

Construction Market Conditions Report

Q2 2024

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Gilbane

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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*

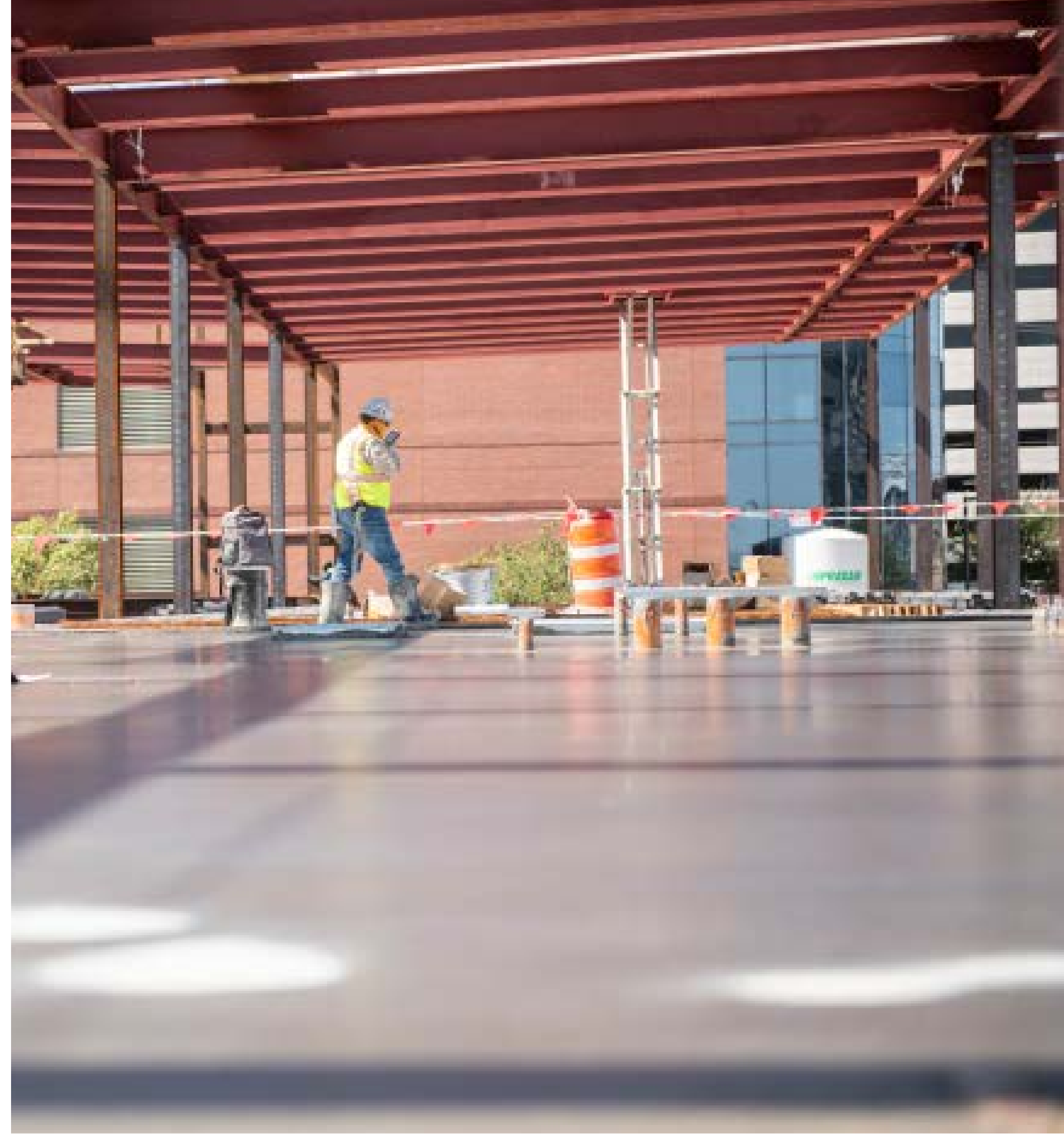


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General Economic Outlook

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

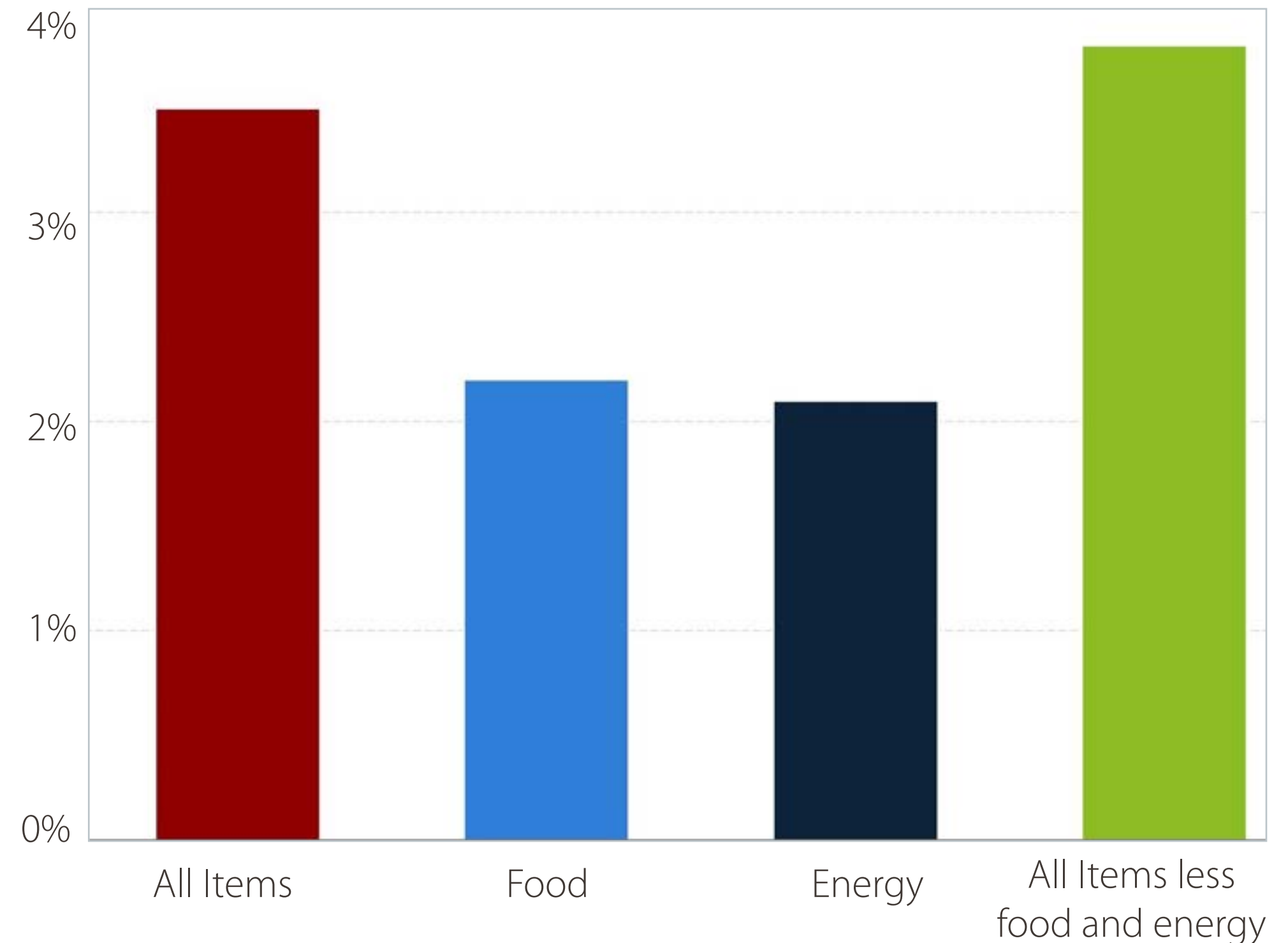
