

Construction Market Conditions Report

Q2 2024

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Message from Our Experts

We are pleased to share the Gilbane Q2 2024 Market Conditions Report.

This quarterly report provides a national macroeconomic view of the overall economy and its impacts on the U.S. construction industry, focusing on market-driven data, end-to-end supply chain constraints, equipment and material availability, costs, and risk mitigation strategies.

We have added two new features to our report, a regional overview of market conditions as reported by our teams across the country and our Supply Chain Spotlight feature, focused on the impact of disruptions to global ocean shipping routes on U.S. construction supply chains.

Please feel free to reach out to our team of experts; we're here to help.



Jay Pendergrass

*Vice President, Director of
Supply Chain Management*

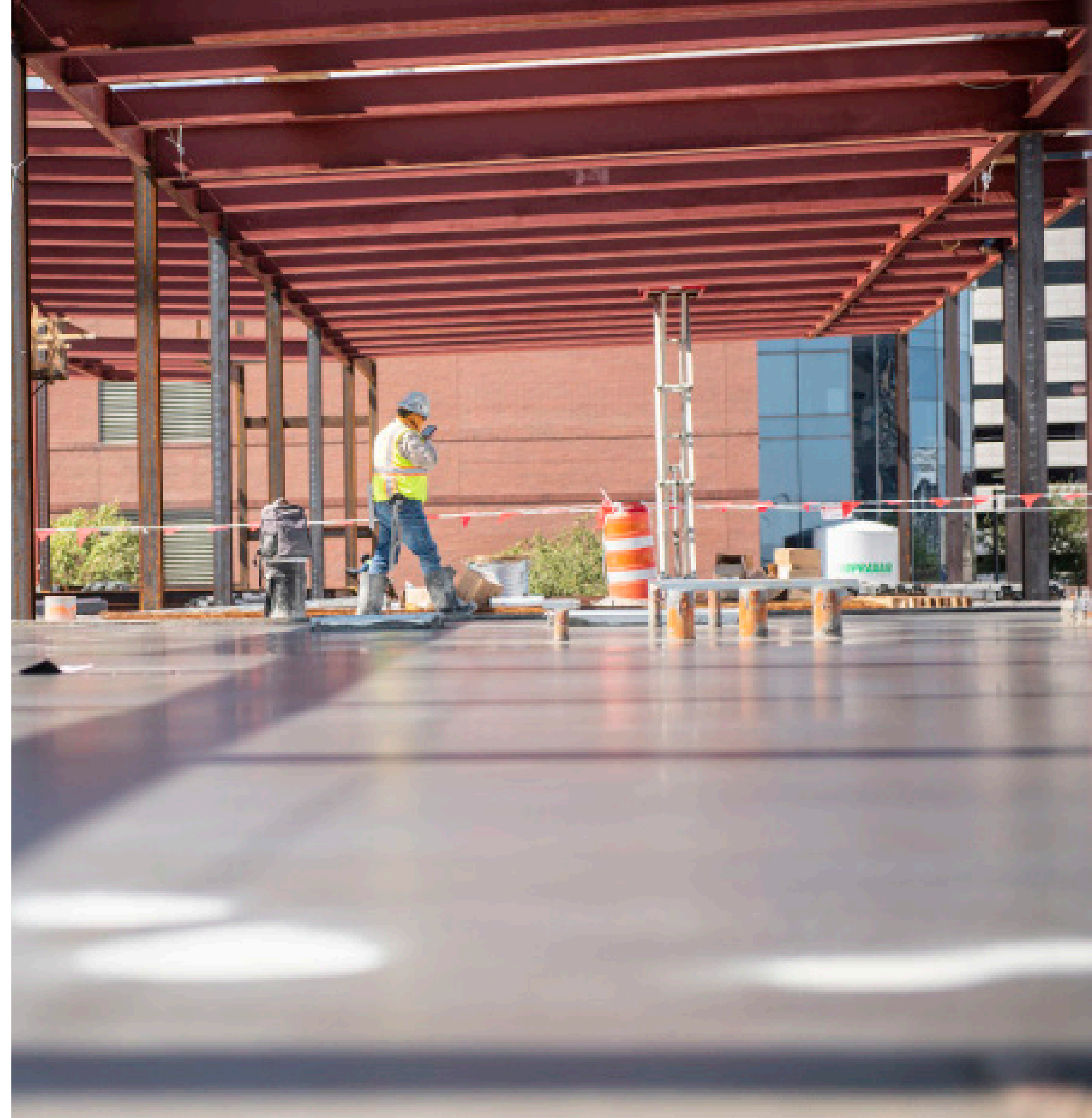


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General Economic Outlook

Healthy but decelerating economic growth, coupled with an uptick in inflation, is raising concerns about stagflation in 2024.

