GALLAGHER BASSETT

2025 CONSTRUCTION MARKET OUTLOOK

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INTRODUCTION

As we look ahead to 2025, the construction industry is poised for a dynamic and transformative period. Despite the challenges faced in recent years, including economic fluctuations, regulatory changes, and the ongoing impacts of the COVID-19 pandemic, the industry is expected to experience growth driven by increased infrastructure investments, technological advancements, and a renewed focus on sustainability. The industry must remain vigilant in addressing persistent issues such as labor shortages, supply chain disruptions, and rising material costs. By leveraging innovative solutions and adopting comprehensive risk management strategies, the construction sector can navigate these challenges and capitalize on emerging opportunities to build a resilient and prosperous future.

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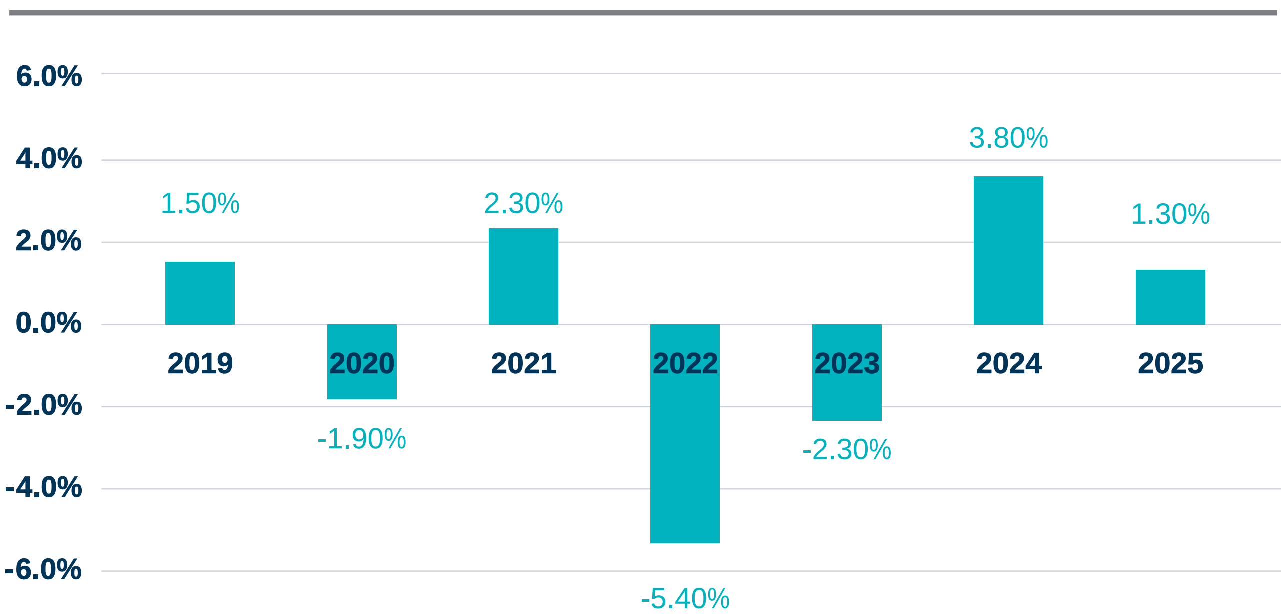
2024 RECAP

The year 2024 was a pivotal one for the construction industry, marked by both significant challenges and notable advancements. The sector grappled with rising material costs, labor shortages, and regulatory hurdles, which led to project delays and increased financial strain. However, substantial investments in infrastructure, driven by federal funding and private sector initiatives, provided a much-needed boost. Technological innovations, such as the adoption of advanced construction techniques and digital tools, helped improve efficiency and project management. Despite the hurdles, the industry demonstrated resilience and adaptability, setting the stage for a more robust and dynamic future.

2025 OUTLOOK

The U.S. construction industry is projected to see moderate growth in 2024 and 2025, driven by robust federal investment in infrastructure, manufacturing subsidies, and a shift towards easing monetary policy. Revised data from the **Bureau of Economic Analysis (BEA)** and **Fitch Connect** indicate a tempered growth forecast of 1.3% in 2025, down from previous expectations of 1.7% following industry contractions in 2022 and 2023.

