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Fourth Quarter Construction Update: The Good, (The Strictly Okay), The Bad, and The Ugly

By Anirban Basu, Chief Construction Economist, CBIZ

The construction industry maintains momentum despite significant challenges. While high interest rates have dampened investment in residential construction and certain nonresidential sectors, robust demand for manufacturing facilities and data centers has helped sustain the industry. The need for these facilities is so intense that even high interest rates have not meaningfully impacted investment levels. Contractors remain optimistic about the year ahead despite challenges from elevated borrowing costs and uncertainty surrounding immigration and trade policies.

Joe's View

The new administration has wasted no time putting its plans into action. The volley of tariff announcements was telegraphed but markets still seem to have been caught flat footed. Whatever you think of the radical economic change the Trump administration is introducing, it's clear that there's a plan at work and we're still in its early days.

From the perspective of our industry, I see challenges ahead but light at the end of the tunnel. There's no doubt that tariffs will drive costs higher in the short and medium term and certainly I'd "expect the unexpected" in terms of pain points arising unannounced along the way. Ultimately though, the stated purpose of these tariffs and the admin's other major policy shifts is to create conditions for a more competitive dollar. If successful, a domestic currency closer to par with other countries could enable the return of an American industrial base – at least, that's the idea. For us, that would mean a lot of work building and adapting facilities to support this new economic engine.

It goes without saying though that things don't always go according to plan. With that in mind, I'm pleased to be working in an industry that's inextricably linked to progress. A lot of the rapid growth we've seen lately, with respect to AI and cryptocurrency in particular, may be interesting, noble pursuits that will shape a better future. But not even the ultimate crypto advocate could argue that their technology is as fundamentally essential as construction. From my perspective, that's reassuring: wherever America is headed, we will be right there with it, laying the foundation for success.

Joseph Natarelli, CPA

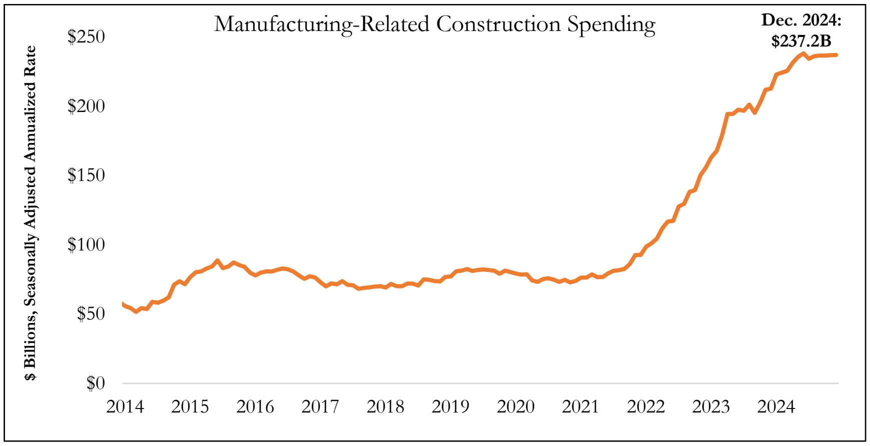
National Construction Industry Group Leader, CBIZ.

The Good

Manufacturing Construction

Manufacturing-related construction spending, while relatively flat over the past several months, remains extraordinarily elevated. While this is largely due to massive investments in computer chip factories—spending in the computer/electronic manufacturing category is up 1,482% over the past four years—investment in new chemical and transportation equipment plants has also increased at a strong pace over the past several quarters.

