MOCA SYSTEMS, INC.

Today's Construction Economy

Second Quarter 2025 MOCA Systems, Inc

Executive Summary

U.S. construction is beginning to feel the delayed impact of rising rates, tightening capital, and trade uncertainty, with growth expected to slow and costs to rise in 2025. MSI Economics forecasts elevated risk-driven inflation led by workforce constraints and material availability. For the rest of 2025, contractors are expected to rely more on backlog and to seek escalation clauses to offset rising material prices. While strength persists in data centers and publicly backed sectors, uncertainty in federal funding could slow delivery in the latter. The direction of interest rates and material pricing will shape the second-half outlook. The price paid for new nonresidential construction is expected to increase by 2.9% year over year (YoY) 2025, vs. just 0.1% revised in 2024.

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US Construction Market Forecast — Q2 2025

	Historical (YoY)					Forecast (YoY)		
	2020	2021	2022	2023	2024	2025	2026	2027
US GDP	-2.2%	5.8%	1.9%	2.5%	2.8%	1.8%	2.0%	2.1%
Total Construction Spend	7.9%	10.3%	14.9%	6.4%	6.2%	1.8%	1.7%	1.5%
Nonresidential Construction Spend	2.3%	-1.3%	14.6%	18.2%	7.0%	2.9%	2.2%	2.4%
PPI Construction Materials	1.5%	26.9%	12.6%	-2.9%	-1.0%	2.9%	2.0%	1.8%
PPI Construction Machinery	1.8%	4.5%	10.4%	9.4%	3.2%	3.3%	2.5%	2.1%
All Employees Construction	-3.2%	2.5%	4.4%	3.3%	2.5%	2.4%	2.2%	2.0%
PPI New Nonresidential Construction	2.5%	5.2%	19.9%	7.9%	0.1%	2.1%	3.0%	2.2%
Average Hourly Earnings, Construction	2.9%	3.9%	5.6%	5.2%	4.7%	3.1%	2.9%	3.0%

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Tariff Risks & Material Prices

Although exact tariffs are subject to frequent changes, MSI's Economics team has conducted a price impact analysis of imported construction materials using data from the U.S. International Trade Commission (USITC) spanning 2020 to 2024, based on rates announced on April 2, 2025. The analysis projects a 22% increase in the cost of imported materials. However, only 10-15% of materials used in construction projects are imported. Findings suggest project costs could rise by about 2.9% in 2025, with 1.5% of this increase directly attributable to tariffs and the remaining portion due to domestic suppliers raising prices to meet higher demand. Durable goods were excluded from this analysis.

Table 1: Proposed April 2, 2025, Tariff Impacts by Product

Price Increase (Imports)	Imported Material
27.4%	Bolts/nuts/scrws/rivts/washrs & other turned prods
25.0%	Metal tanks (heavy gauge)
22.2%	Current-carrying wiring devices
21.8%	Concrete pipes
20.7%	Power boilers & heat exchangers
20.0%	Construction machinery
19.5%	Wood windows & doors
19.5%	Fabricated structural metals
18.7%	Fiber optic cable
18.6%	Prefab metal buildings & components
18.3%	Plastics tubes, hoses, pipes & pipe fittings
17.6%	Metal windows & doors
17.6%	Prefabricated wood buildings
17.5%	Sheet metal works
17.0%	Iron and steel and ferroalloy steel products
16.7%	Cements
13.8%	Construction sand and gravel
13.7%	Softwood veneer & plywood
13.4%	Sawmill products
12.4%	Gypsum products
12.2%	Trusses

Source: U.S. International Trade Commission, The Guardian, MSI Economics

"Tariffs…can lead to issues with a contractor's budget, timelines, and ability to deliver on projects. By Including a price escaltion clause the risk of these disruptions can be mitigated."