US Construction Industry Value, Real Growth % Change (y-o-y)



The industry has faced significant challenges and contractions since the onset of the COVID-19 pandemic. While residential construction saw notable growth early in the recovery, commercial construction has lagged, with spending in this sector not yet returning to pre-pandemic levels as of March 2022. The sluggish recovery in commercial real estate, particularly office spaces, is largely attributed to ongoing economic uncertainty.

Inflation has also played a significant role in shaping the industry's trajectory. The increase in total construction spending is partly due to rising input costs, including materials and labor, which have driven up prices. From April 2020 to July 2024, **construction spending** grew by over **41%**, an impressive figure at face value. However, when adjusted for the 35% inflation increase over that period, the **actual growth** in business volume is only about **5%.**

Construction costs remain close to 40% higher than in February 2020, and labor shortages continue to hinder the industry's momentum.

Recent legislative efforts, such as the Infrastructure Investment and Jobs Act of 2021 and the Inflation Reduction Act of 2022, have helped bolster the industry. These measures have contributed to increased investments in manufacturing construction and public infrastructure, helping offset the slowdown in residential construction. For example, U.S. project starts rose 6% in the first eight months of 2024 compared to the same period in 2023, while the Dodge Momentum Index, which tracks nonresidential construction planning, jumped by 31% in August 2024 year-on-year.

The construction industry continued to show signs of recovery in the first two quarters of 2024, expanding by 2.0% quarter-on-quarter in Q1 and 1.3% in Q2, according to BEA data.

This marks five consecutive quarters of real-term growth starting from Q2 of 2023. These gains are attributed to stronger economic activity and federal infrastructure programs.

Looking ahead, the outlook for the U.S. construction industry remains cautiously optimistic. Fitch Connect has revised its 2025 forecast, projecting a 1.3% real-term growth, a slight downgrade from the previously anticipated 1.7%. Contractors are increasingly concerned about shrinking profit margins due to persistent inflationary pressures and labor shortages, as noted in recent reports from the Associated General Contractors of America and the Associated Builders and Contractors' Construction Confidence Index.

KEY GROWTH DRIVERS

A. Government Investment
The construction industry is significantly supported by government-led initiatives, including the **Infrastructure Investment and Jobs Act (IIJA)**, the **Inflation Reduction Act (IRA)**, and the **CHIPS and Science Act.** The IIJA earmarks nearly $1 trillion for investment over five years (2022–2026), with key allocations for transportation, power, water, and digital infrastructure.

The **IRA** also plays a vital role, providing over $300 billion for climate-related programs, primarily in the form of tax credits and incentives for clean energy. These laws have been instrumental in supporting sectors such as electric vehicle manufacturing, semiconductor plants, and battery facilities.

B. Manufacturing Surge
Manufacturing construction will remain a major growth contributor, with robust investment in semiconductor and electric vehicle (EV) production facilities, supported by federal subsidies. According to **Fitch Connect**, the expansion of these sectors will account for a significant portion of nonresidential building activity over the next few years. Manufacturing construction is estimated to increase by nearly 14% as per Construction News and Review.

C. Data Centers and Technology Infrastructure

Data centers have been a major focus in commercial planning, particularly as demand for digital infrastructure continues to rise. Although the pace of new project planning slowed slightly in August, it remains a critical area of investment. Notable projects include the $500 million Tract Data Center Complex in Arizona and the $462 million KDC Data Center Campus in Texas, both of which entered the planning stage in August 2024 (Deloitte United States).

D. Healthcare Facilities

Healthcare has emerged as a primary driver in the institutional sector. Projects such as the $440 million Geisinger Medical Center Tower in Pennsylvania illustrate the ongoing need for expanded medical services and updated healthcare infrastructure. As populations grow and age, these investments are likely to continue through 2025, providing a steady stream of work for contractors.

E. Warehouse and Logistics Projects

After a slowdown in recent years, warehouse projects have regained momentum, reflecting the ongoing need for improved supply chain infrastructure. As e-commerce continues to expand, the demand for modern, efficient storage and distribution centers remains high.

F. Impact of Monetary Policy

Tight monetary policy during 2022 and 2023 negatively impacted the construction industry, particularly in residential building projects. High interest rates reduced project launches and led to weak indicators such as housing starts and building permits.