- › Given the current elevation in inflation, it is unclear when the Fed will begin highly anticipated rate cuts.
- › Real gross domestic product (GDP) increased at an annual rate of 1.6 percent in Q1 2024, according to the “advance” estimate released by the Bureau of Economic Analysis. In Q4 2023, real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

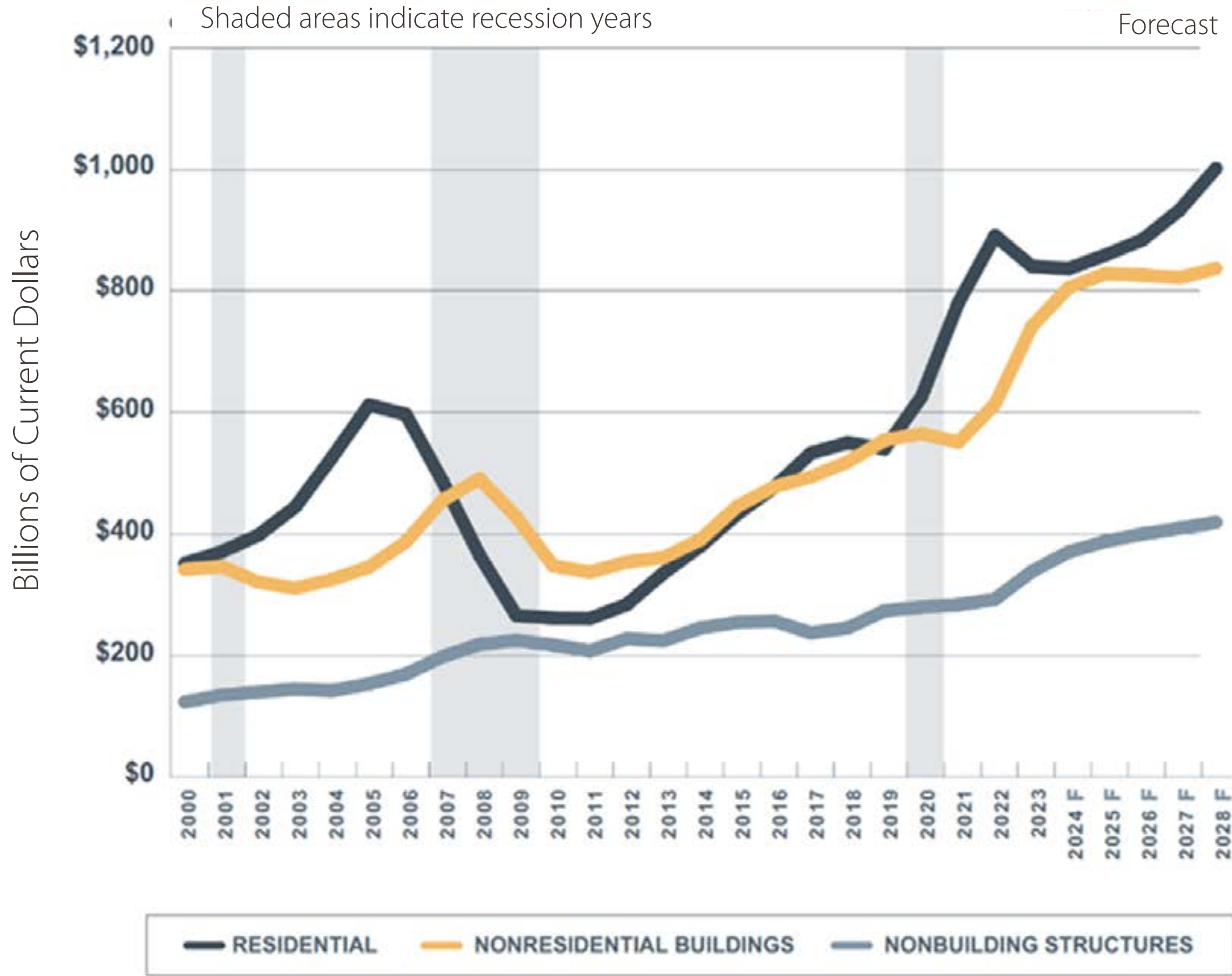


Construction Market Overview

- › 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.

