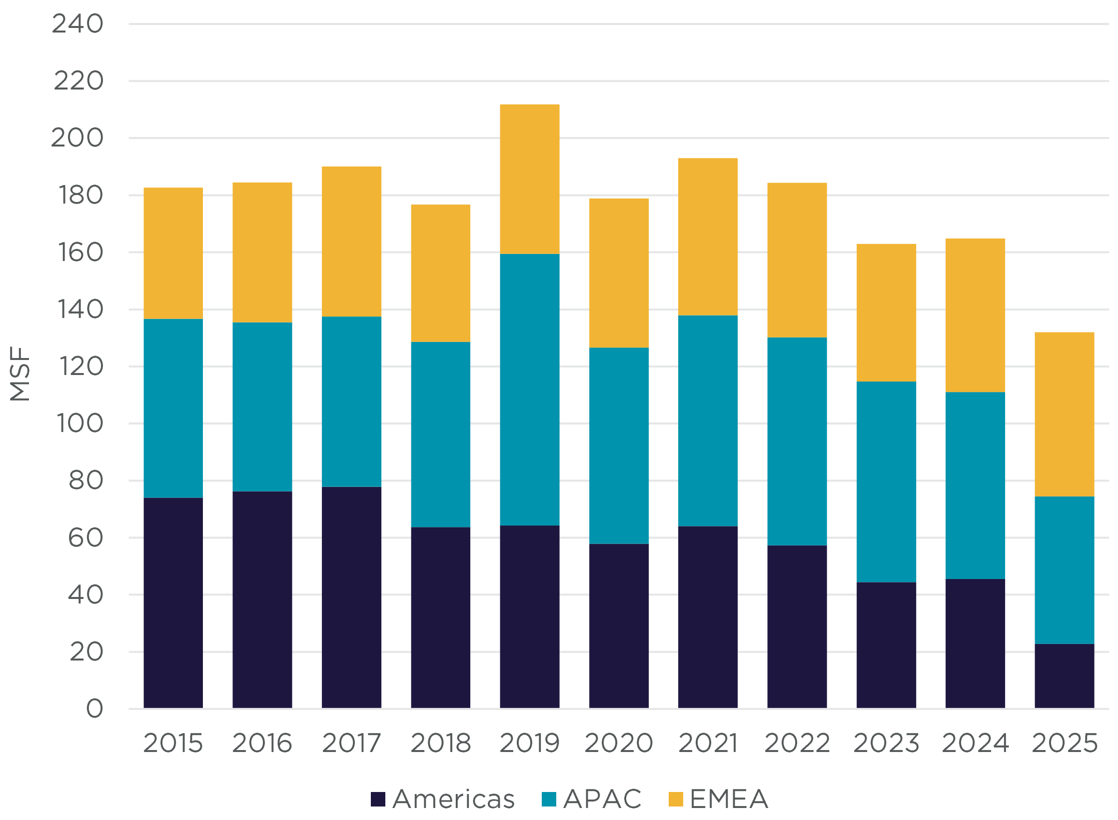
04

SECTOR SPOTLIGHTS

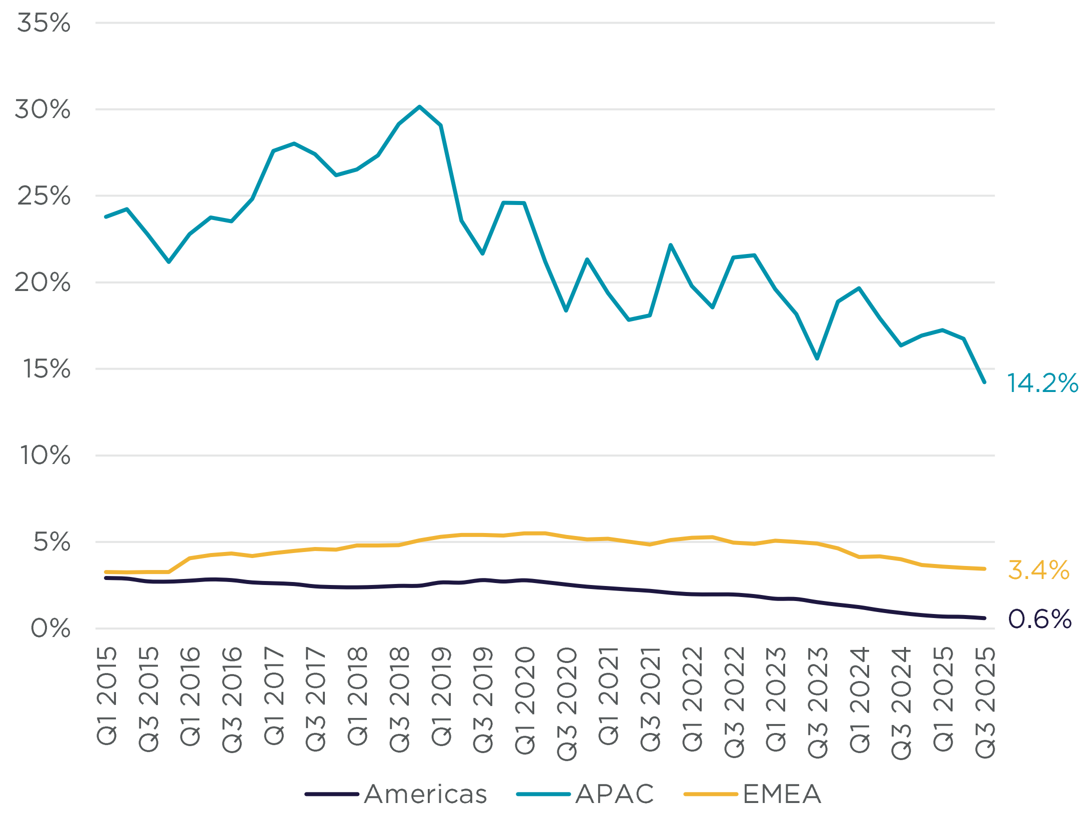
GLOBAL OFFICE PIPELINE CONTINUES TO CONTRACT

