



CONSTRUCTION MARKET UPDATE

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INTRODUCTION

As we get closer to the end of 2024, we wanted to take a minute to provide an industry update on the U.S. construction market. This update will offer insights into the developments and trends that have shaped the industry throughout the year. From labor shortages and emerging technologies to supply chain vulnerabilities and key forecasts, we'll examine the challenges and opportunities that have impacted the construction sector. Additionally, we'll highlight some key areas in which Gallagher Bassett provides comprehensive claims, risk management, and training programs that minimize the impact of risk on construction projects from start to finish.

U.S. CONSTRUCTION MARKET OVERVIEW

Earlier in the year, we reported on Global Construction forecasting that the volume of construction output would grow by 85% to \$15.5 trillion worldwide by 2030. The growth momentum is expected to continue over the forecast period, with a CAGR of 4.7% between 2024 and 2028. The construction output in the U.S. alone is expected to reach \$1.53 trillion by 2028.

Further research indicates that the industry will see moderate growth in 2024 and 2025, supported by robust federal investment in infrastructure, manufacturing subsidies, and easing monetary policy in the market.

In the first quarter of 2024, the nation's real GDP grew at an annual rate of 1.4%. **Construction, which increased in 46 states and the District of Columbia, was the leading contributor of growth in 10 states, including Idaho and Nevada, the states with the first- and second-largest increases in real GDP.**



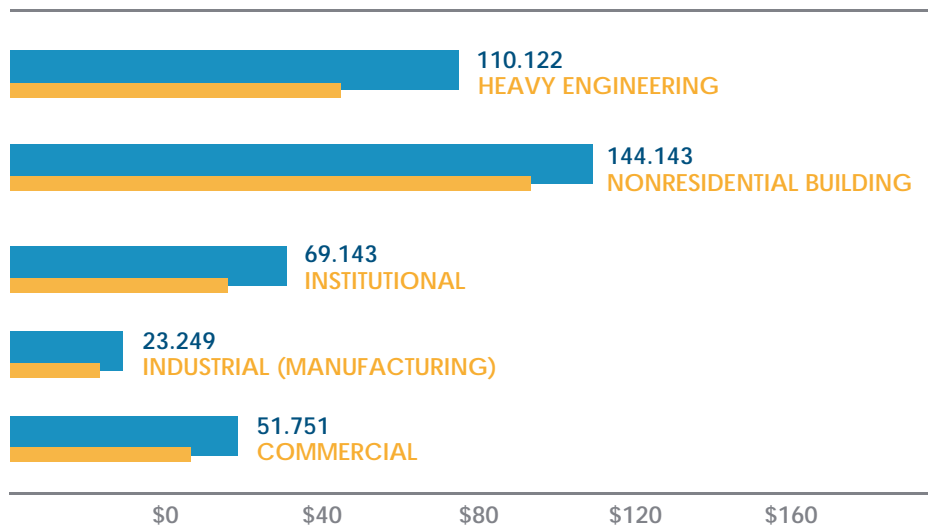
Several construction sectors continue to show positive growth in 2024, which will likely continue well into 2025. These outlooks are based on recent trends and government funding expectations of different sectors.

- **Industrial/manufacturing:** Manufacturing construction has fueled nonresidential growth, with spending up 25% year-over-year (YOY) to over \$223 billion—four times the normal rate.
- **Infrastructure:** Government investments through the Infrastructure Bill and Inflation Reduction Act will support construction through 2025, with projects in public safety, highways, water, power, and waste disposal surpassing \$375 billion annually.¹
- **Data center construction:** The U.S. requires over 24,000 new small- and mid-sized data centers to meet the rising demand for AI and end-of-line computing.²

KEY INDICES

- Total construction starts fell 5.4% YOY in Q1 of 2024.
- Civil engineering showed positive growth, up 4.2% YOY.
- Mega-project starts continued to be positive, posting a higher value of large projects than in Q1 of 2023.
- Nonresidential construction is still forecast to decrease, but levels remain high, especially in important subsectors such as manufacturing.³
- Over the past 24 months, the average monthly value of nonresidential work has been approximately \$51.9 billion, with April's revised reading slightly lower at \$49.9 billion.