- Sarah Martin, Associate Forecasting Director, Dodge Construction Network, March 2025[1]

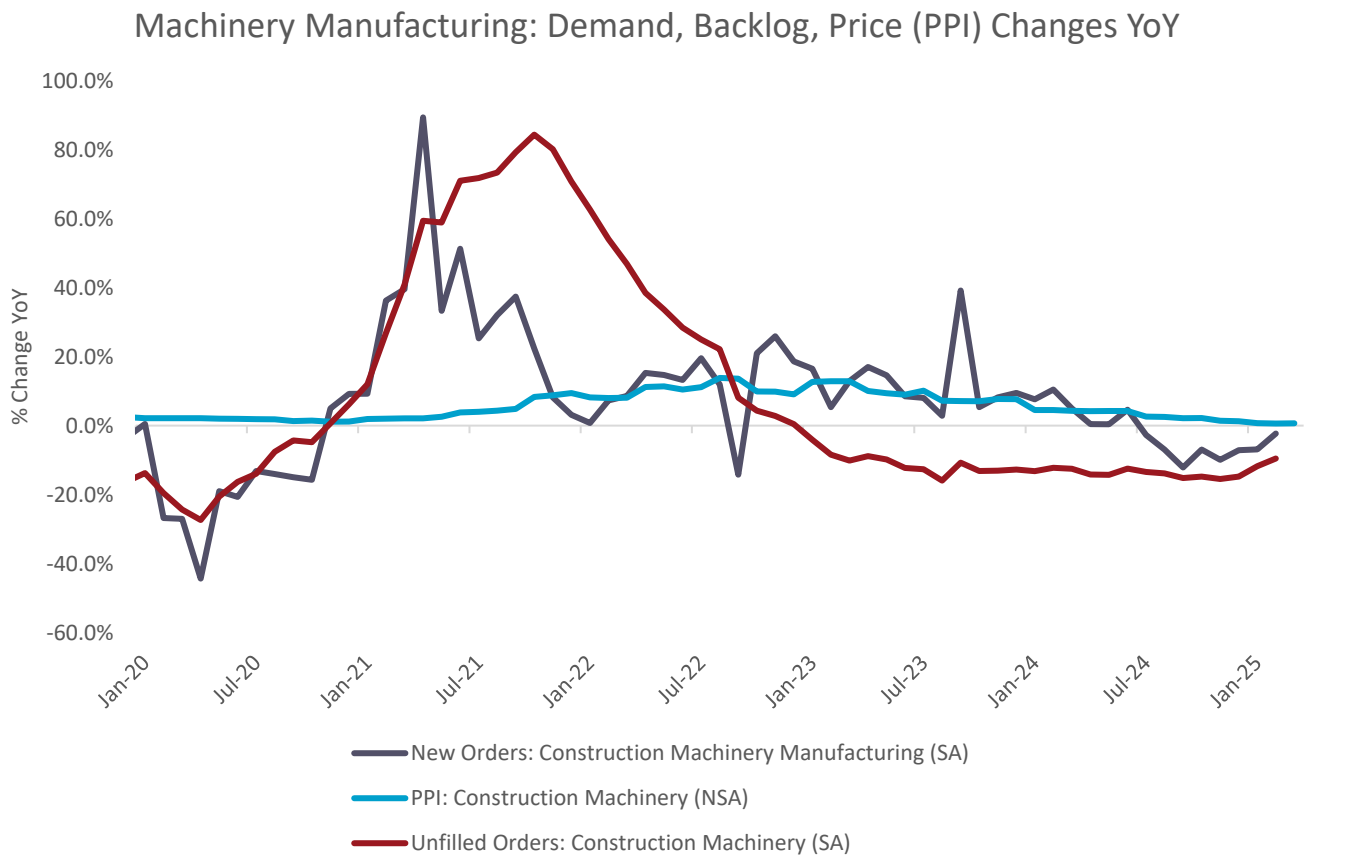
The Market's Message

While material prices have been hedging trade action since January, tariffs present a significant external-market risk to existing and upcoming project costs as contractors seek to insulate from price volatility and performance delays linked to material availability. Tariff uncertainty will ultimately increase project costs in the short term, though demand declines may offset some increases later into 2025 or 2026.

[1] How Tariffs May Impact the Construction Industry in 2025 | Dodge Construction Network

Equipment: Resiliency Plans Tested

Due to tariffs, dust is being brushed off resiliency plans from the supply chain crisis at major U.S. machine manufacturers such as Caterpillar Inc. (NYSE:CAT) and John Deere (NYSE:DE). [2] Caterpillar follows a "produce in region for region"[3] according to former CEO Jim Umpleby who was recently replaced by COO Joe Creed. CNH Industrial, the manufacturer of Case and New Holland equipment, temporarily halted all international factory shipments. While shipments from the U.S. have recently resumed, those from the E.U. remain suspended, reflecting a more cautious approach. March data shows machine price growth slowed to 0.7% YoY, but demand has regained momentum, partly due to pull forward. Fleet replacement has continued to slow with some opting to buy now to hedge against tariffs and then wait for lower rates.