Inventory under construction hits a 10-year low

Office Deliveries by Region



Under Construction as a % of Inventory

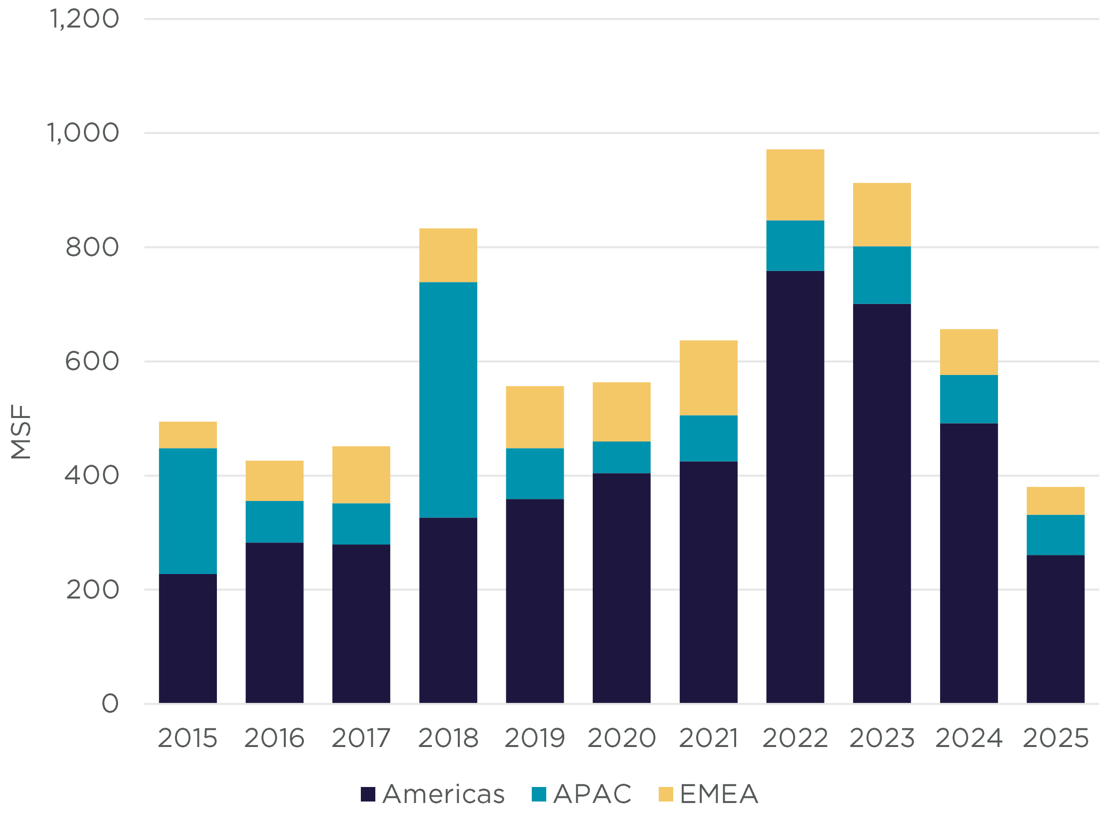


Source: Cushman & Wakefield Research

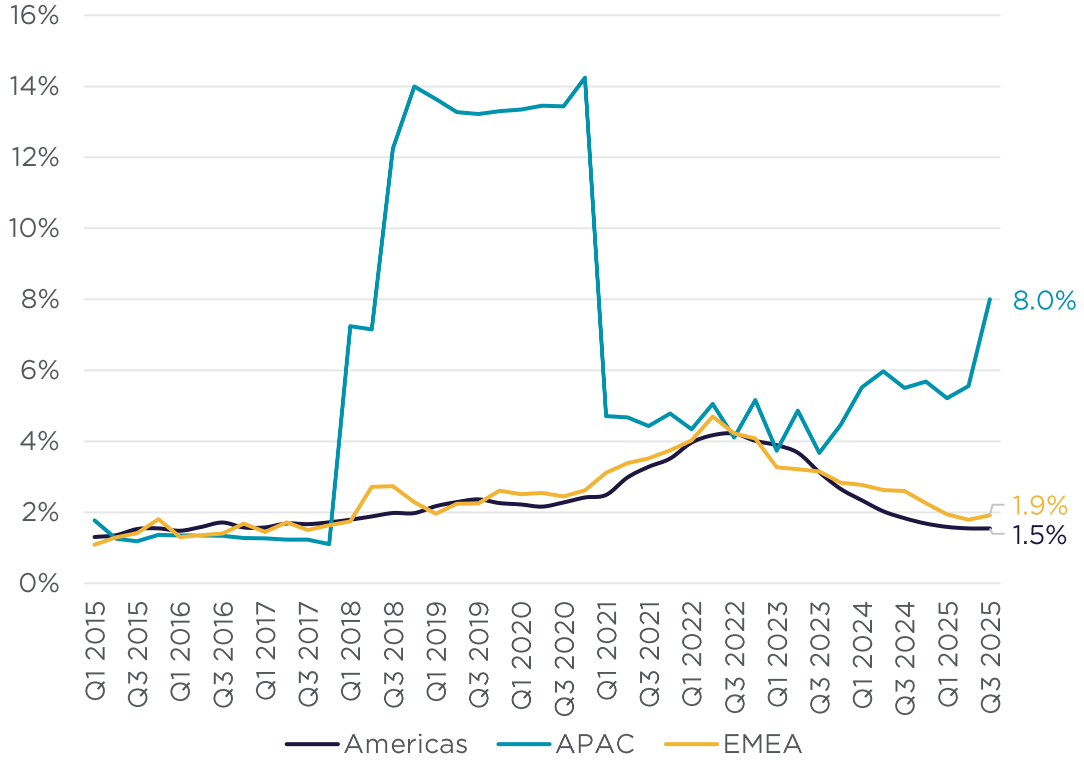
INDUSTRIAL CONSTRUCTION PICKS UP IN APAC