NONRESIDENTIAL CONSTRUCTION STARTS
BY SECTOR (\$ BILLION), JAN–MAY 2024

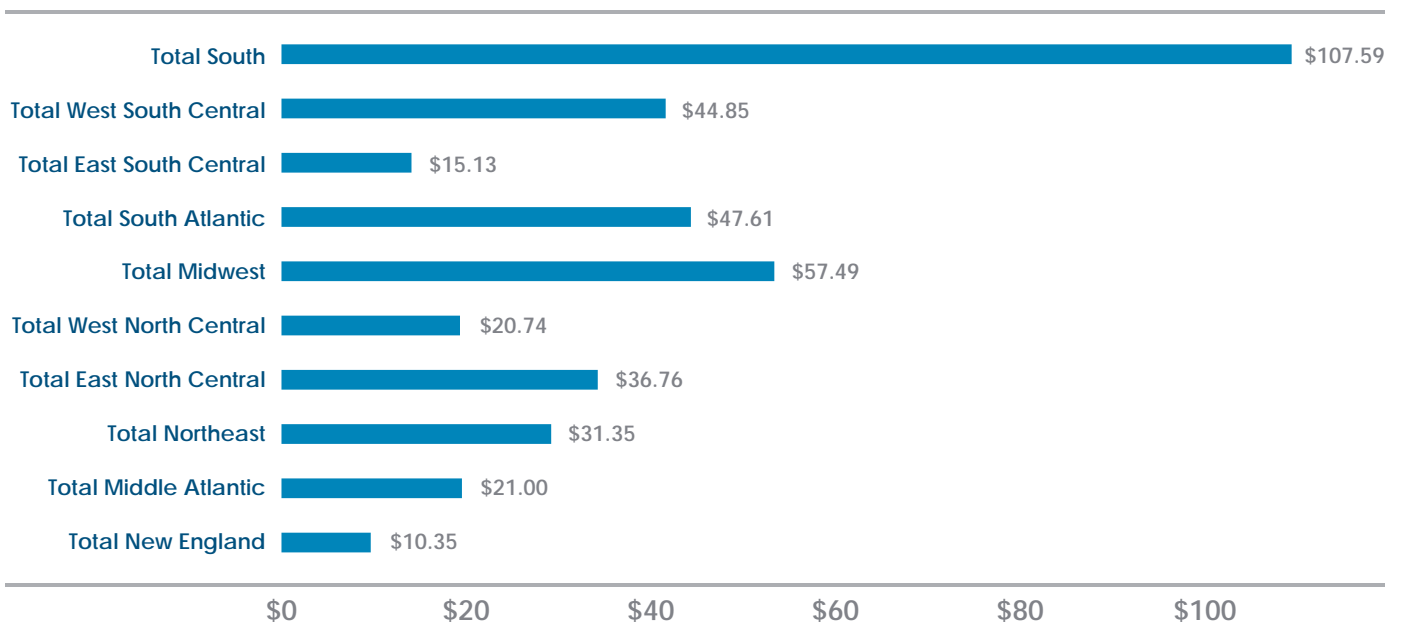


Nonresidential Construction Starts Regional Analysis

- From January to May 2024, construction activity in coastal states has generally shown positive trends, while mid-America has faced challenges.
- The Pacific region experienced the fastest expansion in construction spending with a growth rate of 23.1%.
- New England reported strong gains with a growth rate of 10.7%, with two-thirds of the states in this division reporting an increase in starts from January to May 2024.
- A majority of states in the middle region of the country reported a decline in spending on construction starts.
- Heavy engineering and civil work continue to provide opportunities to offset weaker nonresidential starts.



VALUE OF NONRESIDENTIAL CONSTRUCTION STARTS BY REGION (\$ BILLION), JAN-MAY 2024



Construction Spending

- Increased interest rates and declining starts have yet to significantly slow construction spending.
- The effects of “higher for longer” will appear as the existing pipeline delivers and fewer projects backfill.
- Current activity and declining architectural billings, which saw their largest contraction since December 2020 in September 2023, indicate this will hit the industry strongest in the second half of 2024.
- Additional public spending on infrastructure and manufacturing construction will minimize the total spending slowdown, resulting in a near wash for total value put in place in 2024.
- High-performing segments in 2024 point to continued strong investment growth across manufacturing, lodging, public safety, highway and street, transportation, and sewage and waste disposal.



Employment

- From January to May 2024, the ratio of unemployed individuals with prior construction experience remained steady, with a 1.6 ratio of experienced individuals to job openings.
- The mismatch between skilled, unemployed laborers and the specific needs of current job openings remains extremely tight.

MAJOR CONSTRUCTION TRENDS OBSERVED IN THE FIRST HALF OF 2024

Construction Costs

Big picture material prices for the overall building model did not see large changes, but specific sectors of the materials market experienced significant price shifts.

- **Cold rolled steel products:** Pricing for these products, which include galvanized steel sheets and metal decking, saw double-digit percentage declines from Q1 to Q2 of 2024.
- **Steel:** The cost of steel continues to be volatile.
- **Clay brick:** Prices surged from Q1 to Q2 of 2024 after more than six months of insignificant cost shifts.