Source: U.S. Bureau of Labor Statistics, U.S. Census Bureau via FRED®

"We rely heavily on our highly skilled employees in the United States to design and build the most technologically advanced equipment in the world…greater than 75% of all products that we sell in the U.S. are assembled here."

- John May, Chief Executive Officer, John Deere, Q4 2024 John Deere earnings call [4]

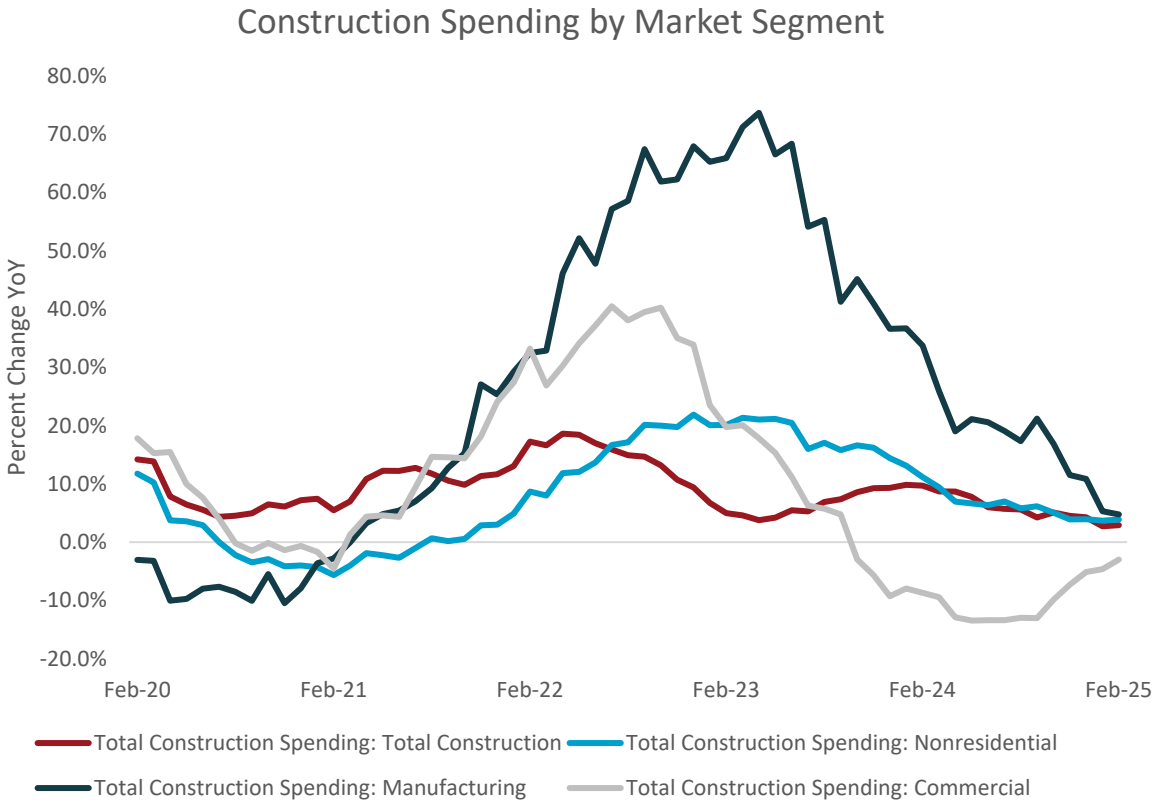
The Market's Message

Movements in new orders are likely more indicative of pull-forward hedging than organic demand. Tariff impact on machine price is limited to overseas supply chains and foreign equipment. For now, the risk to construction price is nominal, but further disruption will add to price.

[2] USRP_NIST_Deere_081915.pdf
[3] Caterpillar CEO on tariffs and 4 other things we learned from Q4 results - Construction Briefing
[4] John Deere's Commitment to U.S. Manufacturing

Construction Spending: Resiliency under Threat

The latest rate of growth of U.S. construction spending slowed to 2.9% YoY in February, below the rolling five-year average of 9.0%; projects have become more expensive, and continued growth does not necessarily indicate an expansion in activity. Nonresidential construction spending growth held steady at 3.9% YoY February, which is generally in line with revised readings back to November 2024. Commercial spending, which includes data centers, continues to recover with growth at -3.0% YoY from a -13.5% YoY low in May. Manufacturing spending growth continues to contract, reaching 4.8% YoY in February, as previous tailwinds from onshoring and government support have begun to fade.