Americas and EMEA decline

Industrial Deliveries by Region



Under Construction as a % of Inventory

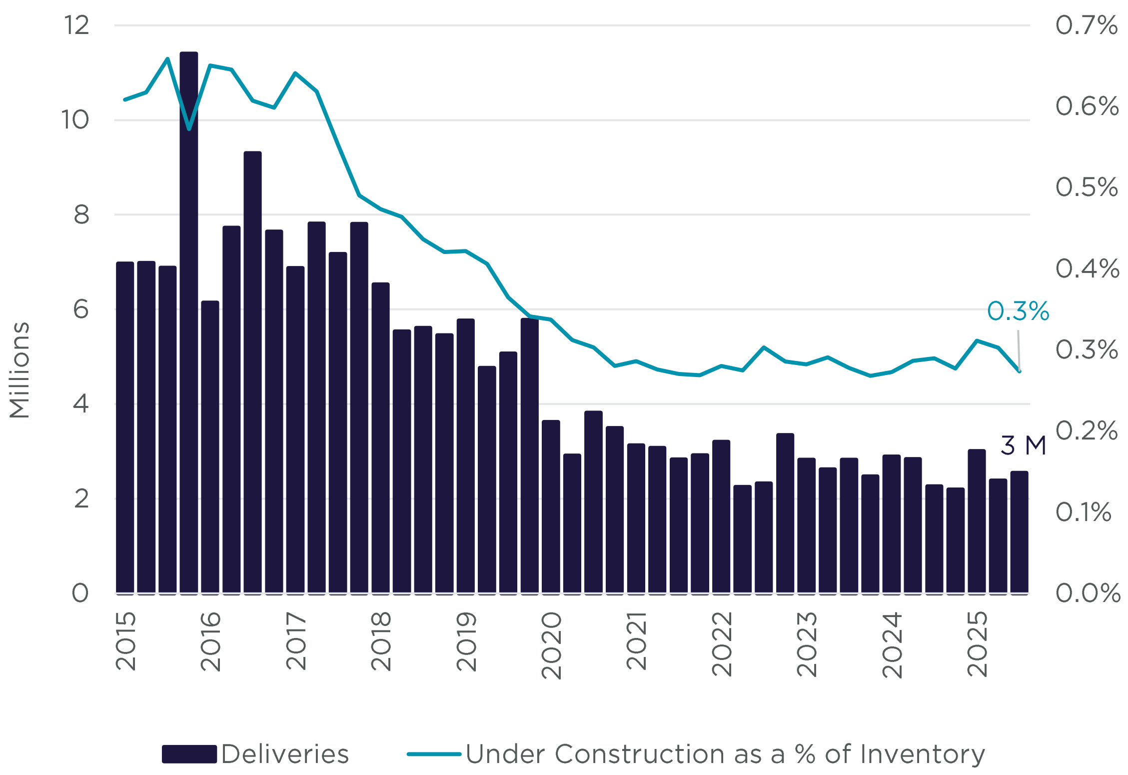


Source: Cushman & Wakefield Research

RETAIL PIPELINE REMAINS SUBDUED

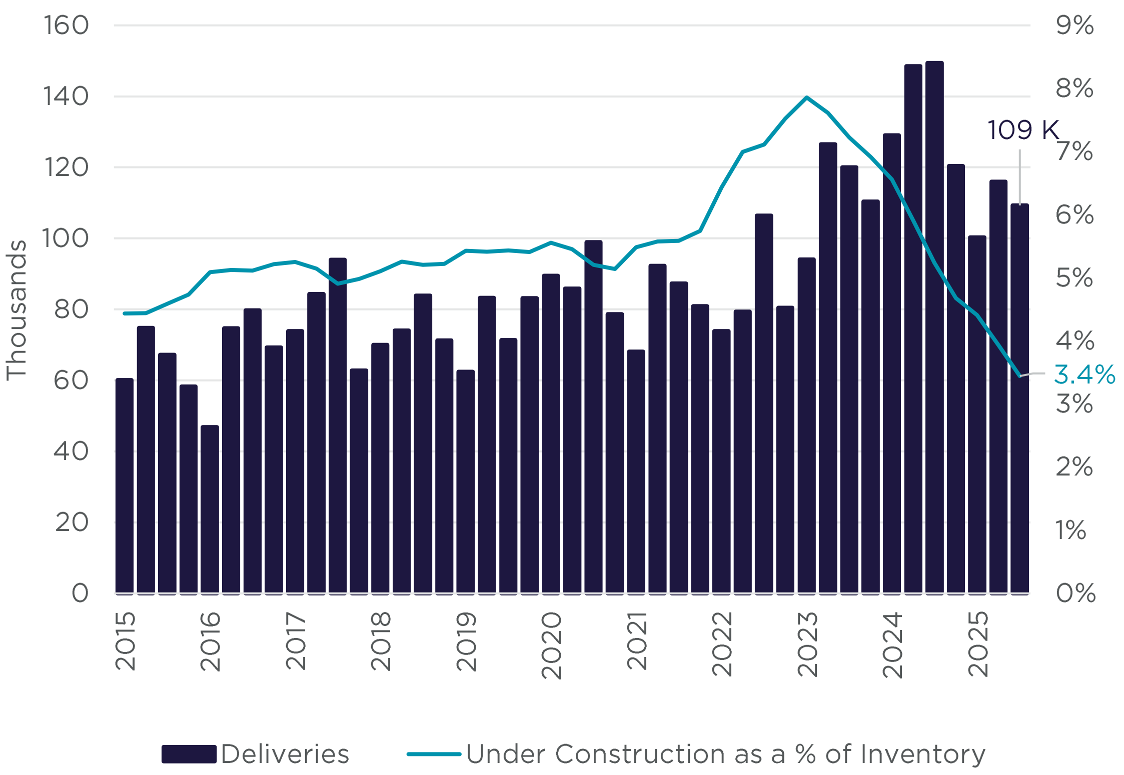
Multifamily delivery wave has peaked

United States Retail Pipeline



Source: Cushman & Wakefield Research

United States Multifamily Pipeline



Source: Cushman & Wakefield Research

05

COUNTRY DEEP DIVE

UNITED STATES

CONSTRUCTION COSTS

After a challenging year, the U.S. construction industry is projected to stabilize in 2026. Much of the tariff-related uncertainty has been resolved, and further reductions from ongoing negotiations could boost industry confidence. Lower interest rates are also expected to expand financing options and help offset the impact of persistent labor shortages, which continue to drive up costs.