After the price uncertainty of the pandemic years, the construction industry has enjoyed a period of equilibrium, which may now be quaking. Slowing private-sector starts will keep supply chain pressure manageable, but the current pipeline and increase in public-funded construction will prevent price regression. Shortages of some finished goods will persist. For example, construction that favors tech-heavy spaces will keep demand for electrical products above production capacity. Threats such as natural disasters, trade conflicts, and geopolitical tensions may disrupt U.S. supply chains, likely exacerbated by 2024 being an election year.

Supply Chain Vulnerability

According to experts from the Q2 Construction Cost Insights Report, the construction material supply chain is strained. From challenges in Panama and Peru impacting the supply of copper to geopolitical instability in Ukraine and the Middle East, market volatility continues to affect the supply chain for materials on a global level.

Ongoing Labor Shortages

Construction traditionally has a high labor turnover rate, which only increases during labor shortages. During this historic shortage, the construction workforce is up against several barriers, including an aging workforce and recruitment struggles. In order to meet demands, the construction sector is projected to require an additional 501,000 workers on top of normal hiring rates in 2024. The industry is also grappling with the challenge of an aging workforce, with 20% of construction workers aged 55 and above, leading to a shrinking labor pool due to retirements.

To address these labor shortages, many contractors have increased wages and improved benefits to attract and retain skilled workers. Furthermore, there has been a rise in the recruitment of women in the industry, with their representation increasing from 11% in 2020 to approximately 14% as of June 2024.

Additionally, there has been a surge in large construction projects concentrated in specific regions across the country, often in close proximity to one another. These projects require a significant number of workers, which can lead to a concentration of employees in a particular area. When combined with the aging workforce and a lack of new entrants, this creates a challenging recruitment environment.

The industry is experiencing an increased demand not only for craftspeople but also for field engineers, superintendents, project managers, safety and quality managers, architects, and engineers. This will result in a higher price floor for compensation growth compared to historical rates. Decreasing productivity levels and labor shortages will force contractors to prioritize retention and prompt the industry to accelerate investments in technology and alternative production strategies. While advancements in AI and robotics may help alleviate some labor constraints, current technologies can only optimize around the symptoms of labor shortages.



GB PERSPECTIVE: As previously noted in the [2024 Construction Outlook](#), the need for skilled labor raises several concerns in terms of safety and training and the impact on TCOR. As the demand for labor continues to rise, it results in the hiring of professionals who may lack sufficient experience and safety training. This situation gives rise to hazardous conditions that can result in worker injuries or, in extreme cases, fatalities. While some accidents may be unavoidable, many incidents can be prevented

through the implementation of proper safety training and protocols. By ensuring that all workers receive comprehensive safety training, employers can significantly reduce the occurrence of accidents and injuries on job sites. This not only safeguards the well-being of workers but also minimizes the TCOR for construction firms caused by workers' compensation claims.

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.

*Read more about the importance of safety training:
[Going Above and Beyond: Lowering Your Total Cost of Risk through Safety Training](#)*

Claims and Litigation

The National Association of Mutual Insurance Companies estimates that insurance fraud, including fraudulent claims, costs the U.S. insurance industry approximately \$40 billion annually.

Source: The National Association of Mutual Insurance Companies

The construction industry is a significant contributor to these figures due to the nature of its work and the complexity of claims. Fraudulent claims have become a growing concern, especially in New York City, posing significant challenges to the insurance sector. These false claims encompass a wide range of deceitful activities, from staged automobile accidents to fabricated accidents on construction sites and unnecessary medical surgeries. Various professionals, including lawyers and doctors, are allegedly involved in these schemes, which are becoming increasingly more common.



GB PERSPECTIVE

The impact of staged construction accidents is twofold. First, they undermine the integrity of the construction industry by eroding trust and increasing skepticism toward real accident claims. This can lead to delays in actual claims processing and higher scrutiny of honest policyholders.

Second, staged accidents have substantial financial repercussions on insurers and policyholders. Insurance companies are burdened with increased claim costs, investigations, and legal expenses. As a result, insurance premiums may rise for policyholders to offset these losses, affecting the overall affordability of insurance coverage.

To combat staged construction accidents, insurance companies are implementing various measures. These include enhanced fraud detection systems, closer collaboration with law enforcement agencies, and increased vigilance during **claims investigations**. Industry stakeholders are also working together to raise awareness of this issue and educate construction workers and the public about the consequences of fraudulent activities.

Regulatory bodies and law enforcement agencies are also stepping up efforts to identify and prosecute individuals involved in staged accidents. By imposing stricter penalties and conducting thorough investigations, these organizations aim to deter fraudulent behavior and protect the interests of insurers and policyholders.