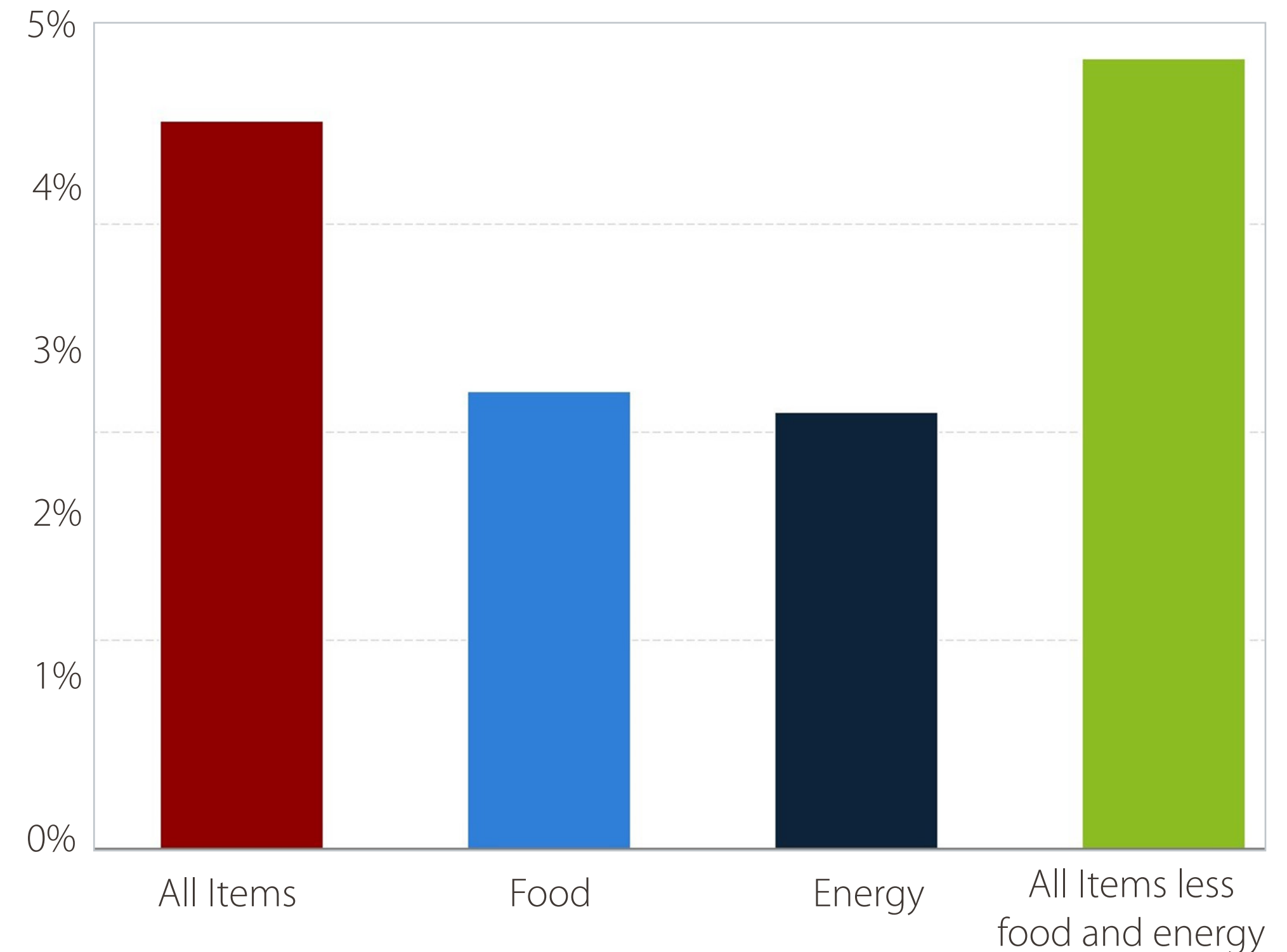
- › Given the current elevation in inflation, it is unclear when the Fed will begin highly anticipated rate cuts.
- › Real gross domestic product (GDP) increased at an annual rate of 1.6 percent in Q1 2024, according to the “advance” estimate released by the Bureau of Economic Analysis. In Q4 2023, real GDP increased by 3.4 percent.



General Economic Outlook

- › The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in March on a seasonally adjusted basis and rose 3.5 percent over the last 12 months, not seasonally adjusted, according to the U.S. Bureau of Labor Statistics.
- › Over the last 12 months, the all items index increased 3.5 percent before seasonal adjustment. The seasonally adjusted index for all items less food and energy rose 0.4 percent in March, the same monthly increase as in the past two months. This index is up 3.8 percent over the past 12 months, not seasonally adjusted.

12-month percentage change, Consumer Price Index
Selected categories, March 2024, not seasonally adjusted



Source: US Bureau of Labor Statistics

Construction Market Overview

Following strong industry performance in 2023, sentiment has improved for opportunities and growth in 2024.

- › Real gross output in the construction industry increased 16.3 percent in Q4 2023. Real value added increased by 6 percent and contributed 0.26 percentage points to the change of 3.4 percent in real GDP during this period, according to the U.S. Bureau of Economic Analysis.
- › Total construction spending dipped 0.2 percent in March 2024 from February 2024. However, year-over-year construction spending is 9.6 percent higher in March 2024, compared to March 2023, according to the latest data from the U.S. Census Bureau.