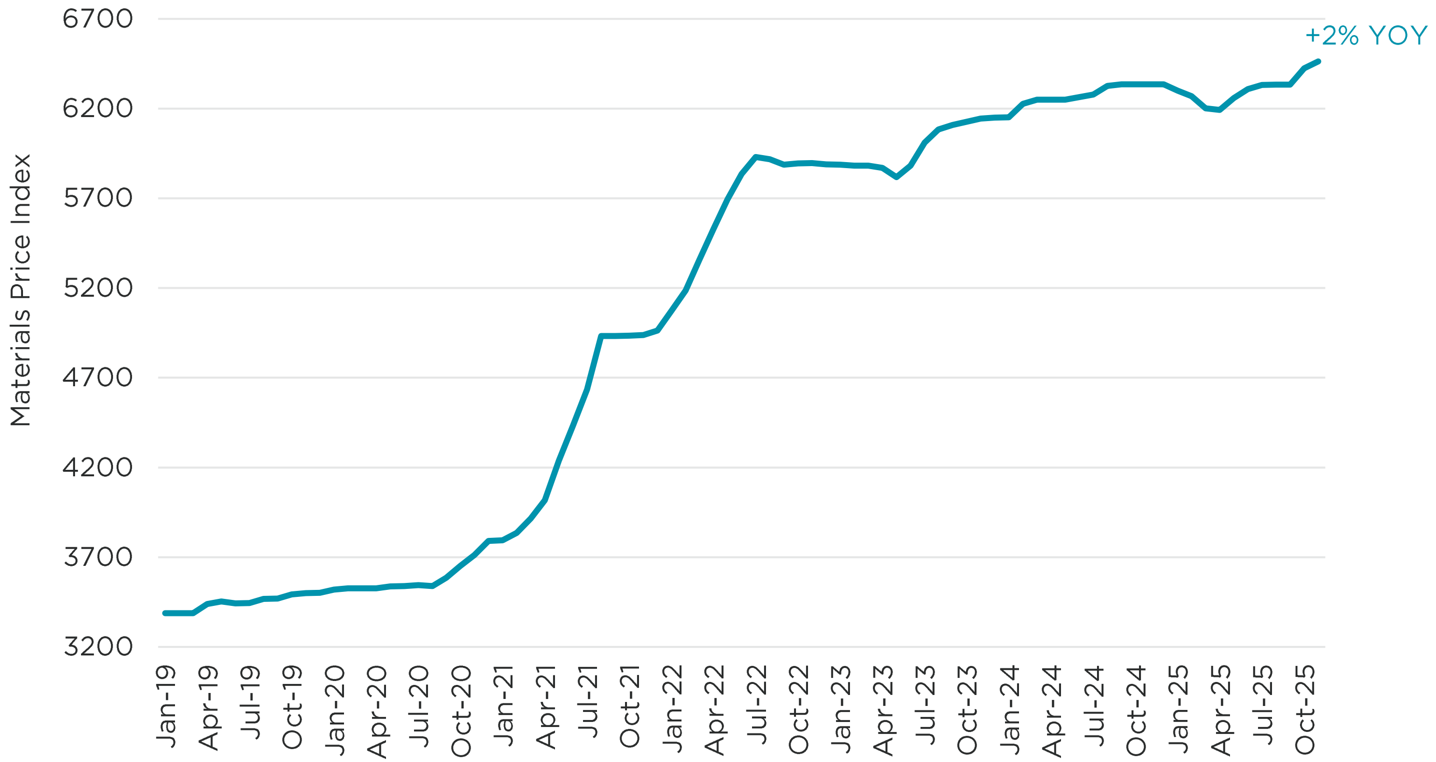
MATERIAL PRICE INCREASES NORMALIZE

Construction material price growth slows

Tariff-related increases in construction materials have been minimal in 2025. According to ENR's Index, prices in November rose by 2% YOY and 0.6% MOM.

Although growth is slower than a year ago—when prices climbed 3.1% in November 2024—it marks an acceleration from midyear. In June, prices were down 0.4% from December 2024 levels. Current prices have recovered but remain below 2024 growth rates.

Outlook: Material prices are expected to rise in 2026 as tariff pressures take hold and construction activity picks up. However, price increases are expected to stay near long-term averages and below the volatility seen during the pandemic.



Source: Engineering News Record (ENR) (McGraw-Hill); structural steel, portland cement and two-by-four lumber

LABOR COSTS HIT NEW HIGHS

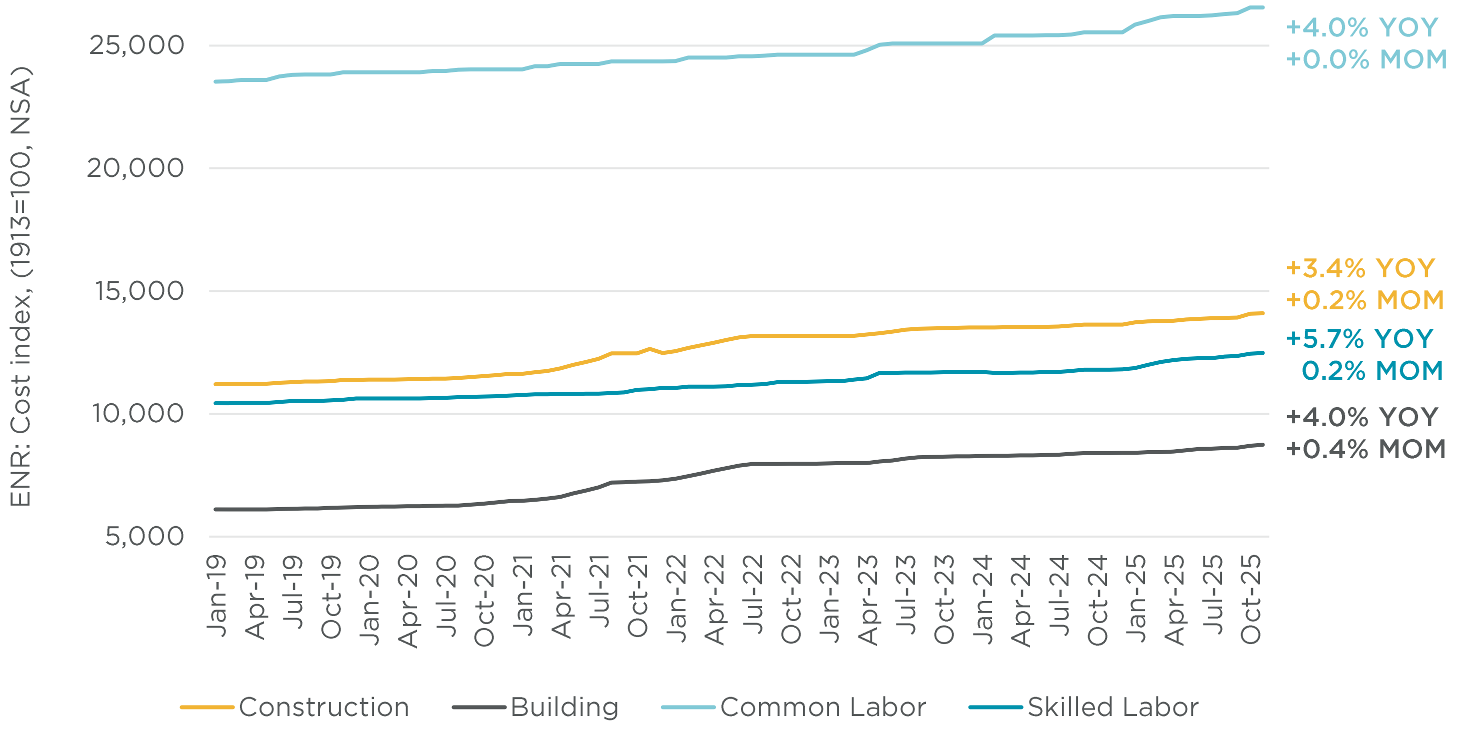
Skilled and common labor drive price escalation

Overall construction costs continue to feel the sting of labor constraints. ENR's November 2025 Indices indicate that labor cost increases have reached new highs.

The Construction Cost Index, which includes common labor, rose 0.2% MOM and 3.4% YOY as of November 2025. While these increases align with long-term averages, they are significantly higher than the 0.9% increase recorded last November. The primary driver of this rise is the growth in common labor costs, which increased by 4% YOY, although there was no change MOM.

The Building Cost Index, which utilizes skilled labor as a key component, grew 0.4% MOM and 4% YOY, much higher than last year's 1.7% increase. The main reason again is labor: skilled labor costs increased 0.2% MOM and 5.7% YOY, a new high.

Outlook: Construction costs are expected to grow at or near long-term trends with labor continuing to apply upward pressure to costs.