Source: U.S. Census Bureau via FRED®

"A slowdown in construction starts and weakness at architecture firms points to a 2024/2025 construction spending slowdown, with particular vulnerability in key commercial sectors."

- Kermit Baker, PhD, Chief Economist, American Institute of Architects (AIA), January 2025[5]

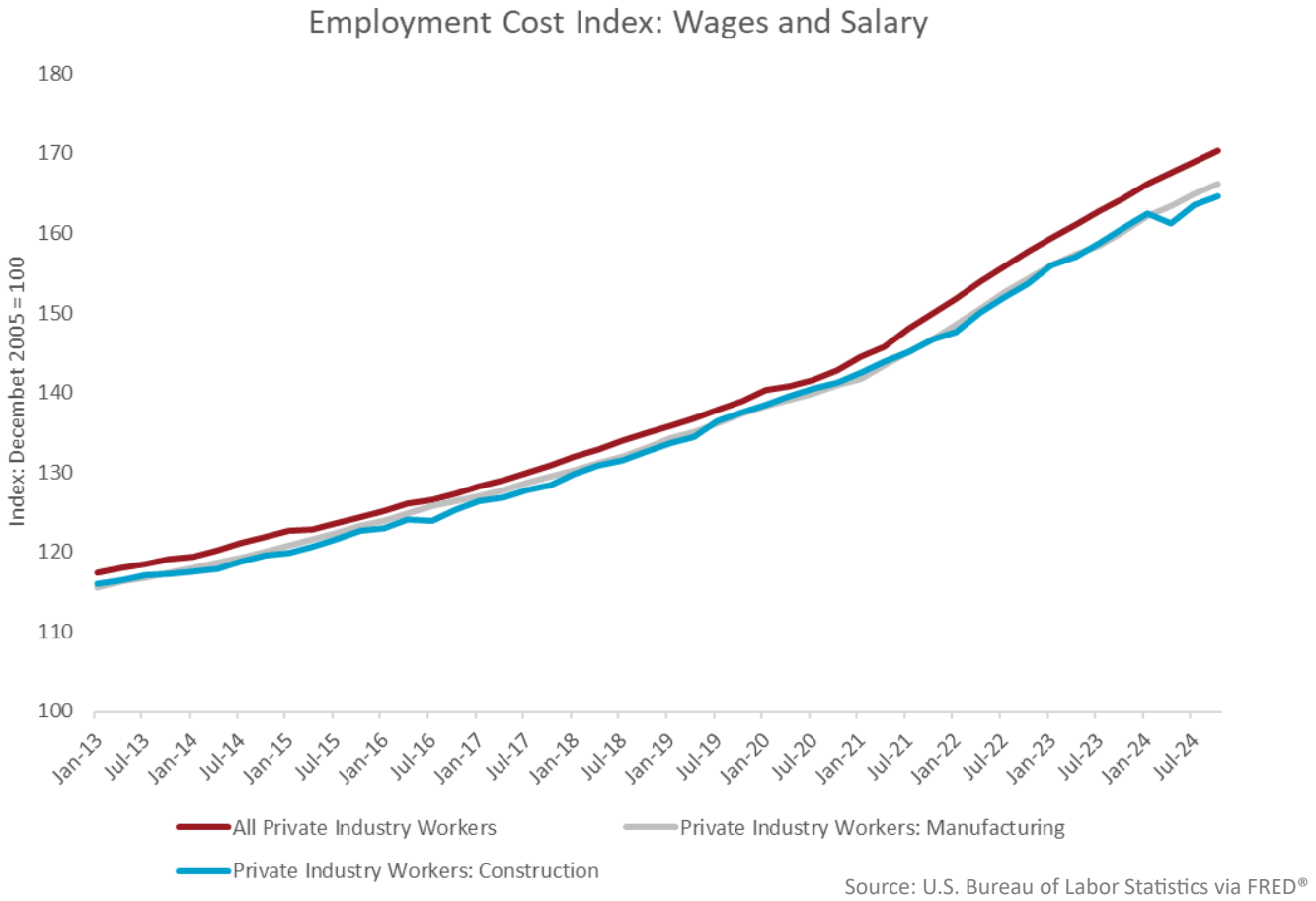
The Market's Message

Total construction spending remained elevated, but that growth began to normalize as the pipeline of projects right sizes to financial, labor, and supply conditions. We expect this cooling in total spending to have a net neutral effect on nonresidential construction price as contractors are likely to hold margins at current levels.