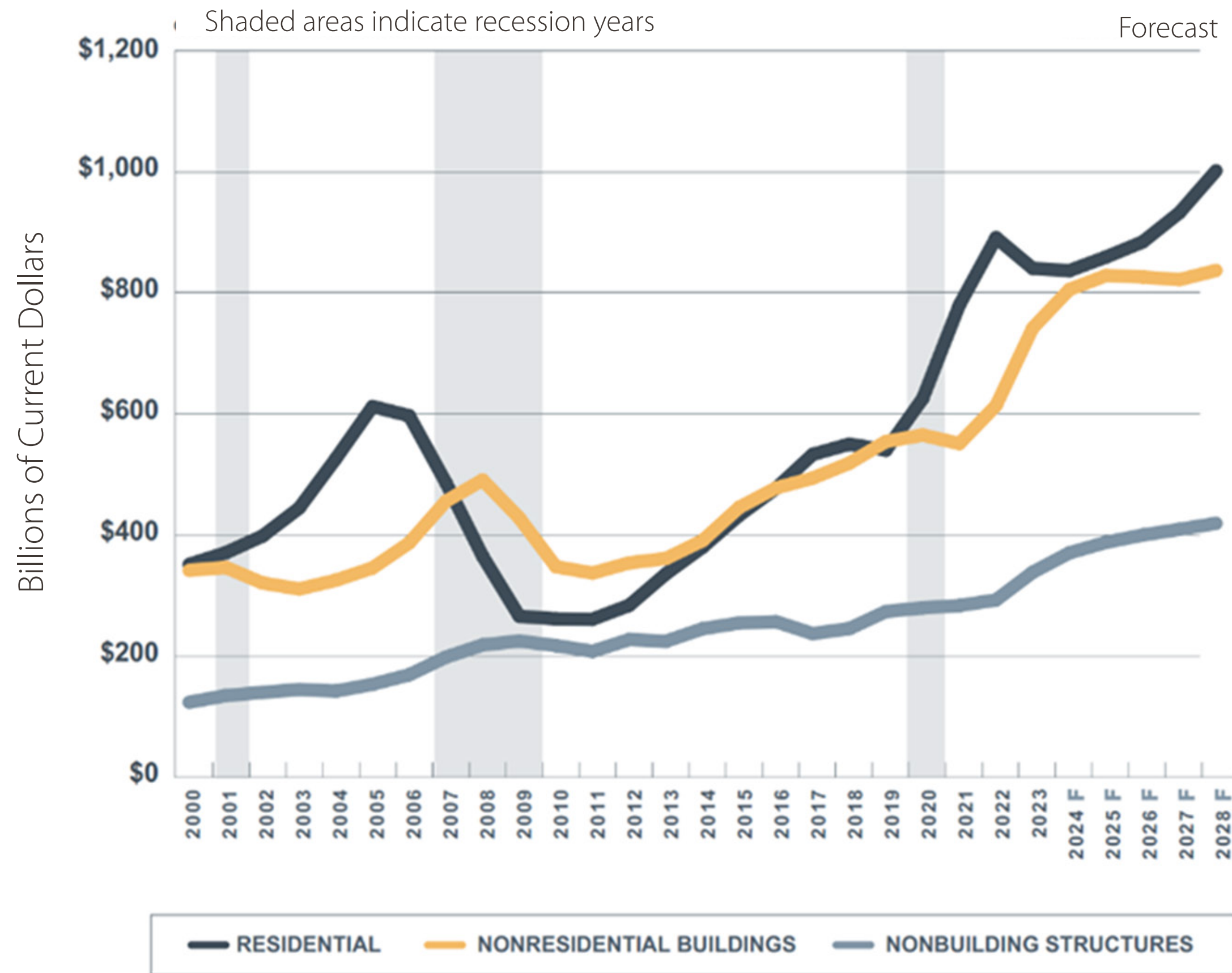


Construction Market Overview

- › Non-Residential Construction Index (NRCI) sentiment has improved significantly since the previous quarter, indicating positive perceptions about expanding industry opportunities in the current quarter and the year ahead. Economic sentiment has improved, while labor costs, material costs, and office construction expectations are expected to remain the biggest challenges for 2024, according to FMI.
- › FMI forecasts that total engineering and construction spending in the U.S. will end 2024 up 5 percent from 2023. Total construction spending rose 7.1 percent in 2023 from 2022, according to the U.S. Census Bureau.
- › Nonresidential construction made up 55.9 percent of total construction spending in 2023, and nonresidential construction spending grew 20.1 percent overall. The fastest growing nonresidential construction segments were manufacturing (71.3%), sewage and waste disposal (26.7%), conservation and development (23.9%), lodging (19.6%), and highway and street (18.0%). Meanwhile, residential construction spending fell 5.9 percent overall.
- › Construction demand continues to be strong for new data centers, industrial, manufacturing, and large infrastructure projects.
- › After a period of decline in 2023, building material prices have been rising in 2024. Strong backlog and volatility in the supply chains of some commodities, specifically in the electrical category, remain a risk to cost inflation for those products and support continued lead time challenges.

Construction Market Overview

Total Construction Spending Put in Place Estimated for the U.S.