Source: Engineering News-Record (ENR) (McGraw-Hill)

NEW CONSTRUCTION STARTS REBOUND

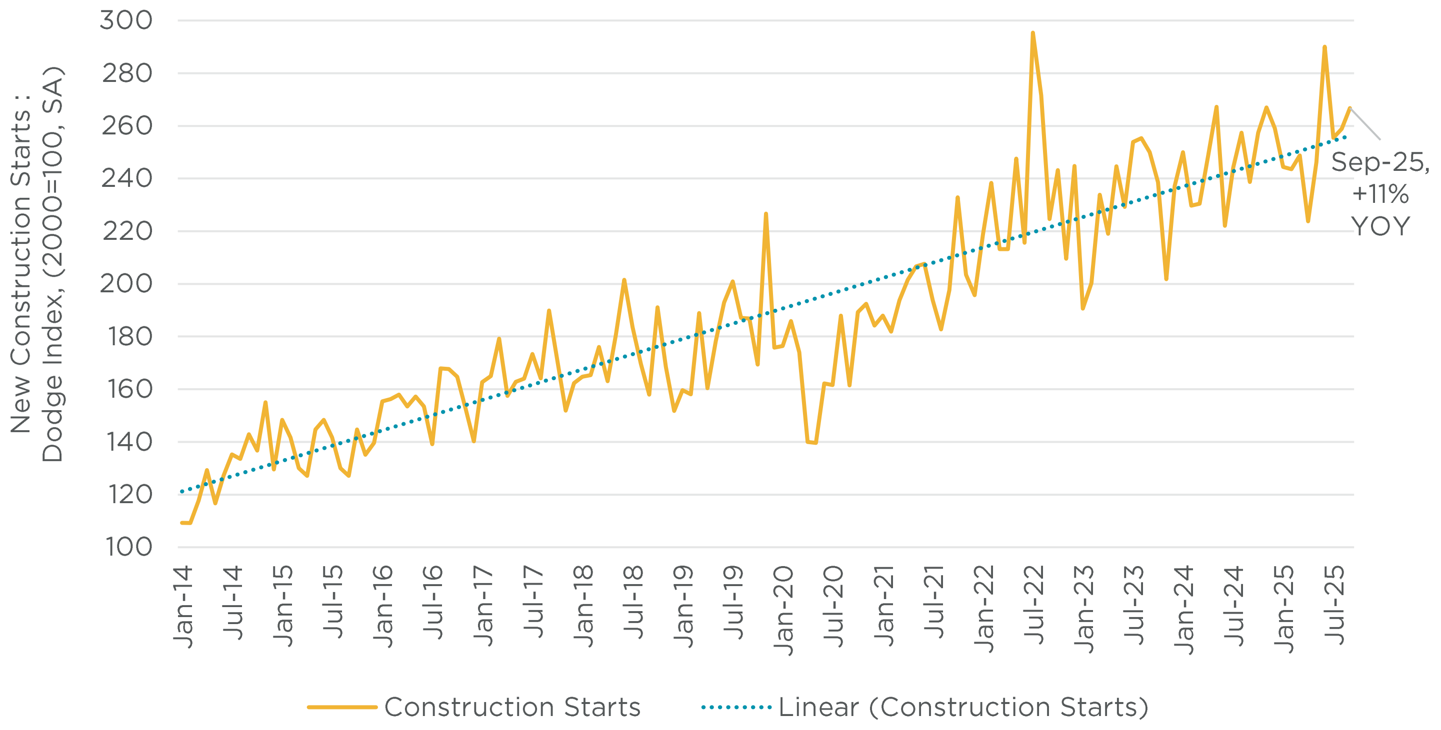
Momentum slows after midyear peak

New construction starts rose 11% YOY and 3.1% MOM as of September 2025. While this growth exceeds the long-term trend, starts were slower than the peak in June.

Nonresidential building starts climbed 6.8% YOY and a more robust 12% MOM. Commercial starts—a subset of nonresidential—jumped 23% YOY and 21% MOM. Among commercial properties, only retail did not post a monthly increase. Office starts surged 33%, driven largely by data center construction.

Due to delays in government data, October figures are not yet available. However, Dodge's Momentum Index showed signs of weakening in October, suggesting starts likely slowed.

Outlook: Dodge Construction projects nonresidential building starts to grow by 3% in 2026, with commercial starts expected to rise by 7%.



Source: Dodge Data & Analytics

METRO-LEVEL COSTS DECELERATE

Localized pressure drives costs higher in some markets

Metro-level construction costs slowed overall, rising 1.2% QOQ and 4.3% YOY, according to the latest data from Rider Levett Bucknall (RLB). Across the 16 U.S. markets tracked by RLB, 2025 costs grew at a more moderate pace than a year ago, when they increased 4.9% YOY.

Cost trends varied by metro. Chicago and Honolulu posted the largest annual gains at 5.4%, followed by Las Vegas at 4.9%. Austin recorded the smallest YOY increase at 2.4%, followed by Minneapolis at 3.4% and New York at 3.7%. On a quarterly basis, Miami recorded the biggest jump at 1.8%, while Washington, D.C. had the smallest at 0.8%.

Outlook: Labor costs are expected to keep upward pressure on overall construction costs, especially in high-cost gateway markets.

Metro	QOQ % Change	YOY % Change (Q3 2025 vs. Q3 2024)	Prior Year % Change (Q3 2024 vs. Q3 2023)
Austin	1.74%	2.36%	---
Boston	0.84%	4.18%	5.87%
Chicago	0.51%	5.42%	6.73%
Dallas	1.43%	4.29%	---
Denver	1.36%	4.54%	4.01%
Honolulu	1.13%	5.40%	5.27%
Las Vegas	1.31%	4.85%	4.35%
Los Angeles	1.28%	3.88%	4.65%
Miami	1.76%	4.21%	---
Minneapolis	1.34%	3.51%	---
Nashville	1.44%	4.12%	---
New York	0.92%	3.74%	4.59%
Phoenix	1.38%	4.80%	3.88%
Portland	1.05%	4.35%	5.07%
San Francisco	0.83%	3.91%	4.06%
Seattle	1.22%	4.52%	4.91%
Washington D.C.	0.78%	3.78%	5.49%
Average	**1.16%**	**4.34%**	**4.91%**