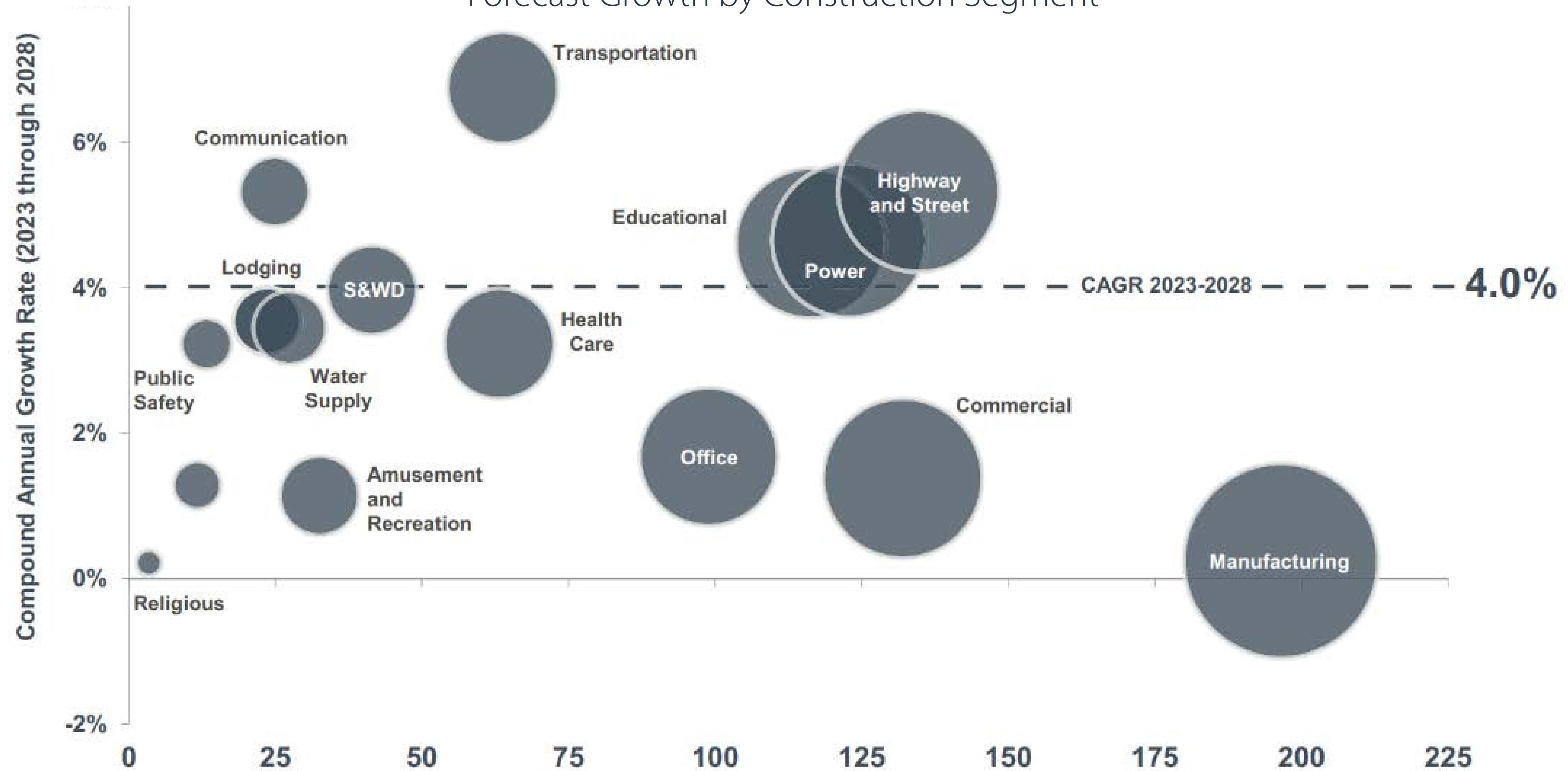


Source: FMI Forecast, Q2 2024

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

Midwest:

The Midwest is an extraordinarily active market. Although most lead times are relatively stable compared to 2023, lead times for some electrical equipment have increased since 2023 depending on the size and specifications of the equipment. Electrical equipment lead times are at least one year and can be as high as two years for transformers and three years for breakers. Lead times are also extended for structural steel and mineral wool. Many materials have been subject to price escalations since the beginning of 2024, including electrical equipment (3% to 10%), structural (\$0.025 to \$0.03 per pound) and galvanized (8%) steel, plumbing materials (5% to 10%), casework materials (5% to 7%), concrete masonry units (5% to 9%), and drywall/framing (5%). Price increases in late spring and early summer 2024 are projected for steel tubing, masonry materials (5% to 10%), doors and frames (3% to 8%), and MDI-based roofing products (6%). Ongoing labor shortages are expected to be especially prominent in the summer months, with labor costs anticipated to increase for masonry (3.5%) and drywall/framing (4%) contractors in June. Meanwhile, some contractors have already stopped taking summer bids.

West:

Ongoing labor shortages are limiting the number of bidders and contributing to higher labor costs. In some instances, suppliers are including pricing premiums to account for a shortage of labor. This trend is driving up project costs in the region. While commodity prices are starting to level off, manufactured product prices continue to rise. Long lead times for mechanical and electrical equipment continue to challenge project schedules.

Southwest:

Texas: Ongoing skilled labor shortages are particularly severe among plumbing and HVAC contractors. Gypsum board and insulation are readily available, but significant cost increases are expected to continue. Meanwhile, lead times for electrical gear, generators, and architectural glass remain extended. Trade partners report stabilization in material costs and lead times for most other categories.