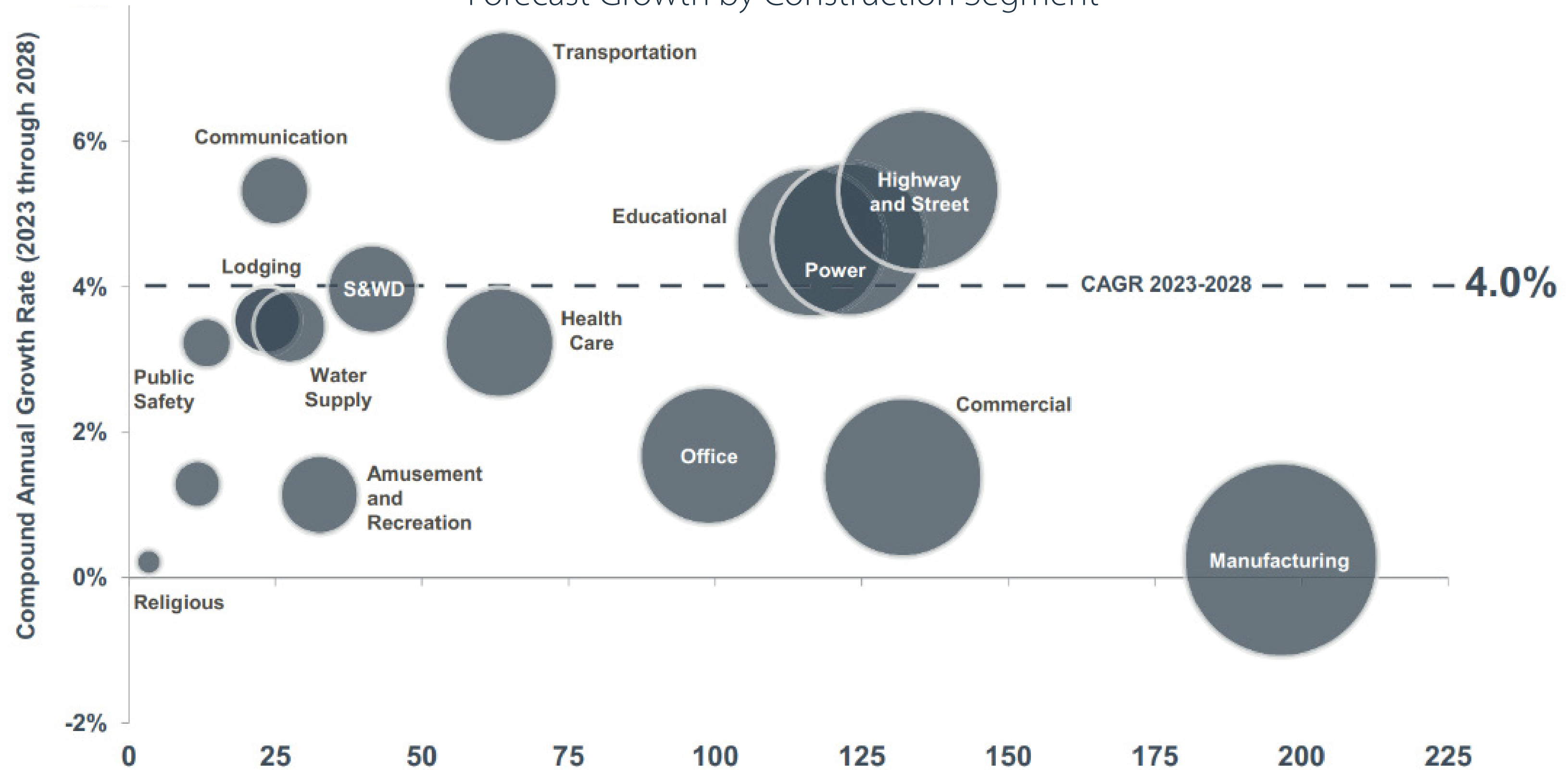


Source: FMI Forecast, Q2 2024

Construction Market Overview

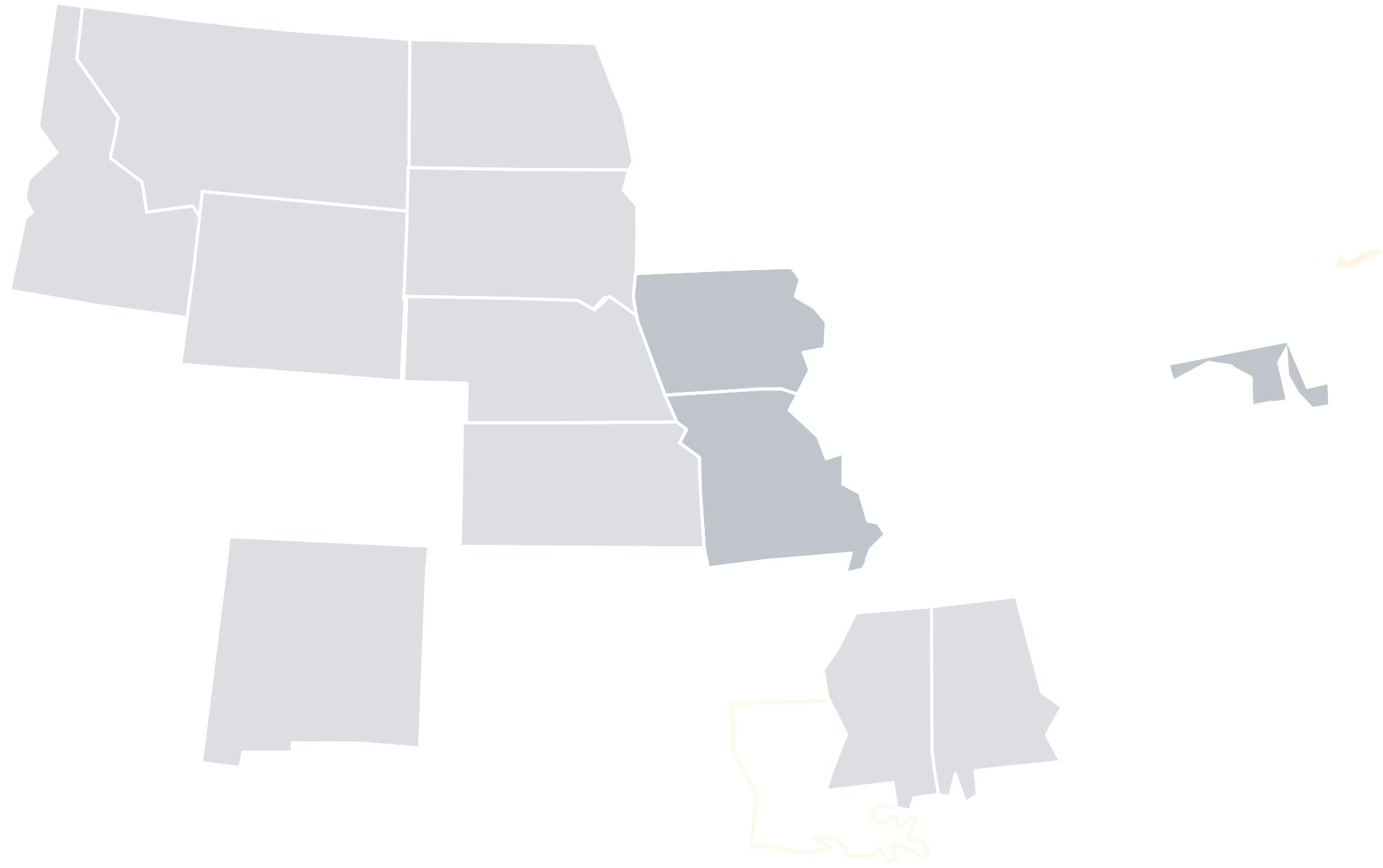
Non-Residential Construction Spending Put in Place

Forecast Growth by Construction Segment



SOURCE: FMI FORECAST Q2 2024

Construction Market Overview: Geographic Insights



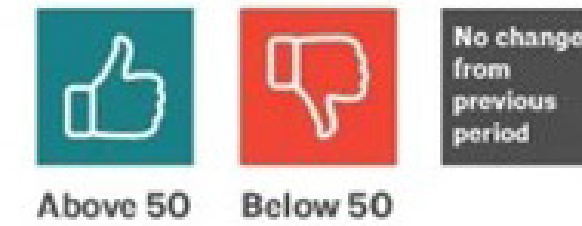
 Gilbane Office Location

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Architectural Billings Report