Source: Rider Levett Bucknall

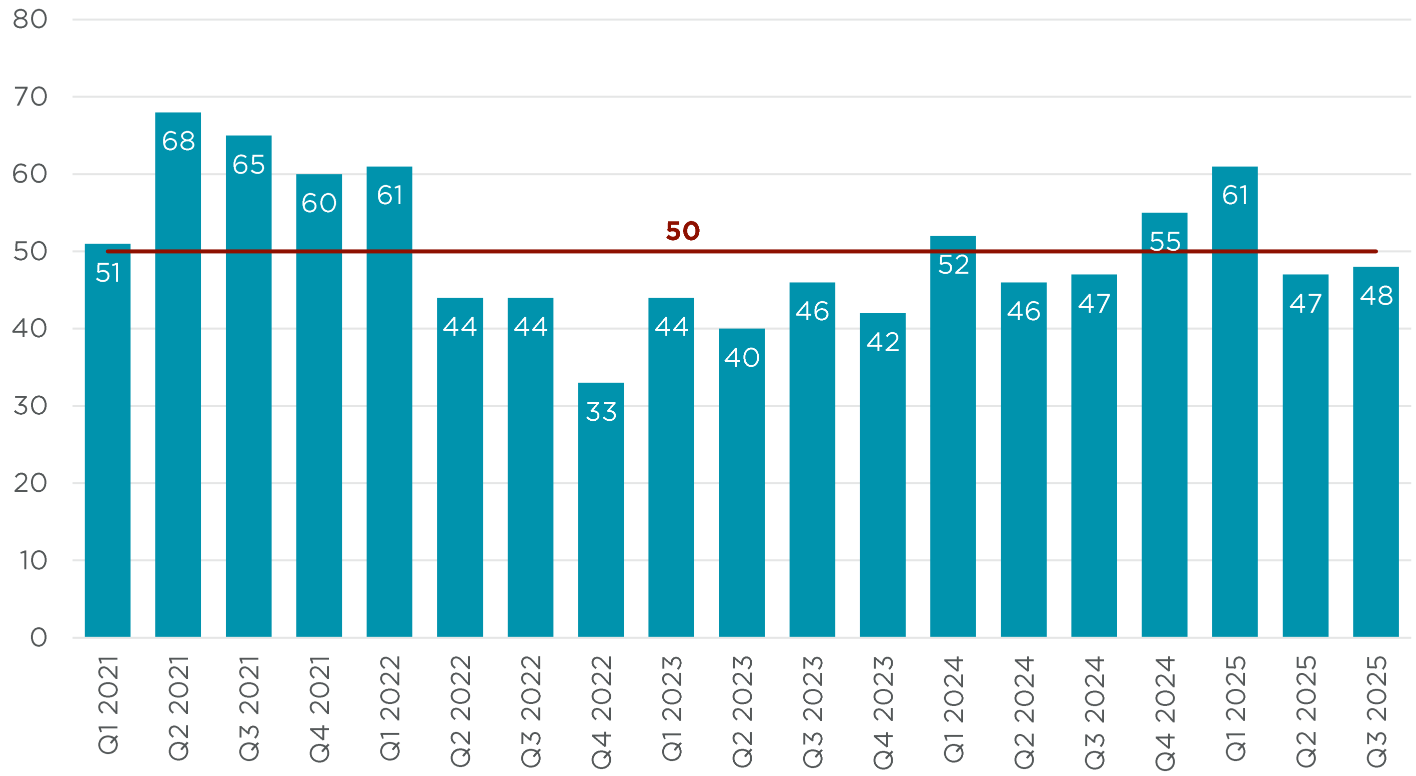
CONSTRUCTION INDUSTRY SENTIMENT SOFTENS

Optimism for long-term growth remains steady

ENR's latest sentiment survey shows the construction industry continues to face economic uncertainty. In the third quarter of 2025, sentiment among U.S. executives at general contractors, subcontractors and design firms increased slightly, but overall confidence remains low, particularly among subcontractors. They are contending with slower construction activity, which makes bidding more competitive and limits their ability to pass on cost increases, squeezing their revenues.

Even so, the growing data center sector is sustaining construction activity, with firms expressing the strongest confidence in the power market.

Outlook: Executive sentiment is more positive over the longer term, particularly for the next 12 to 18 months. However, this optimism hinges on expected interest rate cuts and hopes for economic stability.



Source: ENR/BNP MEDIA

LABOR

Labor costs continue to rise amid tightening constraints. Immigration policies are significantly affecting the industry, with some subcontractors losing workers. Wage growth is expected to remain strong in 2026, despite recent softness in construction hiring.

HIRING SLOWS

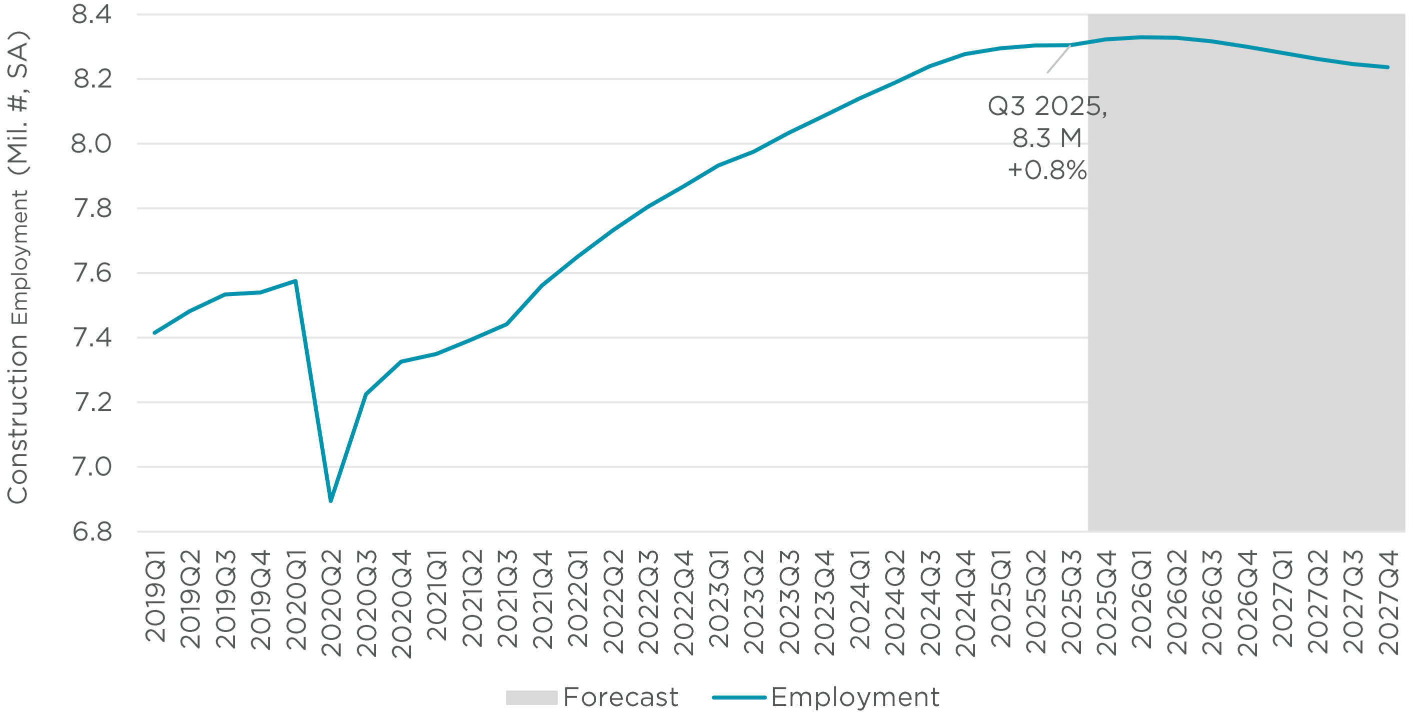
Lower construction activity led to slower hiring in 2025

Construction employment rebounded in September after a slow first half of the year. Job gains in September pushed sector employment up 0.8% for the third quarter of 2025, slightly trailing total nonfarm employment growth of 0.9% YOY.

Nonresidential construction employment outperformed the overall construction sector, adding over 16,000 positions as of September—a 1.7% YOY increase.