[5] Economic Uncertainty and Continued Headwinds: The Construction Outlook for 2024

Labor Market Wage Growth: Still Room to Be Competitive

Following the 2008 recession, construction wages rose steadily. In 2020, growth accelerated, with wages increasing by 5.69% YoY in Q1 2023, up from a five-year average of 3.59%. Since then, growth has slowed to 2.49% YoY in Q4 2024, just below pandemic levels. Labor conditions have eased slightly as quits increased without a surge in openings and construction unemployment remained stable. On March 14, 2025, Executive Order 14236 ended the enforcement of Federal minimum wage increases on construction projects, temporarily halting increases on these specialized wage contracts. Despite pockets of high compensation, construction wages lag the overall wage market including similar sectors like manufacturing. Wage pressure may soften but is unlikely to disappear for the foreseeable future as workforce retirements continue to outpace the incoming labor force.



Source: U.S. Bureau of Labor Statistics via FRED®

"If you're a builder, particularly a nonresidential builder…your main challenge in 2025 will continue to be finding workers to do the work."

- Anirban Basu, Chief Economist, Associated Builders and Contractors (ABC), January 2025[6]

The Market's Message

Though softening is underway, the pace of retirements and a lack of replacements will continue to exert upward pressure on wages for the foreseeable future. To attract the next generation to the industry, wages will need to be more attractive.

[6] 'Your main challenge in 2025': finding workers | Construction Dive

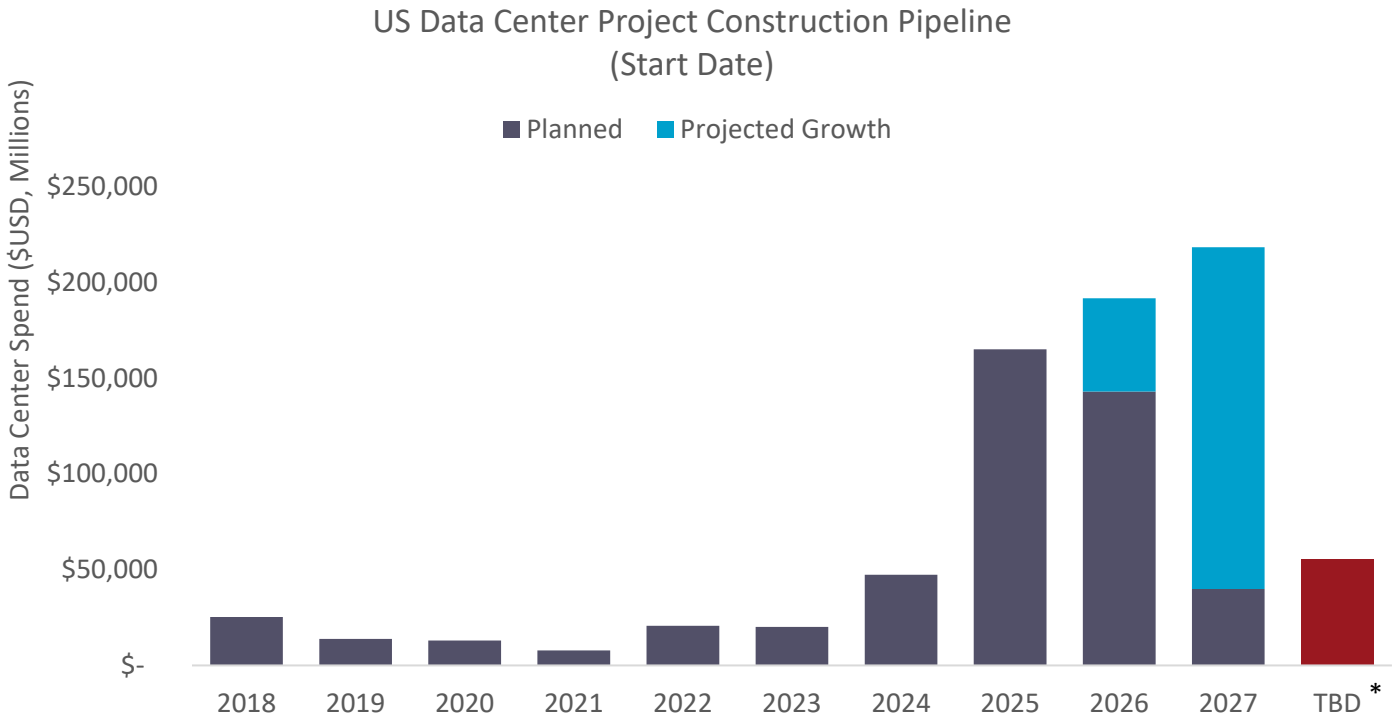
Market Insight: Data Center Growth Continues