National

Architecture firm billings start 2024 on a soft note



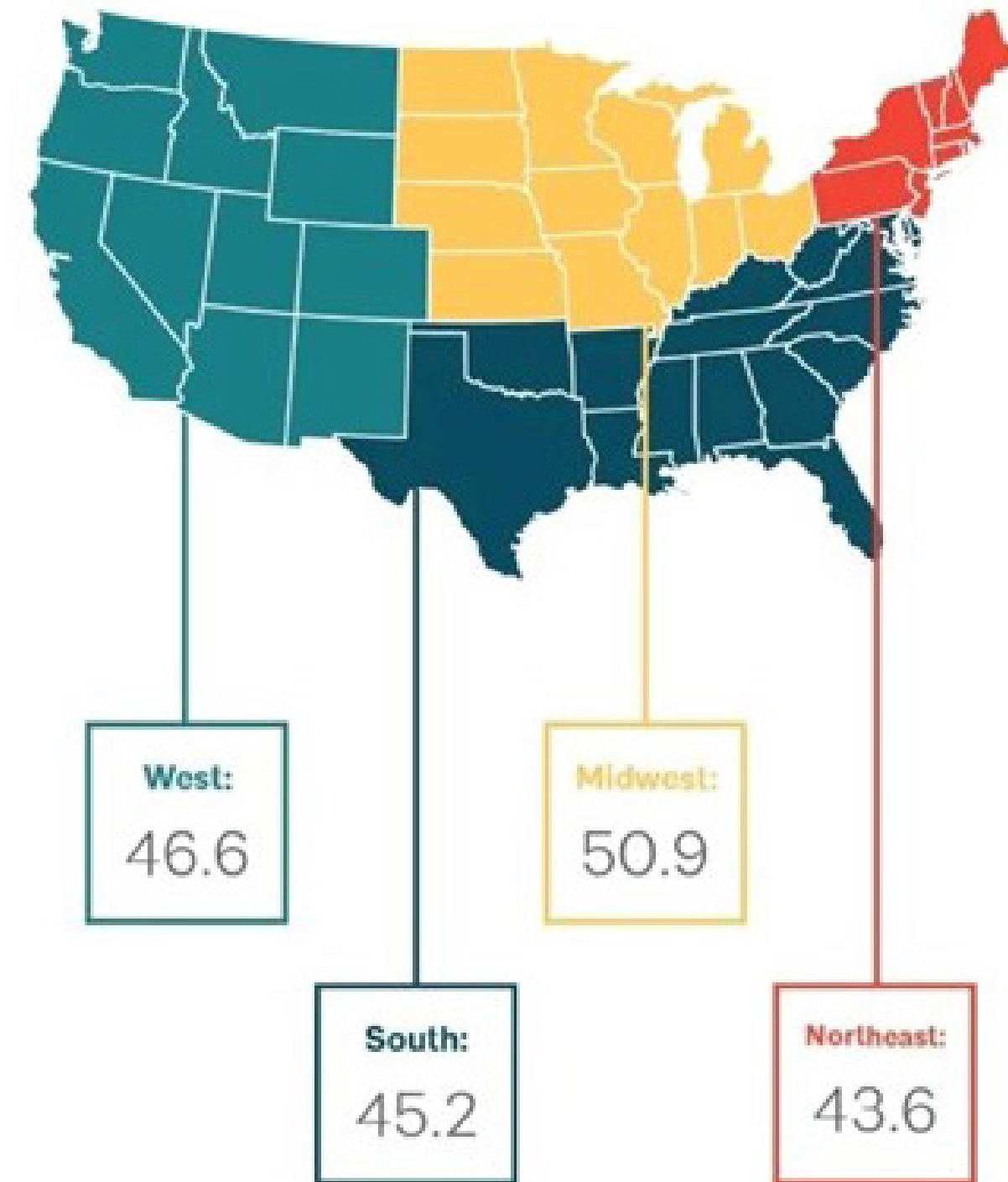
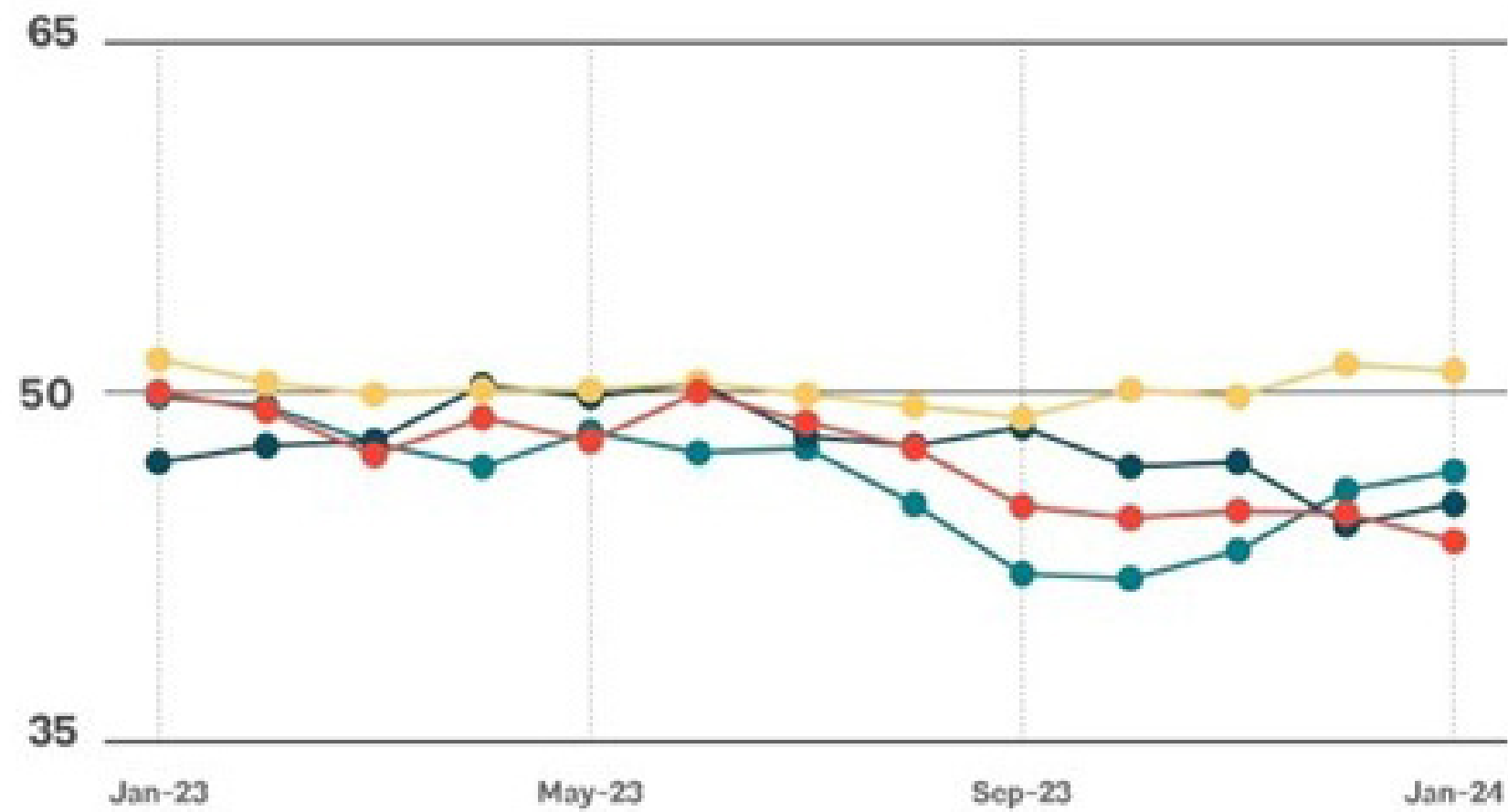
Source: AIA/Deltek Architecture Billings Index (ABI), February 2024