Mexico: While the overall labor supply in Mexico is sufficient, the number of skilled workers is more limited. Clients and projects can expect to pay premium prices for specialty electrical, HVAC, and steel contractors. In particular, high demand for steel fabricators is challenging fabrication schedules for finished products. Additionally, lead times for projects that require material and equipment imports from the United States are extended due to border customs and crossing procedures.

New England:

The Rhode Island market is seeing unprecedented opportunities for growth, fueled by projects in the K-12 market segment. Strong growth in demand is putting pressure on the already short supply of mechanical, electrical, plumbing, and fire protection (MEP/FP) contractors, underscoring the importance of diligent qualification processes and the need for strategic partnerships amongst prime and sub-tier contractors. The Connecticut market remains steady, and the Massachusetts market is showing signs of slowing, particularly in the commercial developer space.

Mid-Atlantic:

Key market segments in the Mid-Atlantic region include K-12, higher education, sports, healthcare, cultural, and commercial construction. While price escalation is stabilizing to pre-pandemic levels (3% to 5% per year), projects are struggling to adhere to budgets set before or at the beginning of the pandemic, leading to delayed project starts. Project schedules are largely dictated by lead times for switchgears, generators, and mechanical equipment, which remain significantly extended. Office to residential conversion projects are gaining traction in the DC-Metro area, with many being priced out but not yet penciled out. Subcontractors are eager to build backlogs for late 2024 and 2025, but the rise of project labor agreements (PLAs) in both DC and Maryland are limiting the potential labor pool and interested subcontractors for projects.

Southeast:

In the Southeast, vendors continue to face rising material and labor costs, although the rate of price growth for both cost categories is slowing. Lead times for electrical and mechanical equipment remain extended, and qualified labor remains a concern for all trades. While trade contractors report that current and near-future project starts have slipped, backlogs for future work in 2025 and 2026 remain strong.

New York:

NYC: Post-COVID growth in office space occupancy remains slow, resulting in limited interior fit-out projects. However, public construction spending is anticipated to increase due to large public sector projects in the transportation, sports, and entertainment markets. The Affordable Housing market is also showing signs of increased opportunities. While growth in inflation and commodity prices has eased, lead times remain extended for mechanical, electrical, and plumbing (MEP) equipment, specialty materials, glass, skylights, flooring, and carpeting.

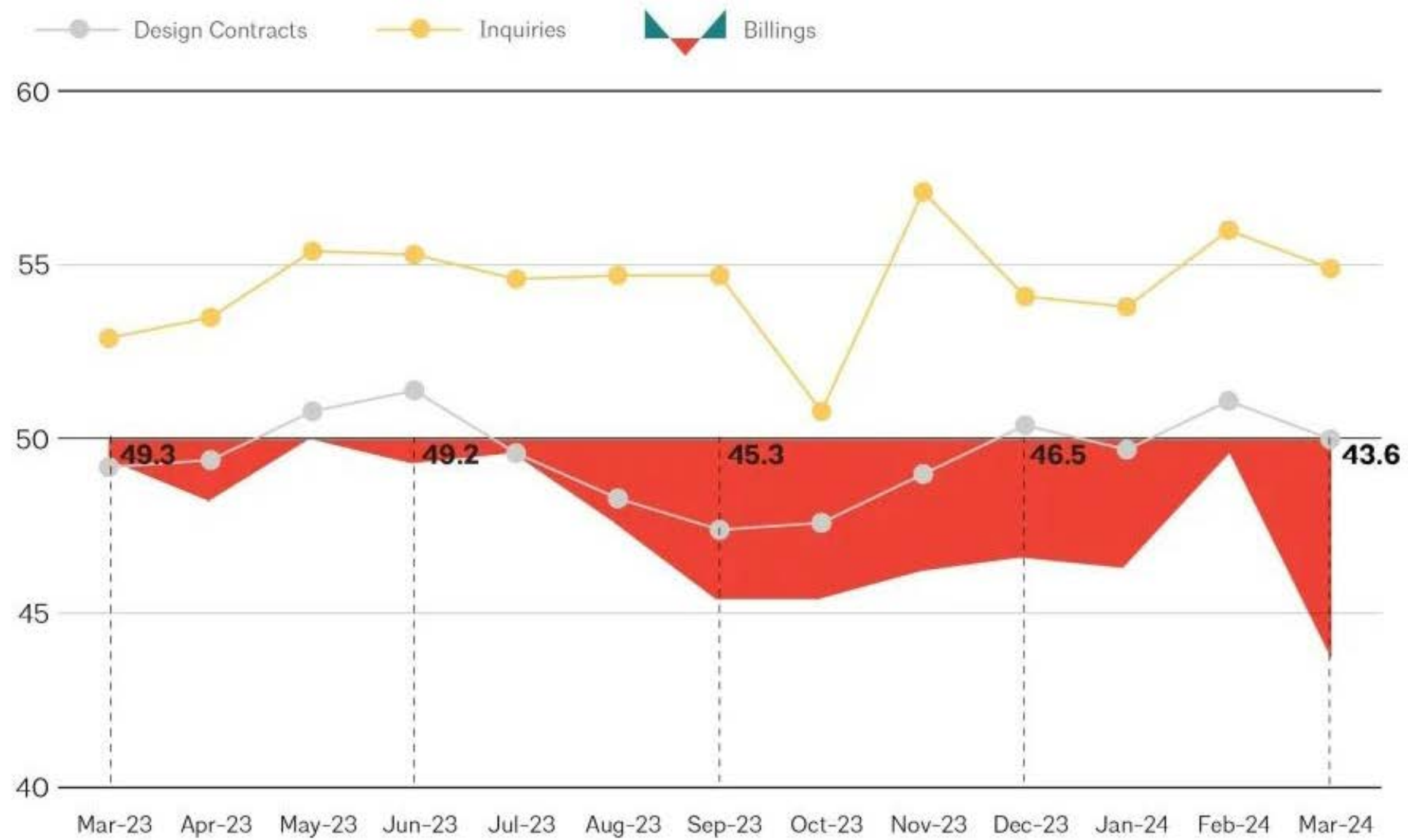
NY State: Labor shortages due to the aging skilled workforce have been exacerbated by large projects in Upstate New York, leading to an increased reliance on transient workers. Strong competition for skilled workers has been driving up labor costs. Meanwhile, the growing use of transient workers has been driving up housing, transportation, and per diem costs on construction projects in New York State. Extended lead times for electrical and HVAC equipment continue to impact project schedules. Price escalations of 1% to 1.5% per quarter are expected to continue in the near future as subcontractors maintain substantial backlogs.