However, **Fitch Connect** highlights that the **Federal Reserve's** shift towards a loosening cycle, which began in September 2024 with a 50 bp rate cut, will provide a much-needed boost to the industry. The Fed is expected to continue lowering rates, which should stimulate construction activity from 2025 onwards as financing costs decrease.

Long-term Outlook

Looking beyond 2025, the **IRA** will continue to provide substantial support to clean energy construction, with key tax credits such as the **Production Tax Credit (PTC)** and the **Investment Tax Credit (ITC)** playing a central role. New credits such as the **Clean Energy PTC** and **Clean Electricity ITC** as well as tax incentives for hydrogen and nuclear power will further stimulate growth in sustainable energy projects.

CONSTRUCTION SPENDING

Through August, total year-to-date construction spending is down 2.4%. The **prisons** sector, which, despite being a relatively small portion of overall spending, has posted impressive growth, driven by a few high-value projects. Similarly, **power infrastructure** has seen a surge, propelled by the increasing electrification of the economy and the shift towards green energy projects.

Private office construction has grown by 17% year-to-date, defying the broader trend of rising office vacancy rates due to the persistence of remote work. This growth can be attributed to the inclusion of **data centers** within the category, which more than compensates for the decline in traditional office space construction.

Surprisingly, **hospitals and clinics**, along with **manufacturing construction**, have contracted in 2024. However, this decline follows unusually high spending in 2022 and 2023 as these sectors addressed the direct and indirect impacts of the COVID-19 pandemic. Thus, the current reduction in spending represents a normalization of long-term trends rather than an indicator of diminished interest or demand in these areas.

Looking ahead to **2025**, construction spending is expected to rise, but the pace will slow. Spending on **nonresidential buildings** is projected to increase by more than **7% in 2024,** but this will taper to a growth rate of just **2% in 2025** due to ongoing market challenges. The Federal Reserve's anticipated rate cuts, alongside **slowing wage growth** and relatively stable construction material prices, are expected to alleviate some financial pressures, particularly in **Commercial Real Estate.**

CURRENT EMPLOYMENT LANDSCAPE

The construction industry in the U.S. employs a total of 8.3 million payroll workers, 4.9 million of whom work in nonresidential construction. The demand for skilled workers in this sector continues to grow, driven by the need for infrastructure development and the replacement of an aging workforce. An additional 2.17 million construction workers are projected to be hired by 2026. Yet, despite the need, the report highlights a sharp decline in open construction jobs, falling from 400,000 at the start of 2024 to 248,000 in July, reflecting the slowdown in the industry.

KEY CONSTRUCTION INDUSTRY TRENDS LEADING INTO 2025

The construction industry continues to evolve in response to challenges such as labor shortages, rising material costs, supply chain disruptions, and a greater emphasis on sustainability. At the same time, technology and innovation are playing a pivotal role in reshaping project execution and safety standards. Below is a detailed analysis of key trends impacting the sector in the coming year.

1. Labor Shortages and the Skills Gap

Labor shortages have been a persistent challenge, reaching a "crisis level" in recent years. The industry's aging workforce, coupled with a lack of skilled labor, is causing significant project delays and increasing the reliance on technology to bridge this gap. As the construction industry continues to address the labor shortage, investing in safety training and protocols is crucial to maintaining a safe and secure work environment. By providing new hires with the necessary training and guidance, construction companies can bridge the gap between the demand for skilled labor and the available workforce. Moreover, prioritizing safety measures will enhance the industry's reputation and attract more workers, thereby helping to alleviate the labor shortage in the long run.

2. Focus on Worker Safety and Well-Being

The construction industry has one of the highest rates of fatalities, injuries, and mental health issues. This is due in part to the industry's inherent risk, from dangerous jobsites and labor-intensive job duties to trouble accessing quality care and the abuse of treatment that can lead to addiction issues. Pairing the right preventative measures with the right workers' compensation and managed care programs can make a significant difference for organizations and injured workers alike.

In terms of physical injuries, nearly **$11.4 billion** in annual losses are due to serious nonfatal workplace injuries. The top causes include falls (both from a lower level and on the same level), overexertion, being struck by objects or equipment, and other exertions or bodily reactions.