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Architectural Billings Report

Regional

For second consecutive month, only firms in the Midwest report growth



Source: AIA/Deltek Architecture Billings Index (ABI), February 2024

Commodity/Input Cost Insights

Material Price Index

- › The Materials Price Index (MPI) by S&P Global Market Intelligence increased 0.8 percent in the third week of April 2024, with five of the 10 subcomponents increasing. The MPI sits 1 percent lower than the same week in 2023, while non-energy commodity prices are 2 percent higher.
- › Growth in nonferrous metal prices drove the recent increase in the MPI. In particular, aluminum prices exhibited the largest weekly increase since January 2023.
- › The MPI is a weighted average of weekly spot prices for a key collection of globally traded manufacturing inputs.

Materials Price Index by S&P Global Market Intelligence
(week 1 2002 = 1.00)



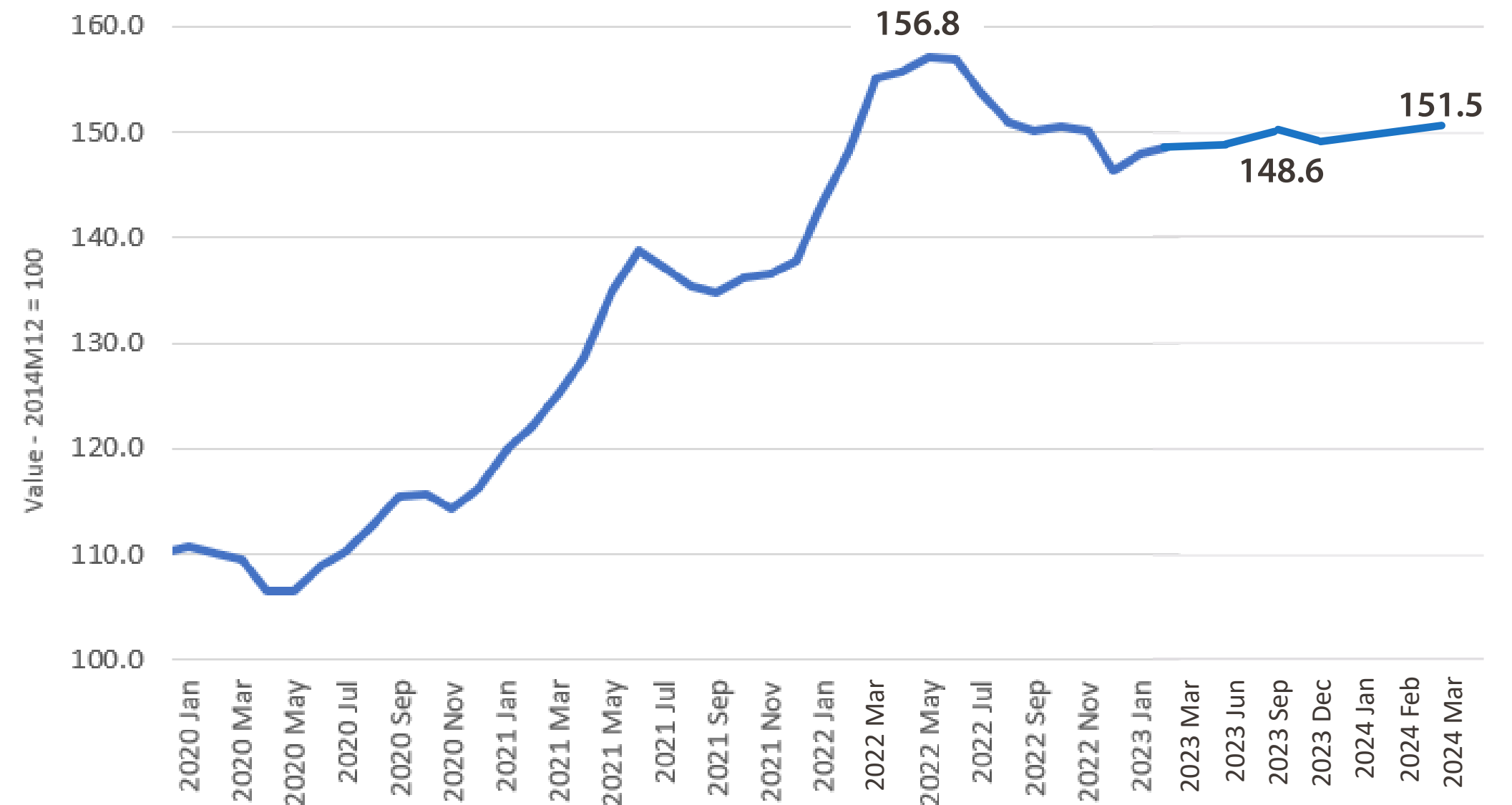
Date Compiled: April 9, 2024
Source: S&P Global Market Intelligence
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Commodity/Input Cost Insights

Producer Price Index – Inputs to Construction

- › The PPI – Inputs to Construction came in at 151.5 in March 2024, 1.8 percent higher than the last quarter, as reported by the U.S. Bureau of Labor Statistics.
- › The index has also increased 1.8 percent year-over-year from March 2023. However, the index is down about 3.7 percent since its peak in May 2022.
- › Prices for construction materials have been increasing alongside an uptick in inflation in 2024.

Producer Price Index - Inputs to Construction



Source: Chart Derived from Bureau of Labor Statistics Data

Commodity/Input Cost Insights

Construction Materials

The following chart illustrates year-to-date through March 2024 percent (%) changes for select materials.