Architectural Billings Report

National

Architecture firm billings soften further in March

Graphs represent data from March 2023–March 2024.



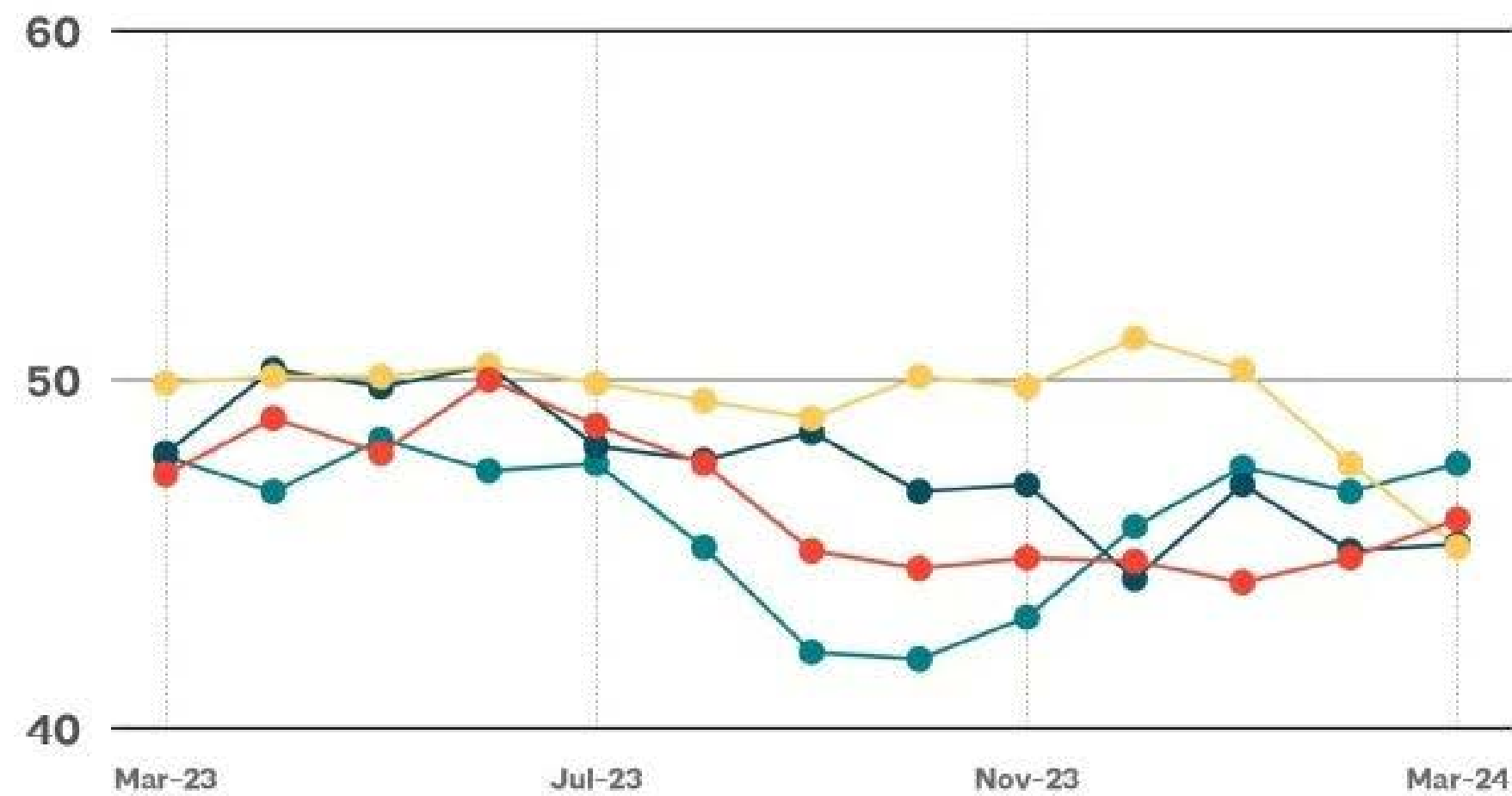
Source: AIA/Deltek Architecture Billings Index (ABI), April 2024