Overall, addressing staged construction accidents requires a collective effort from the construction industry, insurance sector, and regulatory authorities to maintain the integrity of the industry and ensure fair and affordable insurance coverage for all stakeholders.

Read more about construction investigations: [Controlling the Claim: Preparing for Litigation with Construction Investigations](#)



Emerging Technologies

The evolution of technology in the construction industry has been slower compared to other industries, but it is now gaining momentum and bringing about improvements in safety, cost-effectiveness, and efficiency. Various technologies, such as drones, wearables, site sensors, and robotics, are being deployed on construction sites. Drones are particularly useful for conducting inspections in remote or inaccessible areas, allowing construction companies to create 3D models and obtain high-resolution images of the job sites. Technology also enables site managers to monitor projects and record activities, promoting worker safety and site security.

By utilizing imaging technology, safety managers can cover more ground and oversee multiple projects simultaneously. Construction companies are also adopting information tracking systems and dashboards, providing a centralized platform for project stakeholders to access real-time project information, such as contracts, design plans, safety plans, and specifications. Wearables, placed on workers or their personal protective equipment, are increasingly being used to track GPS locations and biometrics, helping to prevent accidents. Site sensors can also warn workers about potential hazards and monitor factors such as noise levels, dust saturation, temperature, and the presence of hazardous substances, making the job site safer.



GB PERSPECTIVE

There are a few key considerations when it comes to technology in construction.

- **Cyber:** The use of information tracking systems and dashboards can make companies vulnerable to threat actors who actively work to find weaknesses in systems to exploit their targets. While cyber incidents are usually thought of in terms of big data breaches or newsworthy ransomware attacks, the most common cybersecurity incidents tend to involve phishing scams, social engineering, malicious code, unauthorized access, and system failures. The best defense is a strong offense, and **partnering with experts** who specialize in risk mitigation helps businesses navigate the complex cyber landscape.
- **Exposure to hazardous materials:** In a **recent article** about silica inhalation on construction sites, it was noted that more than 800,000 workers in the U.S. are currently being exposed to levels of respirable crystalline silica that exceed the permissible exposure limit. In addition to site sensors, working with an environmental consultant can help with industry-specific **environmental health and safety** compliance, worker exposure, and Occupational Safety and Health Administration safety requirements.
- **Safety:** In the construction industry, technology has emerged as a key factor in ensuring worker safety. In addition to wearables that track incidents, technology specifically developed to benchmark and monitor cognitive impairment has stepped in to address the aforementioned concerns. By leveraging neuroscience, laptop and tablet applications can detect and measure workplace performance impairment caused by various factors, including fatigue, acute illness, severe stress, and alcohol and/or drug consumption. Technologies such as these, coupled with safety training, can play a vital role in keeping workers safe and secure on construction sites.

KEY FORECASTS

- **Medium-term outlook:** Over the medium term, the construction industry is forecast to strengthen, with an average real growth of 2.3% YOY anticipated between 2026 and 2033. This growth is expected to be supported by easing monetary policies, which will likely encourage construction investment.
- **Sector-specific growth:** Manufacturing construction is expected to continue its growth trajectory in 2024 and 2025, driven by ongoing government programs that spur investment in this segment.
- **Monetary policy impact:** The industry is anticipated to face headwinds in the near term due to the lingering effects of the monetary policy tightening observed in the U.S. during 2022 and 2023. These effects are projected to particularly impact the construction sector in 2024 but will potentially ease in 2025 and beyond.

Conclusion

In 2024, the U.S. construction market has experienced both challenges and opportunities. Labor shortages, an aging workforce, and recruitment struggles have posed significant hurdles for the industry. However, contractors have responded by increasing wages, improving benefits, and actively recruiting women to address these shortages. The industry has also seen growth in sectors such as industrial/manufacturing and infrastructure, supported by government spending and investments. The construction material supply chain has faced strain, but emerging technologies are being adopted to enhance safety, efficiency, and productivity on construction sites. Looking ahead, the industry is forecast to strengthen, and Gallagher Bassett remains committed to adapting to these trends and providing comprehensive solutions to our clients in the construction sector.

¹ <https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/09/fact-sheet-biden-harris-administration-celebrates-historic-progress-in-rebuilding-america-ahead-of-two-year-anniversary-of-bipartisan-infrastructure-law/>

² <https://www.mnadvisors.com/blog/post/q2-construction-update--market-growth-amid-labor-data-volatility>

³ <https://projects.constructconnect.com/hubfs/Starts%20and%20PIP%20Forecast%20Reports/2024%20Q2%20CC%20Construction%20Starts%20Forecast%20Report.pdf>

⁴ Fitch Connect



Greg Perruzzi

Senior Vice President – Construction Vertical Practice

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 comprising 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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