EXIBIT 1. Manufacturing-Related Construction Spending

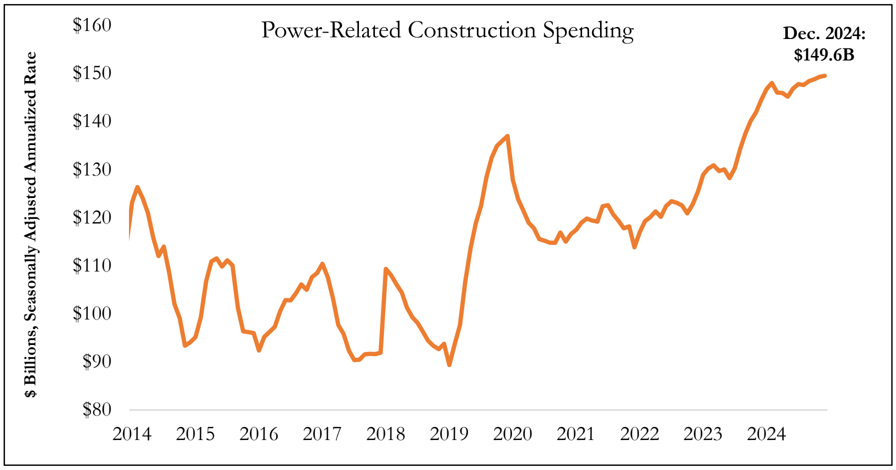


Source: U.S. Census Bureau; Note: Seasonally Adjusted

Power-Related Construction

Construction spending in the power category, which encompasses oil, gas, and electric, has grown steadily over the past year and currently sits at an all-time high. The new presidential administration's policies will likely bolster activity in this segment due to deregulation, and the next few years should see an uptick in oil and gas investment.

EXIBIT 2. Power-Related Construction Spending



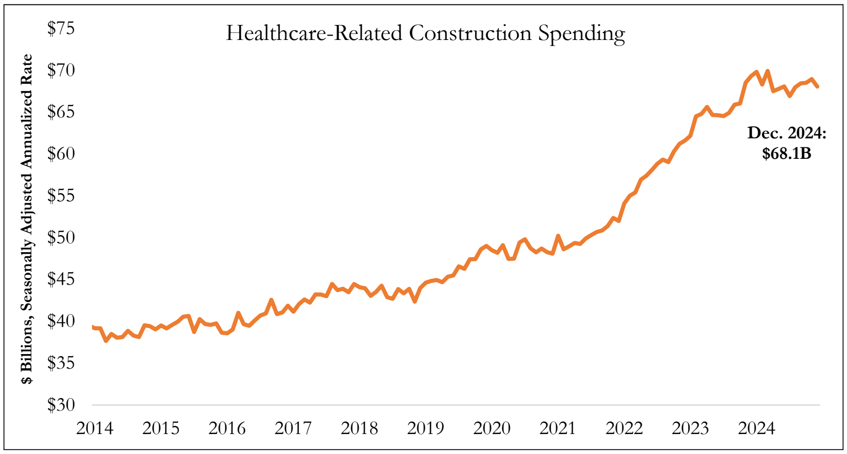
Source: U.S. Census Bureau; Note: Seasonally Adjusted

The Strictly Okay

Healthcare Construction

Construction spending in the healthcare segment has hovered within a narrow range since early 2024 and, as of December, was down roughly 4% on a year-over-year basis. Spending on nursing homes and hospitals has increased at a fairly rapid clip over the past year, while spending on outpatient offices has fallen sharply from the all-time high established in early 2024.

EXHIBIT 3. Healthcare-Related Construction Spending



Source: U.S. Census Bureau; Note: Seasonally Adjusted

Construction Employment & Labor Supply

While the construction industry has added jobs in each of the past 22 months, job growth has slowed to a crawl over the past few months. Election uncertainty, which can delay decisions on both capital investments and staffing, likely reduced hiring in late 2024, although the bigger factor is weakness on the residential side of the industry. New home construction boomed in 2022 and early 2023 but has since pulled back due to high interest rates, and residential contractors actually lost jobs in January 2025.

Residential labor demand should remain weak throughout at least the first half of 2025. This will benefit the nonresidential side of the industry, which has benefited from improved labor supply over the past several quarters. Construction worker availability improved significantly in 2024, although immigration policy could reduce the labor supply over the next several quarters.

Regionally, construction employment has expanded most in the South, where population growth has driven construction activity, and in the Midwest, where industrial investment has powered industry activity. Note that the following table shows employment growth from the start of the pandemic in February 2020 to December 2024, as recent data are noisy and obscure more durable trends. Construction activity has contracted most in high-cost metropolitan areas like San Francisco, New York, and Los Angeles.