Architectural Billings Report

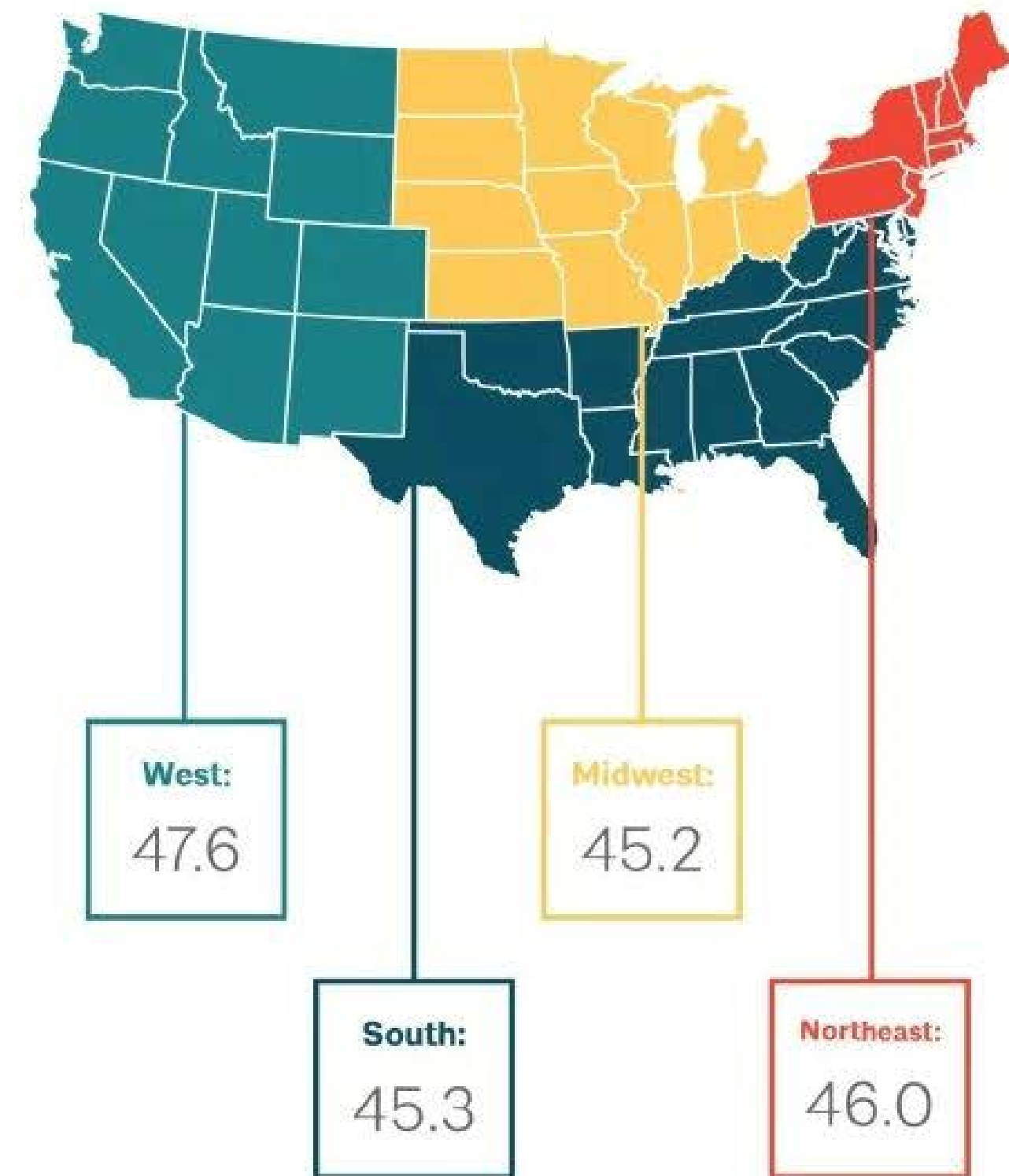
Regional

Business conditions remain weak across the country

Graphs represent data from March 2023–March 2024 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