The construction unemployment rate rose to 3.8% in September from 3.2% in August. Still, the rate is consistent with last year's 3.7% and remains below the national nonfarm unemployment rate of 4.4%.

Outlook: Moody's forecasts construction employment will soften in 2026, declining 0.2% YOY. Nonresidential construction is expected to add more jobs than residential, supporting healthier job growth in the commercial sector.



Source: U.S. Bureau of Labor Statistics (BLS); Moody's Analytics Forecast

CONSTRUCTION WAGE GROWTH MODERATES SLIGHTLY

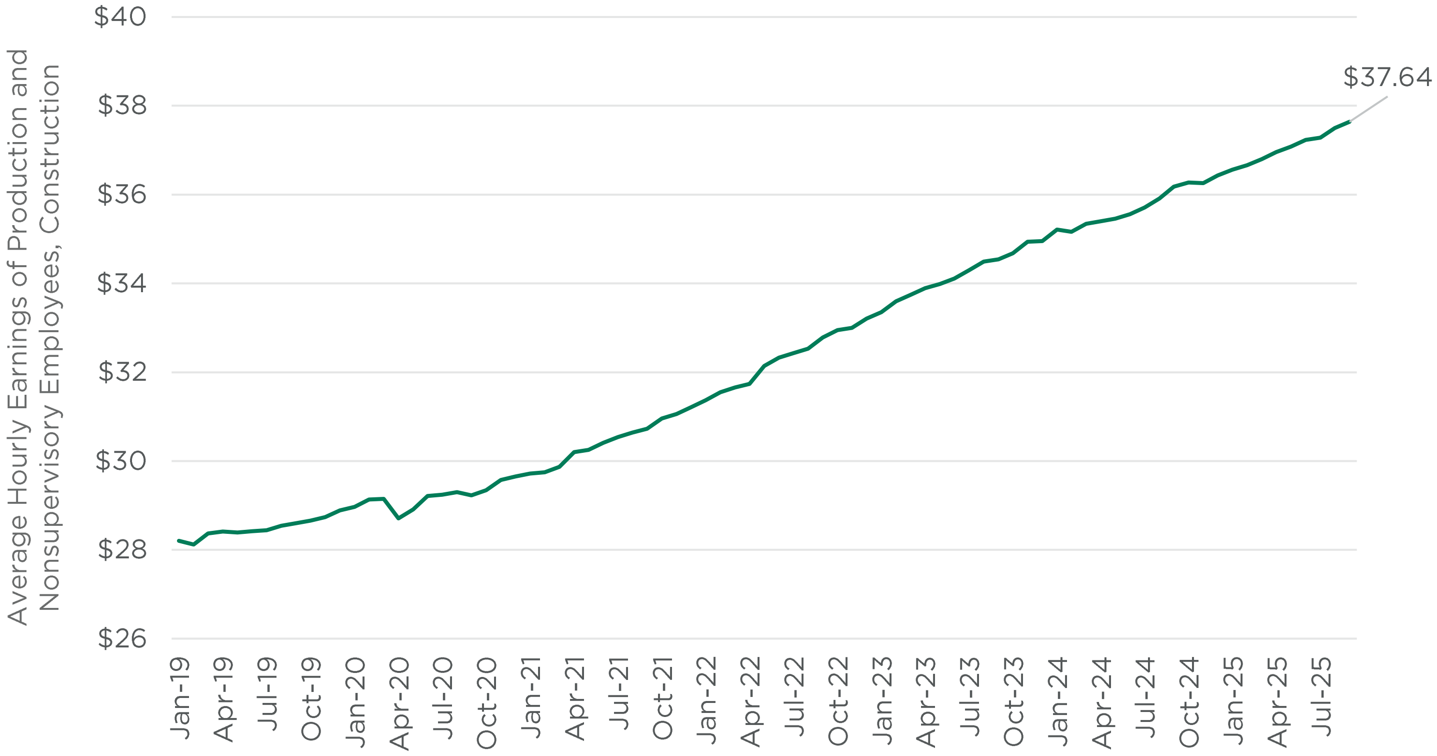
Current U.S. immigration policy could reverse trend

Wage growth remained robust in September, with average hourly wages rising to $37.64—up 0.4% from the previous quarter and 4% YOY. That pace is slightly below the five-year average annual growth rate of 4.9%.

Union wages also posted solid gains, climbing 4.7% YOY as of midyear, according to ENR data. That rate aligns with the projected 4.6% growth for full year 2025. Notably, specialty trades showed even larger increases, led by insulators with an average wage hike of 5.8%.

Labor constraints continue to push wages higher as the industry faces skills and staffing shortages. Immigration policies that restrict foreign labor are adding pressure. Foreign-born workers make up a significant share of the construction workforce, with some specialties reaching 50% or more.

Outlook: Wage growth in the construction sector is expected to stay strong in 2026, driven by persistent labor constraints.



Source: Federal Reserve Bank of St. Louis (FRED)

CONSTRUCTION ACTIVITY

A slowdown in construction activity has shortened backlogs and slowed billing processes. As uncertainty in the construction sector eases, backlog and billing are expected to recover. Further interest rate cuts by the Federal Reserve are also likely to boost construction activity.