Prevention is key, but in a reality where accidents do happen, it is important to give ample consideration to post-event management as well. Ensuring that workers onsite are properly trained can reduce the incidence of injuries and/or eliminate fatalities. Gallagher Bassett offers a range of resources, including onsite, in-person, and hybrid training courses led by certified trainers. Additionally, through a strategic partnership with **Safe T Professionals**, we're able to provide additional resources by expanding our national reach.

Post-event considerations for the injured worker extend not only to ensuring they are able to return to work but also focusing on quality care and assistance in navigating a complex and sometimes confusing path on the road to recovery. This includes physical injury as well as mental well-being and working with a team that prioritizes the individual. Managing workers' compensation claims requires a comprehensive approach to balancing cost containment with claimant advocacy. Gallagher Bassett optimizes clinical recovery and boosts return to work with GBCARE, a medical management platform of solutions and integrated services that helps guide injured employees on their path to recovery, ensuring they receive the right care at the right time for optimal clinical outcomes.

Additional resources:

- **Learn more about Gallagher Bassett's workers' compensation claims solutions**
- **Read more:**
  GBCARE case study: How We Reduced Medical Costs By 19% and Decreased Lost-Work Days
- **Breaking Ground on Solutions: Enhancing the Care and Support for Injured Workers in the Construction Industry**

OSHA Proposed Rule on Heat Injury and Illness Prevention for Outdoor and Indoor Work Settings

On July 2, 2024, the Occupational Safety and Health Administration (OSHA) issued a proposed rule titled **"Heat Injury and Illness Prevention in Outdoor and Indoor Work Settings."** This rule would apply to all employers and is designed to protect employees from heat-related hazards. The rule would be triggered when employees are exposed to temperatures of **80°F or higher** for more than **15 minutes within any 60-minute period.** It aims to establish comprehensive requirements for preventing heat injury and illness in workplaces, reinforcing employers' responsibility to mitigate heat-related risks and ensure worker safety.

*Read **"Essential Strategies for Preventing Heat Stress"** from our partners at Safe T Professionals.*

3. Rising Construction Costs

Construction material costs have stabilized after a period of significant inflation. According to the **Rider Levett Bucknall report,** materials prices have cooled from peak highs, contributing to slower overall construction cost increases. In Q2 of 2024, the national average increase in construction costs was 1.12%, compared to 1.31% in Q1 of 2024. Year-over-year, the increase stood at 5.41%, slightly down from 5.85% in Q1.

Key Material Sectors

- **Concrete, aluminum, and glass** have seen stabilization across several regions, including significant markets such as New York, Boston, and Chicago. Pricing trends from the past six months suggest further stabilization.
- **Mechanical and electrical materials** have been particularly impacted by growth in sectors such as data centers, healthcare, and EV facilities, where demand remains high, leading to longer lead times for electrical components (up to 52 weeks). However, mechanical supply has seen improvement.
- **Copper, resins, and steel** have experienced price reductions, driven by a more balanced supply–demand scenario as construction volume trends back to pre-pandemic levels.

Despite these cooling trends, **Skanska USA** anticipates material costs to increase by between **3% and 6%** over the next 6–12 months due to inflation. Additionally, **air-cooled chiller supply** for data centers has extended lead times to **50–65 weeks**, adding pressure to these segments.

4. Technological Advancements in Construction

Artificial Intelligence (AI) and machine learning are playing an increasingly significant role within the industry. From autonomous construction equipment to building information modeling (BIM) and augmented reality (AR), technology is improving precision, reducing costs, and enhancing safety on construction sites.

The use of drones, AR, and BIM is expected to become more widespread, allowing for enhanced project monitoring and more accurate cost and time estimates. Digital asset management software is also gaining traction, streamlining workflows and improving collaboration among project stakeholders by efficiently managing and sharing digital resources. This tech has the potential to reduce waste, improve safety, and optimize project timelines—benefits likely to outweigh the upfront costs in the long run. Burgeoning technology adoption is not without risk, however, and it's important to know the factors at play that could result in negative impacts. ***Learn more about popular emerging technologies in construction and associated risks and insurance implications.***

5. Sustainability and Eco-Friendly Practices

Sustainability remains a key focus for the construction industry. Contractors are increasingly adopting environmentally conscious construction methods to reduce their carbon footprint and meet regulatory requirements. This shift is being driven by both public demand and government incentives aimed at promoting green building standards, which are expected to become more prominent in 2025.