EXIBIT 4. Construction Employment Growth, 20 Largest U.S. Metropolitan Areas, February 2020 v.s December 2024

Rank	MSA	% Change	Rank	MSA	% Change
1	Detroit-Warren-Dearborn, MI*	23.8%	11	Chicago-Naperville-Elgin, IL-IN-WI	9.7%
2	Phoenix-Mesa-Scottsdale, AZ	23.3%	12	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*	8.9%
3	Miami-Fort Lauderdale-West Palm Beach, FL	17.5%	13	Washington-Arlington-Alexandria, DC-VA-MD-WV*	8.9%
4	St. Louis, MO-IL*	15.7%	14	Riverside-San Bernardino-Ontario, CA	5.8%
5	Tampa-St. Petersburg-Clearwater, FL	14.9%	15	Houston-The Woodlands-Sugar Land, TX	5.2%
6	Atlanta-Sandy Springs-Roswell, GA	14.8%	16	Seattle-Tacoma-Bellevue, WA	0.9%
7	Dallas-Fort Worth-Arlington, TX*	13.7%	17	Los Angeles-Long Beach-Anaheim, CA	-2.3%
8	Boston-Cambridge-Nashua, MA-NH*	12.0%	18	Baltimore-Columbia-Towson, MD*	-3.3%
9	San Diego-Carlsbad, CA	10.8%	19	New York-Newark-Jersey City, NY-NJ-PA*	-3.4%
10	Minneapolis-St. Paul-Bloomington, MN-WI*	10.5%	20	San Francisco-Oakland-Hayward, CA	-7.7%

Source: U.S. Bureau of Labor Statistics   **Construction, Mining, and Logging are included in one industry*

The Bad

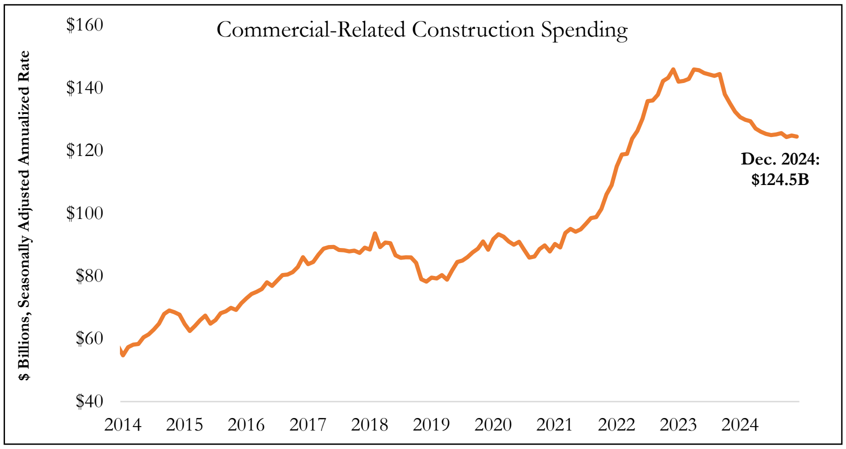
Residential Construction

Residential construction spending is up 6.0% over the past year, but that's entirely due to renovation and repair work. Spending has actually declined on a year-over-year basis for new single-family (-0.8%) and multifamily (-10.5%) units. This is a direct result of high interest rates, which have blunted demand for homebuying and made financing difficult on large multifamily projects. With interest rates likely to remain elevated throughout 2025—most forecasters now anticipate just one 25 basis point cut this year—residential construction activity will continue to slow.

Commercial Construction

Commercial construction continues to sink under the weight of high interest rates. While overall commercial spending fell 7.5% between December 2023 and December 2024, there were particularly sharp declines in spending on restaurants, car dealerships, and department stores. Warehouse construction, which accounts for approximately half of all commercial construction spending, has declined more than 11% over the past year and more than 27% since reaching an all-time high in April 2023. While certain subsegments may outperform in 2025, aggregate commercial construction activity is unlikely to rebound until interest rates decline.

EXIBIT 5. Commercial-Related Construction Spending



Source: U.S. Census Bureau; Note: Seasonally Adjusted

The Ugly

Interest Rates

Forecasters have significantly scaled back their interest rate predictions for 2025, now anticipating just one 25-basis-point cut compared to the four cuts expected in October 2024. This shift reflects rising inflation expectations, driven by both persistent price increases and projected upward pressure from potential tariffs, deregulation, and tax cuts. While the outlook is fluid—a few months of favorable inflation data or a sudden increase in unemployment could quickly alter interest rate expectations—it appears increasingly likely that rates will remain higher for longer.

Materials Prices

Construction input prices increased rapidly in January, rising by the largest amount in exactly two years. This surge can be broadly attributed to three factors. First, energy prices jumped. Second, many producers implemented price increases in January. Third, the threat of tariffs caused many input purchasers to accelerate orders, and that jump in demand pushed prices higher.