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

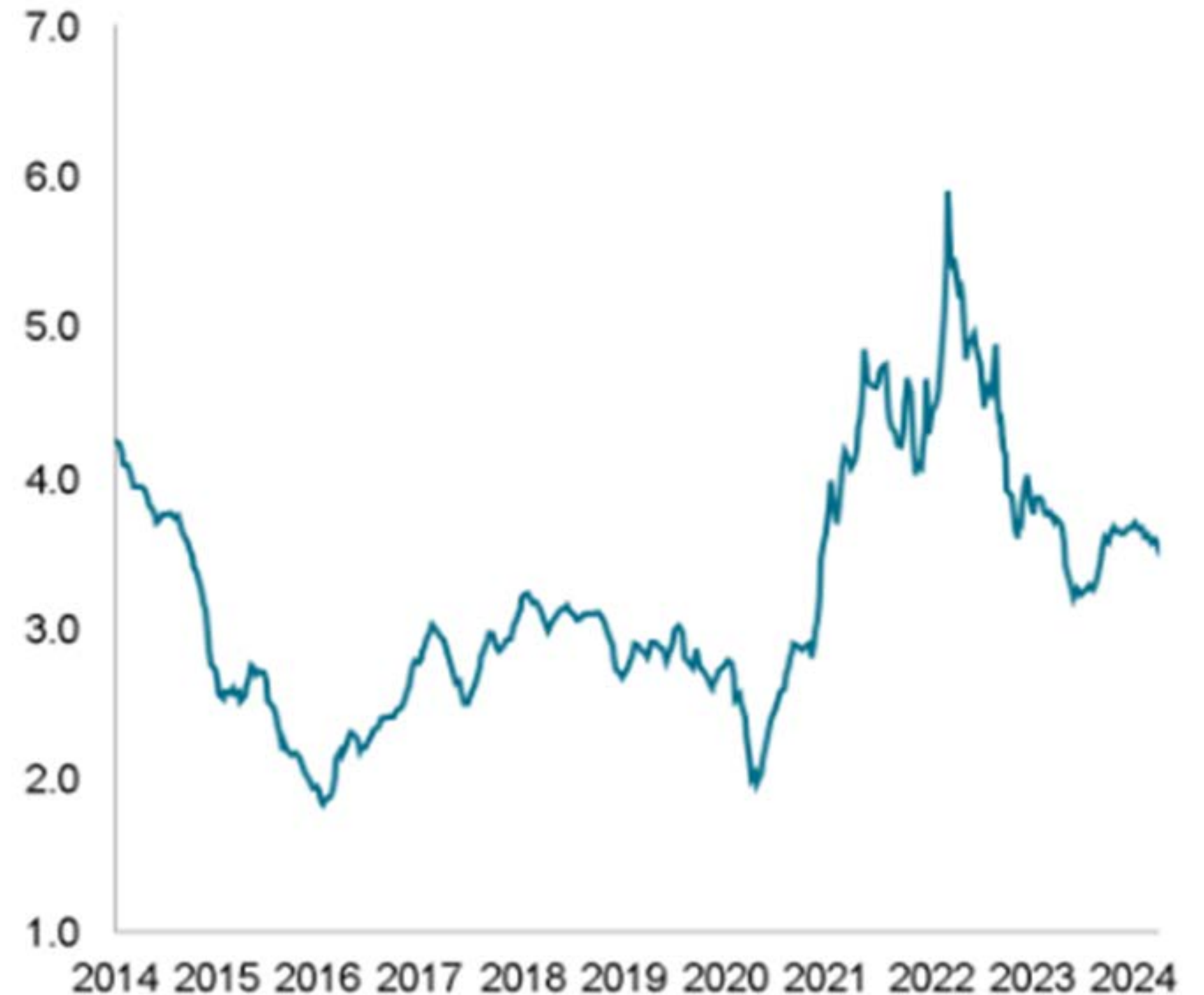


Commodity/Input Cost Insights

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)



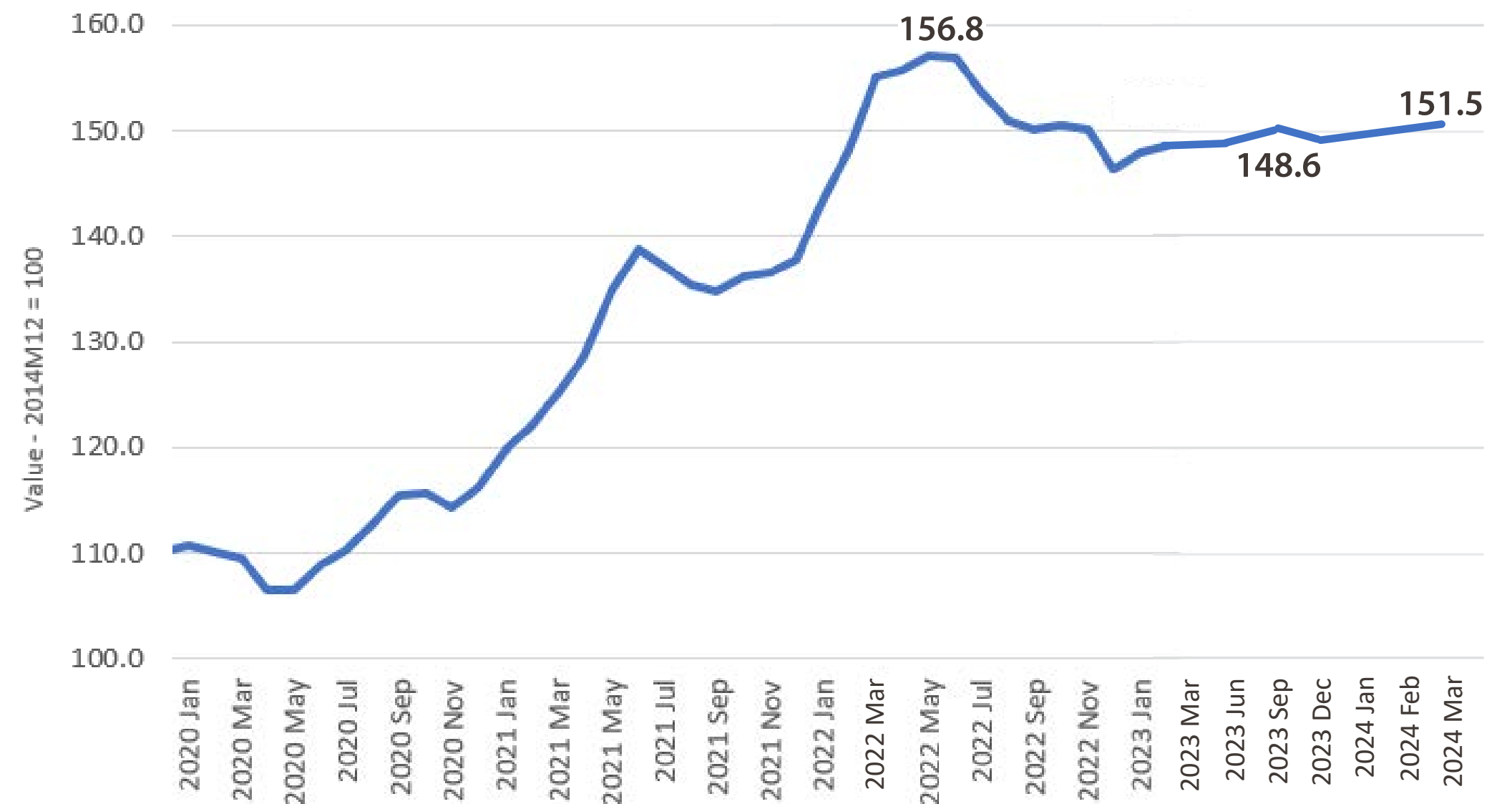
Date Compiled: April 23, 2024
Source: S&P Global Market Intelligence
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Commodity/Input Cost Insights

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.