CONSTRUCTION BACKLOG DECLINES AMID SLOWDOWN

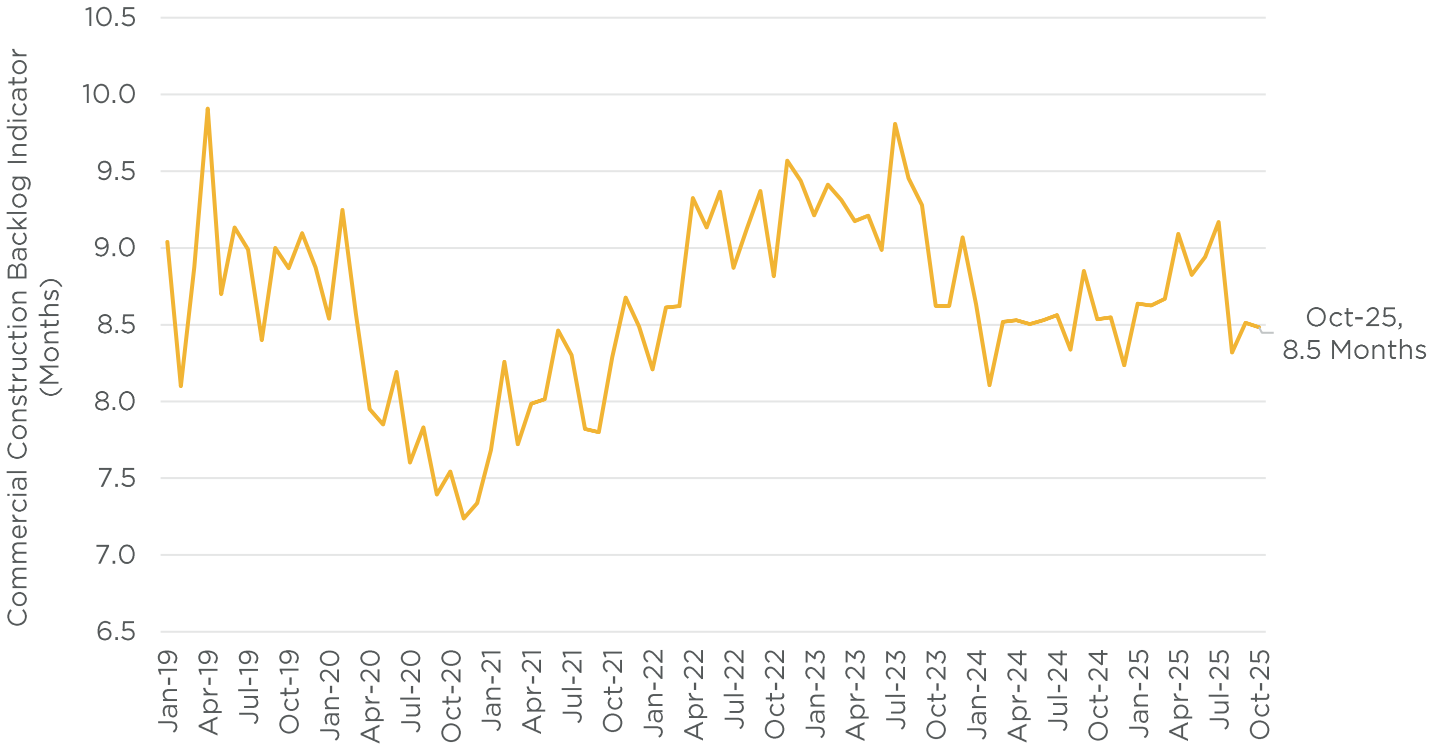
Backlog declines after midyear gains

The Associated Builders and Contractors (ABC) construction backlog for commercial and institutional projects reached 8.5 months in October 2025—down 0.1 month from September but unchanged from October 2024.

The Southern U.S. continues to hold the largest backlog, followed by the Western region. Data center construction continues to drive activity nationally. ABC Chief Economist Anirban Basu noted that about one in seven contractors are under contract for data center projects, with an average backlog of 10.9 months.

ABC's Confidence Index shows contractor sentiment remains optimistic: 60% of respondents expect sales to rise over the next six months. Still, profit margins are under pressure, with 65% believing that the construction industry is contracting.

Outlook: Backlogs should improve in 2026 as uncertainty eases and interest rates decline.



Source: Associated Builders and Contractors

Backlog is defined as "the amount of work, measured in dollars, that construction companies are contracted to do in the future."

ARCHITECTURAL BILLINGS TICK UP IN OCTOBER

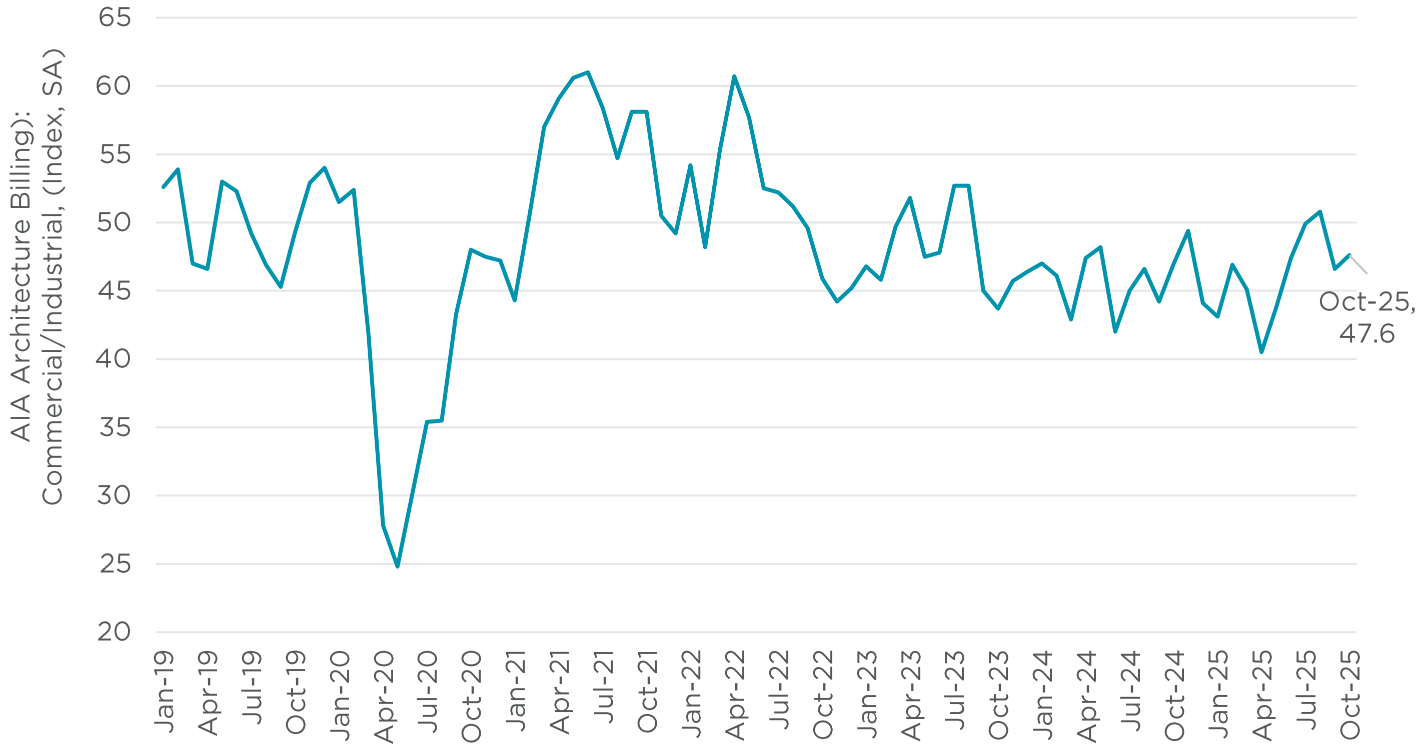
Growth remains subdued despite inquiry surge

Commercial and industrial architectural billings edged up in October after a sharp drop in September. The Architecture Billings Index (ABI) rose to 47.6, up 2.1% MOM and a 1.3% YOY.

The American Institute of Architects (AIA) reported a significant rise in new project inquiries in October, with many firms citing increased activity.

Regionally, billings were strongest in the Midwest, where the index reached 49.6. The West posted the weakest performance at 42.1, a steep decline from September. Of the four regions, only the Northeast saw a slight increase in billings, reaching 45.1.

Outlook: According to AIA's latest survey, most architectural firms expect revenues to remain flat or decline in 2026. Firms anticipating growth point to increased backlogs and the restart of previously delayed projects. Others note that rising inquiries signal a potentially busier year ahead.



Source: The American Institute of Architects (AIA)

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