While only the third factor will remain in place beyond January, tariffs—or simply the threat of tariffs—will continue to put upward pressure on input prices in the coming months. Import taxes, like the 25% tariffs on steel and aluminum, allow domestic producers to raise prices. That, along with ongoing supply chain confusion, suggests materials prices will continue to rise over the next several months.

EXHIBIT 6. Fourth Quarter 2024 Performance

Fourth Quarter 2024 Performance	Values			% Change from	
Gross Domestic Product (% Growth, SAAR)	**2024Q4[1]**	**2024Q3**	**2023Q2**		
Overall Real GDP	2.3%	3.1%	3.0%	NA	NA
Nonresidential Fixed Investment in Structures	-1.1%	-5.0%	0.2%	NA	NA
Construction Spending, SA ($Millions)	**Dec-24**	**Nov-24**	**Dec-23**	**Nov-24**	**Dec-23**
Total Construction	$2,192,173	$2,180,323	$2,101,292	0.5%	4.3%
Residential	$951,525	$937,633	$897,183	1.5%	6.1%
Nonresidential	$1,240,648	$1,242,691	$1,204,109	-0.2%	3.0%
Lodging	$23,261	$23,264	$24,330	0.0%	-4.4%
Office	$103,660	$102,703	$100,013	0.9%	3.6%
Commercial	$124,509	$124,869	$132,437	-0.3%	-6.0%
Healthcare	$68,068	$68,969	$69,310	-1.3%	-1.8%
Educational	$134,678	$135,457	$128,934	-0.6%	4.5%
Religious	$4,346	$4,345	$4,555	0.0%	-4.6%
Public Safety	$19,203	$19,230	$17,015	-0.1%	12.9%
Amusement and Recreation	$41,421	$41,479	$38,082	-0.1%	8.8%
Transportation	$69,089	$69,716	$65,605	-0.9%	5.3%
Communication	$29,044	$29,010	$29,497	0.1%	-1.5%
Power	$149,545	$149,313	$144,571	0.2%	3.4%
Highway and Street	$144,341	$143,320	$152,050	0.7%	-5.1%
Sewage and Waste Disposal	$46,818	$47,443	$42,419	-1.3%	10.4%
Water Supply	$34,199	$35,065	$30,298	-2.5%	12.9%
Conservation and Development	$11,304	$11,496	$12,112	-1.7%	-6.7%
Manufacturing	$237,160	$237,012	$212,883	0.1%	11.4%
Employment, SA (000s)	**Jan-25**	**Dec-24**	**Jan-24**	**Dec-24**	**Jan-24**
All Industries	159,069	158,926	157,049	0.1%	1.3%
Construction	8,291	8,287	8,113	0.0%	2.2%
Residential Building	956	954	931	0.2%	2.7%
Nonresidential Building	916	915	898	0.1%	2.0%
Heavy and Civil Engineering Construction	1,169	1,171	1,139	-0.2%	2.6%
Residential Specialty Trade Contractors	2,403	2,405	2,388	-0.1%	0.6%
Nonresidential Specialty Trade Contractors	2,847	2,842	2,757	0.2%	3.3%
Producer Price Index, NSA [2]	**Jan-25**	**Dec-24**	**Jan-24**	**Dec-24**	**Jan-24**
Finished Goods (SA)	146.0	145.1	142.8	0.6%	2.3%
Inputs to Construction Industries	322.7	318.3	318.7	1.4%	1.3%
General Contractors (New Nonresidential Building Const.)	161.3	160.4	157.2	0.6%	2.6%
New Nonresidential Building Construction (U.S.)	163.4	162.9	160.8	0.3%	1.7%
Northeast	172.7	172.0	168.4	0.4%	2.5%
South	159.9	159.7	158.8	0.1%	0.7%
Midwest	152.7	152.0	153.2	0.4%	-0.3%
West	170.7	170.0	164.7	0.4%	3.6%

Source: U.S. Bureau of Economic Analysis; U.S. Census Bureau; U.S. Bureau of Labor Statistics.

Notes: 1. Advance (1st) Estimate. 2. The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. All figures are indexed from a base year, that base year being different for each individual index. 3. SA: Seasonally Adjusted. NSA: Not Seasonally Adjusted. SAAR: Seasonally Adjusted Annual Rate