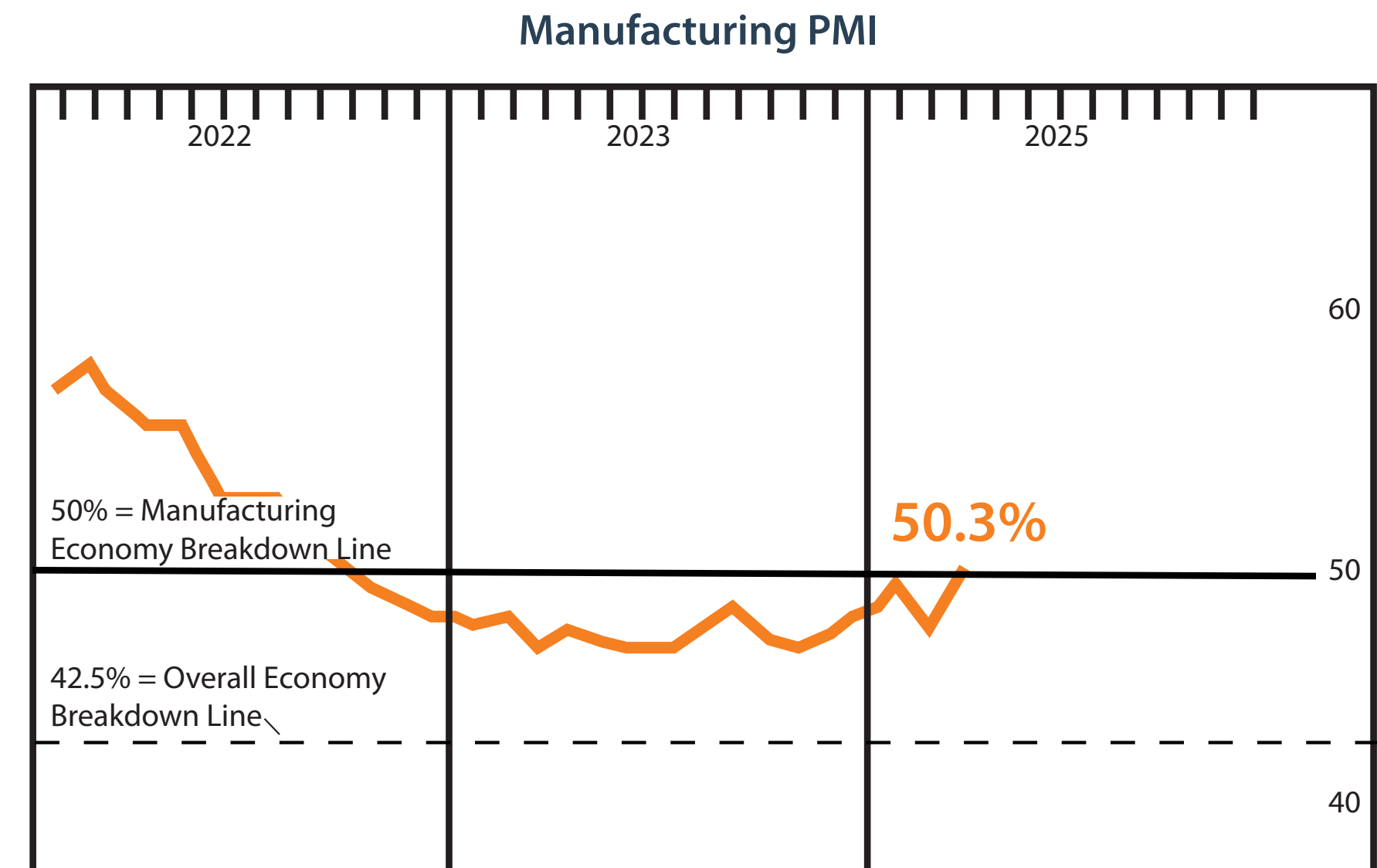
Material	% Change from last quarter	% Change Dec 2022 - Dec 2023	Material	% Change from last quarter	% Change Dec 2022 - Dec 2023
Ready Mix Concrete	3.3	7.0	#2 Diesel Fuel	11.4	-6.2
Concrete Pipe	2.5	7.5	Aluminum Shapes	-1.1	-6.6
Paving Mixtures and Blocks	7.6	0.9	Copper and Brass Shapes	2.1	-3.1
Lumber	3.0	-2.7	Flat Glass	0.0	-0.7
Steel Mill Products	0.5	-3.6	Gypsum Products	5.3	1.3
Fabricated Structural Steel	-1.9	-1.0	Steel Pipe and Tube	0.8	-10.3

Source: Select data taken from AGC PPI Tables, Updated 4/11/2024 (compiled from www.bls.gov/ppi)

Supply Chain and Labor

Purchasing Managers' Index®

- › The U.S. manufacturing sector contracted in April after a one-month expansion in March, following 16 consecutive months of contraction. The Manufacturing Purchasing Managers' Index (PMI®) registered 49.2 percent in April, down 1.1 percentage points from March's reading of 50.3 percent. This is reported by the Manufacturing ISM® Report On Business®.
- › The New Orders Index similarly contracted in April after a one-month expansion in March and 16 previous months of contraction, logging in at 49.1 percent, which is 2.3 percentage points lower than the March reading of 51.4 percent.



Source: Institute for Supply Management Report On Business, December 2023

Supply Chain and Labor

Purchasing Managers' Index[®]

- › The delivery speed of suppliers to manufacturing organizations was faster in April, as the Supplier Deliveries Index registered 48.9 percent, 1 percentage point lower than the 49.9 percent recorded in March.
- › The Inventories Index registered 48.2 percent in April, the same reading as in March, which was up 2.9 percentage points from the 45.3 percent reading in February. Inventory expansion helps improve on-time deliveries, increases the accuracy of revenue projections, and improves customer service.
- › The Backlog of Orders Index contracted in April, registering at 45.4 percent, which is 0.9 percentage point lower than the 46.3 percent recorded in March. Contractions in production and new orders have been limiting backlogs.
- › Electrical components, electrical equipment, and semiconductors remain the materials and commodities most reported as in short supply by the purchasing executives responding to the ISM[®] Report on Business[®] survey.

Supply Chain and Labor

Labor Outlook

- › The construction industry is experiencing pockets of strength, which, combined with labor availability issues, are keeping wages supported.
- › The unemployment rate for construction workers registered 3.8 percent in September 2023, close to historic lows, but increased to 5.4 percent in March 2024, according to the U.S. Bureau of Labor Statistics.
- › Manpower is expected to be especially tight in the summer months. Some contractors stopped accepting bids for summer work between December 2023 and February 2024.
- › Construction, installation, maintenance, repair, transportation, and warehousing worker wages are under the most pressure.