6. Cybersecurity Risks and Data Management
A Travelers Companies survey suggests that 87% of construction industry decision-makers are highly reliant on technology to ensure smooth business operations. Despite this, 40% of industry leaders feel that the risks facing their businesses are increasing annually. Alarmingly, 20% of these leaders admit they lack knowledge of the cyber threats that could significantly impact their companies, and only 30% have implemented a formal business continuity plan to safeguard against cyber-attacks.

Cloud-based email breaches have become a costly issue, with U.S. businesses incurring losses exceeding $2 billion in recent years. In 2020 alone, the average cost of a data breach reached $150 million. The construction sector is increasingly becoming a target for cyberattacks. In Q1 2024, attacks on this sector accounted for approximately 6% of Kroll's incident response engagements—double the 3% reported in Q1 2023. A significant portion of these attacks involved **business email compromise (BEC)**, where cybercriminals use phishing tactics that impersonate legitimate document-signing programs to deceive victims into providing credentials or bypassing multi-factor authentication (MFA) via attacker-in-the-middle techniques.

Ransomware, the potential pitfalls when it comes to reliance on third parties, and the growing prevalence of social engineering scams are issues that need to be better understood, as well as steps companies can take to prevent these cyber challenges. ***Read more: Cybersecurity in Construction: Mitigating the Risks and Navigating the Threat Landscape***.

7. Supply Chain Disruptions
While critical supply chain disruptions that began in 2020 have eased, construction companies are still experiencing the long-term effects of product shortages, price increases, and ongoing global sourcing issues for raw materials. Recent numbers from Associated Builders and Contractors show that prices began moving upward in the late summer months.

8. Interest Rate Legacy
The residual effects of past rate hikes will continue to influence nonresidential construction in the short term. Higher borrowing costs from previous hikes have elevated financing expenses, which hampers developers' ability to start new projects, especially in sectors such as commercial real estate, retail, and industrial construction. Many nonresidential developments may be delayed until interest rates stabilize at more favorable levels. This legacy of higher costs will likely result in slower project starts and cautious investment, as developers and investors wait for clearer financial conditions.

9. Claims Trends

There are a multitude of challenges that significantly impact the financial health and operational efficiency of the construction industry. Firms must navigate a complex risk landscape and be prepared to manage incidents and subsequent claims when they do occur. As the industry looks ahead, addressing these multifaceted challenges will be crucial for sustaining growth and ensuring project success. While workers' compensation trends lead in terms of the most frequent claims cited in the construction industry, additional challenges are noted as follows. ***Read more: 2025 Outlook: Navigating Claims Trends and Overcoming Challenges in the U.S. Construction Industry.***

1. **Workers' Compensation Claims**
2. **Unforeseen Site Conditions Claims**
3. **Fraudulent Claims**
4. **Defect Claims**
5. **Delay Claims**
6. **Payment Disputes**
7. **Damage Claims**

CONCLUSION

In conclusion, the construction industry is on the brink of a transformative period. By embracing innovation, prioritizing safety, and investing in workforce development, the sector can build a resilient and prosperous future, capitalizing on emerging opportunities and overcoming challenges to achieve sustained growth and success.

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Greg leads the GB Construction Vertical Practice. He is responsible for leading the integration, evolution, promotion, and outcomes of GB's industry-leading construction claims and risk management solutions. His expertise is multi-faceted, with a particular focus in casualty insurance programs and captives. For more than 20 years, Greg has been providing solutions to some of the largest construction management and real-estate development companies. Greg brings an accomplished risk management background compromising multinational corporate business, complex real-estate development, and construction operations. Under Greg's leadership, GB guides the construction industry to achieve total cost of risk reduction in tandem with enhancing profitability. Through commitment and focused investment in risk management solutions within the construction industry, GB brings enhanced value to the entire insured, carrier, and broker distribution chain. Greg is a tactical planner with the ability to attract and secure key players to build strong, lasting business relationships.

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