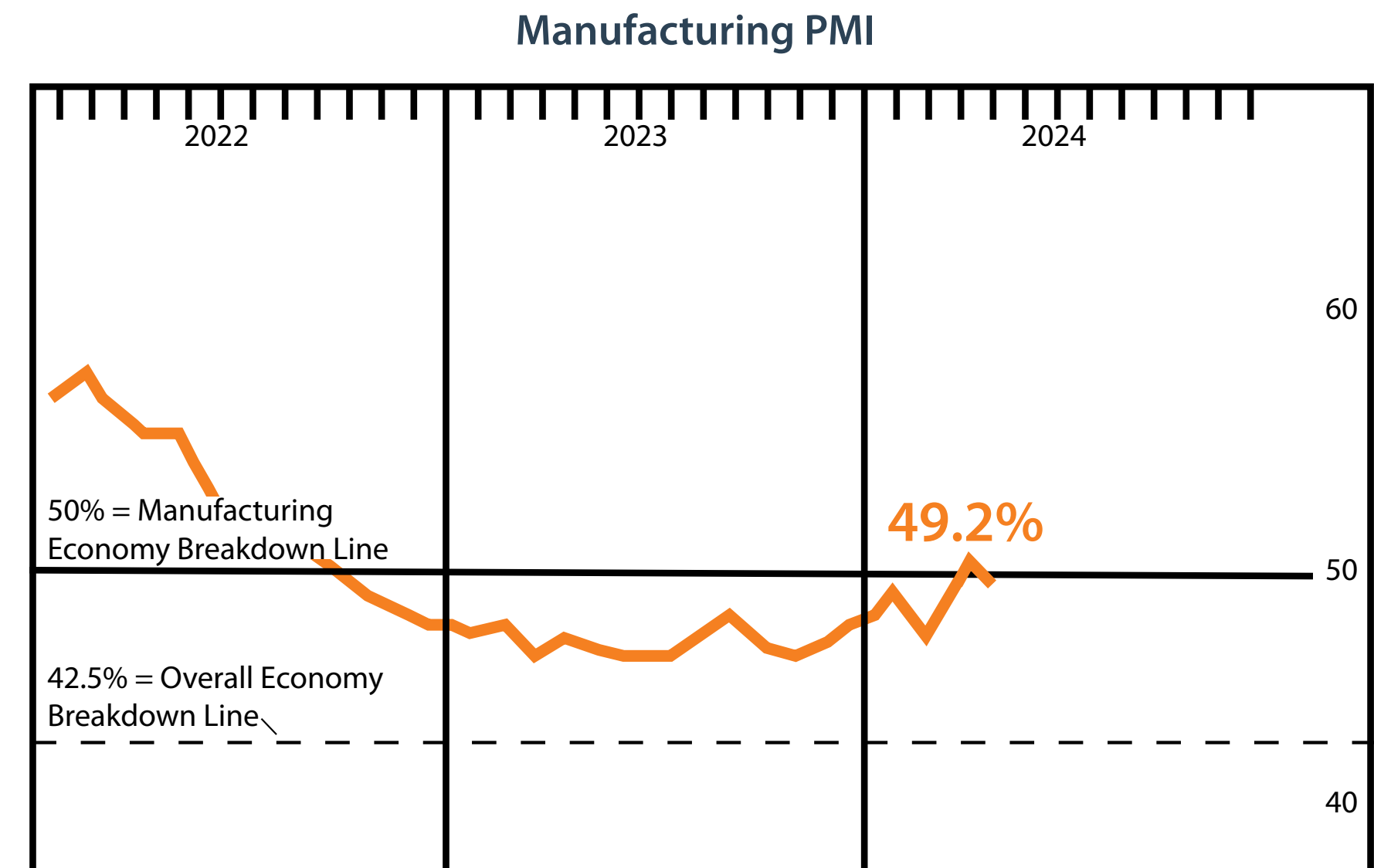
Material	% Change from last quarter	% Change Dec 2022 - Dec 2023	Material	% Change from last quarter	% Change Dec 2022 - Dec 2023
Ready Mix Concrete	3.3	7.0	#2 Diesel Fuel	11.4	-6.2
Concrete Pipe	2.5	7.5	Aluminum Shapes	-1.1	-6.6
Paving Mixtures and Blocks	7.6	0.9	Copper and Brass Shapes	2.1	-3.1
Lumber	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, April 2024

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



Baltimore, Maryland

- › The recent collapse of the Francis Scott Key Bridge in Baltimore after being struck by a containership has blocked the main access to the Port of Baltimore.
- › Container freight accounts for the majority of the volumes handled through the port, although the port is not a major container freight route nationally. It handles about 10 percent of northeast container shipping imports and 3 percent of all U.S. East and Gulf Coast imports according to S&P Global Market Intelligence. The impact of the bridge collapse on the overall U.S. economy is thus expected to be limited.
- › However, Baltimore is the leading U.S. port for importing construction equipment and asphalt. It is also a key port for other construction materials, including coal, gypsum, lumber, steel, and aluminum.
- › It is expected to take several months to clear the shipping channel from the Port of Baltimore. At least until the channel reopens, ships will be rerouted to other East Coast ports, such as Wilmington, Philadelphia, Norfolk, and New York/New Jersey and then transported via truck to the final destination. Increased congestion and delays can be expected.



Panama Canal

- › Low water levels in the Panama Canal forced the Panama Canal Authority (ACP) to cut the number of daily transits in July 2023. Compared with the standard 36 daily transits under normal water levels, the number of daily transits reached a low of 22 in December 2023. The ACP raised the number of daily transit slots to 27 on March 25th, 2024.
- › An estimated 12 percent of U.S. trade volume passes through the Panama Canal, according to UNCTAD.
- › A projected shift from an El Niño to a La Niña weather pattern is expected to lead to above-average rainfall in the region later this year, which may help alleviate the low water levels in the Panama Canal.



Red Sea

- › Houthi rebel attacks on U.S. ships in the Red Sea and the Gulf of Aden continue to disrupt shipping through the Suez Canal.
- › The Suez Canal is a key trade route for natural gas, oil, cars, raw materials, manufactured goods, and industrial components. An estimated 22 percent of global seaborne container trade passed through the Suez Canal in 2023. In the first half of February 2024, container tonnage crossing the canal fell by 82 percent, according to the United Nations Conference on Trade and Development (UNCTAD).
- › Wartime insurance premiums have risen to as high as 1 percent of the value of the shipment for shippers transporting goods through the Red Sea, according to Reuters. Prior to the attack, premiums were around 0.03 percent of the shipment value. To avoid staggering insurance premiums and inherent risk, many shippers have opted to divert their Red Sea routes around the Cape of Good Hope, adding up to two weeks to lead times. Red Sea disruptions are expected to last into at least the second half of 2024.

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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