Supply Chain and Labor

Employment Cost Index

The following chart illustrates year-to-date through December 2023 percent (%) changes in the Employment Cost Index (ECI) for total compensation in select labor categories.

Labor Category	% Change Sep 2023 – Dec 2023	% Change Dec 2022 - Dec 2023	Labor Category	% Change Sep 2023 – Dec 2023	% Change Dec 2022 - Dec 2023
Private Industry Workers – All	0.9	4.1	Private Industry Workers – Construction	1.0	4.2
Private Industry Workers – All Union	1.7	4.5	Private Industry Workers – Mining, Construction, & Manufacturing – Union	1.1	3.3
Private Industry Workers – All Nonunion	0.5	4.0	Private Industry Workers – Mining, Construction, & Manufacturing – Nonunion	0.8	4.0

Source: U.S. Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), January 2024

Supply Chain and Labor

Selected Equipment and Material: General Lead Times (from Internal Survey Results and Supplier/MFG data)*

Material	Lead Time	Cost	Explanation
Switchboards	48-65 weeks (slight improvement for standard)	Increasing	Heavy demand continues. Lead times are generally stabilizing as manufacturers add supply chain and production capacity. Upward price pressure continues across the category.
Panelboards	12-30 weeks (larger/complex up to 40 wks)	Increasing	
Pad Mounted Transformers	52-104+ weeks (varies depending on size)	Increasing	
Switchgear LV	60-72 weeks (stable/slightly increasing)	Increasing	
Switchgear MV	52-70 weeks (steady or slight decrease)	Increasing	
Generators	52-80 weeks (up to 104 weeks for over 1mW)	Increasing	
Chillers (Water Cooled)	32-44 weeks	Slightly Increasing	Demand remains strong. The backlog is steady. Price increases should be small.
Chillers (Air Cooled)	28-42 weeks	Slightly Increasing	
AHUs (Commercial Grade)	28-38 weeks	Slightly Increasing	
AHUs (Custom)	34-54 weeks	Slightly Increasing	
RTUs (<50 ton)	20-32 weeks	Slightly Increasing	
RTUs (>50 ton)	24-40 weeks	Slightly Increasing	
Packaged Rooftop Heat Pumps	16-28 weeks	Stable	
Modular Air-to-Water Heat	24-38 weeks	Stable	

*Lead times are typical & indicative general ranges for each category and may differ based on specifications, requirements, manufacturer, production facility and other supply chain factors. Shorter lead times than those shown may be available for stock/quick ship catalog items and longer lead times may apply for large and more custom specifications. Lead times are after release of order or release to fabrication as applicable and does not include procurement cycle, submittals process, performance/witness tests, or transportation and these should be planned as applicable.

Supply Chain and Labor

Selected Equipment and Material: General Lead Times (from Internal Survey Results and Supplier/MFG data)*

Material	Lead Time	Cost	Explanation
Steel	12-20 weeks	Stable	Some producers announced price increases on select products for 2024.
Millwork	15-25 weeks	Stable	
Elevators	22-37 weeks (up to 48 weeks for high rise)	Stable	
Curtainwall	17-28 weeks	Slightly Increasing	
Roofing	9-16 weeks	Slightly Increasing	Demand is increasing.



Reach out to our team of experts to support your project planning.

*Lead times are typical & indicative general ranges for each category and may differ based on specifications, requirements, manufacturer, production facility and other supply chain factors. Shorter lead times than those shown may be available for stock/quick ship catalog items and longer lead times may apply for large and more custom specifications. Lead times are after release of order or release to fabrication as applicable and does not include procurement cycle, submittals process, performance/witness tests, or transportation and these should be planned as applicable.

Supply Chain and Labor

Transportation and Logistics

- › Truckload demand is increasing slightly, and capacity is lower than in 2023. This trend, along with higher fuel and insurance costs, may contribute to higher rates as 2024 progresses.
- › Global container shipping rates began spiking in late December 2023 but have been trending downward since their peak on February 16, 2024, according to the Freightos Baltic Index (FBX). Various disruptions to ocean freight routes have been contributing to higher rates. A more extensive analysis of ocean freight disruptions can be found in the Supply Chain Spotlight.
- › Given the dynamic transportation market and challenges mentioned already in this report, shippers must continue to monitor current conditions and be flexible with plans. Alternative solutions may be necessary to control costs and meet shipping strategy objectives.



Click images to view

Supply Chain Spotlight:

Ocean Freight
Disruptions

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Report:

Mitigating Risk

Gilbane's supply chain experts have built risk mitigation strategies around the current market volatility. Front-end planning and thoughtful consideration should be undertaken during all project phases. While there are many mitigation techniques to consider, below are some suggested processes to evaluate:

Design Management Strategies

- › The critical elements of design impacted by supply chain shortages and costs should be discussed and design locked down at the earliest stage so options such as alternate specifications or sources can be considered.
- › Encourage domestic or near-shored elements where supply or logistics challenges are known in lieu of internationally sourced elements.
- › Encourage review of prefabricated or modular components versus "kit of parts" purchasing strategies.

Estimating Strategies

- › Build appropriate escalation allowances into estimates early in the cost model.
- › Guard against unnecessary contingencies by establishing escalation based on published material indexes.
- › Price out multiple viable shipping options to determine the most affordable route and mode(s) for your project.

Mitigating Risk

Gilbane's supply chain experts have built risk mitigation strategies around the current market volatility. Front-end planning and thoughtful consideration should be undertaken during all project phases. While there are many mitigation techniques to consider, below are some suggested processes to evaluate:

Schedule Strategies

- › Utilize Gilbane Supply Chain Group and/or trade design- assist partners for early procurement, locking in labor supply and materials.
- › Build travel expenses into the budget to ensure equipment is being fabricated as contracted.
- › Lock in labor as early as possible, particularly for projects during the summer months and for roles impacted most heavily by labor shortages.

Procurement and Legal Strategies

- › Negotiate mutually protective escalation clauses in contracts to avoid unnecessary contingencies incorporated into trade costs.
- › Proactively source alternates to open optionality that may alleviate exposure.
- › Utilize Gilbane Supply Chain and your local team to leverage buying power where it best exists to safeguard against costs and secure priority.

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