The construction of data centers has surged significantly since 2023, driven by advancements in artificial intelligence and data processing technologies. As these technologies have moved from theoretical concepts to commercialized applications, the demand for robust data infrastructure has followed suit.

Prominent data hubs such as Northern Virginia, Chicago, Phoenix, and Silicon Valley have emerged as critical locations for data center development. Northern Virginia led with 391.1 megawatts (MW) of new supply in Q1 2024.[7] As premium space becomes scarce and energy constraints intensify, alternative locations are becoming more attractive.[8] Long-term cost of ownership is increasingly important as the sector matures and undergoes acquisitions.

Data centers are substantial consumers of electricity, with their sizing measured in dollars per kilowatt hour ($/kWh). Newly constructed hyperscale data centers require power capacities of at least 100 MW, equivalent to the annual electricity consumption of over 400,000 electric vehicles.[9] Data centers consumed about 4.4% of total U.S. electricity in 2023, and this figure is expected to rise to between 6.7% and 12% by 2028. [10,11]

Since around 2023, the pipeline for data center construction has been on the rise and expanding in scope. Construction spending in this sector is expected to grow by 15% annually, reaching $218 billion by 2027. [12] Supply in primary data center markets increased by 34% year-over-year to 6,922.6 MW in H2 2024. However, there are signs of market moderation. For instance, Microsoft has recently reduced its global data center spending by approximately $1 billion, citing cost pressures and concerns about overbuilding.[13] Despite some signs of moderation, data center growth remains strong, with ongoing competition for labor and resources straining the construction market.



Source: GlobalData, JLL, MSI Economics

*Planned projects without a confirmed start date

[7] Global Data Center Trends 2024 | CBRE
[8] North America Data Center Trends H2 2024 | CBRE
[9] Data center power consumption - statistics & facts | Statista
[10] DOE Releases New Report Evaluating Increase in Electricity Demand from Data Centers | Department of Energy
[11] lbnl-2024-united-states-data-center-energy-usage-report.pdf
[12] 2025 Global Data Center Outlook
[13] Microsoft Pulls Back on Data Centers From Chicago to Jakarta - Bloomberg

MOCA SYSTEMS, INC.

Comprehensive Economic Services That Drive Smarter Decisions

Economic services are a vital part of successful construction planning.

MOCA Services, the construction services division of MOCA Systems, Inc., provides a full suite of economic services to help federal, state, and commercial clients make informed, data-driven decisions across the project lifecycle.

Our economic experts deliver:

- **Cost-Benefit Analysis:** Evaluate financial trade-offs and justify project investments through data-driven comparisons.
- **Market Research & Feasibility Studies:** Assess market dynamics, investment viability, and long-term sustainability of proposed projects.
- **Economic Impact Assessments:** Quantify the broader economic effects of construction and infrastructure investments.
- **Lifecycle Cost Analysis:** Analyze long-term costs and savings to inform durable, cost-effective decisions.
- **Risk Assessment & Financial Modeling:** Identify, quantify, and mitigate financial and operational risks through scenario-based forecasting.
- **Funding Strategy Evaluation:** Explore financing options to support capital planning and secure project viability.
- **Strategic Financial Planning:** Align capital allocation with organizational priorities and long-term goals.

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- Owner's Representation
- Cost Management
- Schedule Management
- Planning and Programming
- Facility Condition Assessment (FCA)

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Today's Construction Economy

Today's Construction Economy is a quarterly report that offers a comprehensive analysis of the construction industry's current state and its role within the broader U.S. economy. By leveraging both economic data and qualitative insights, we deliver timely and actionable information to thousands of industry stakeholders.

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Brandon Michalski is the lead economist for MOCA Systems, Inc., a leading owner's representative firm providing program and project management services.

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