THIRD QUARTER EDITION

2025 NORTH AMERICAN ENGINEERING AND CONSTRUCTION

OUTLOOK

JULY 2025

EXECUTIVE SUMMARY

Amid sustained economic headwinds, including elevated interest rates, a challenging labor market and growing uncertainty around federal policy, total U.S. engineering and construction spending is forecast to increase by just 1% in 2025, down from 7% growth in 2024.

This slowdown is primarily driven by broad-based weakness in the residential sector, where affordability constraints, rising costs and tight credit continue to limit activity. Nonresidential building and infrastructure segments are expected to deliver mixed results, with several segments such as manufacturing shifting from high growth to more stable or less impressive rates of expansion.

The single-family residential market remains constrained but is showing signs of stabalization as pricing adjusts and sales volumes begin to improve in disaster-affected and more affordable regions. Residential improvements are projected to hold flat in 2025, supported by aging housing stock and targeted renovation activity. Multifamily development, by contrast, continues to decline, with vacancy rates rising, rent growth slowing and construction starts falling in oversupplied markets, especially across the South and West.

Nonresidential building activity is holding steady, though the pipeline of new work has begun to slow in response to elevated costs and longer lead times. Public funding, while still significant, faces increased scrutiny under the newly passed spending and tax bill, which includes reductions to several long-standing federal programs. The legislation shifts more responsibility for infrastructure and energy projects to states and the private sector, while narrowing federal support for programs across various areas including clean water, housing, health care and education.

Infrastructure spending, however, remains comparatively resilient. Segments such as power, water, sewage and transportation continue to benefit from previously authorized funding, though new awards have slowed. Road and bridge work is holding firm, supported by strong project pipelines and growing urgency around the 2026 reauthorization of the Surface Transportation Reauthorization Act (STRA-21). Notable new commitments were also made this quarter in transmission, nuclear energy and freight rail, signaling continued interest in long-term grid, transportation and logistics modernization.

Manufacturing and data center investment remain essential contributors to future construction demand. Strategic project announcements continue in these sectors, though labor shortages, tariffs and power availability are beginning to impact timelines and delivery. Meanwhile, emerging trends such as flexible and fractional warehousing along with modular infrastructure design are expanding rapidly in response to changing retail and logistics needs.

The construction industry is entering a slower and more selective phase of expansion. While advances in artificial intelligence, digital delivery and automation are driving greater efficiency, elevated costs, political/geopolitical uncertainty and tight credit conditions are expected to weigh on growth through at least mid-2026. Over the next several years, owners, developers and public agencies will need to reassess project priorities, funding strategies and long-term planning to navigate volatility and shifting market conditions.

Note: This report was generated in June 2025.

U.S. KEY TAKEAWAYS

- Total U.S. engineering and construction spending is forecast to increase by just 1% in 2025, a notable slowdown from the 7% growth recorded in 2024.
- Growth in 2025 is expected to stall primarily due to persistent weakness in the residential sector, driven by ongoing declines in multifamily construction and limited gains in single-family and residential improvements. While both single-family and residential improvement investment is expected to see a modest rebound in activity in 2026, the overall residential sector is expected to remain under pressure over the forecast period due to persistent affordability constraints.
- Nonresidential segments are expected to deliver mixed but resilient performance through 2025 and 2026. Short-term growth will be supported by strength in segments such as office, amusement and recreation, religious, transportation, power, sewage and waste disposal, and water supply. Longer-term growth with be led by lodging, office and water infrastructure, each with a five-year compound annual growth rate (CAGR) exceeding 5.5%. Nonbuilding structure investment is forecast to outperform nonresidential buildings over the next five years, driven by a mix of public and private infrastructure-focused needs.
- The latest Nonresidential Construction Index (NRCI) improved to 49.8 from the previous quarter's 43.5, signaling a rebound in contractor sentiment. This optimism reflects greater confidence in both economic and business conditions compared to last quarter, supported by stronger backlogs and improved construction outlooks. However, the index remains just below the neutral threshold of 50, suggesting stabilization rather than expansion of future engineering and construction opportunities.

UNITED STATES 2025 SEGMENT PERFORMANCE

2024/2025 COMPARISON

UP
5% or more

Religious
Amusement and Recreation
Sewage and Waste Disposal
Water Supply

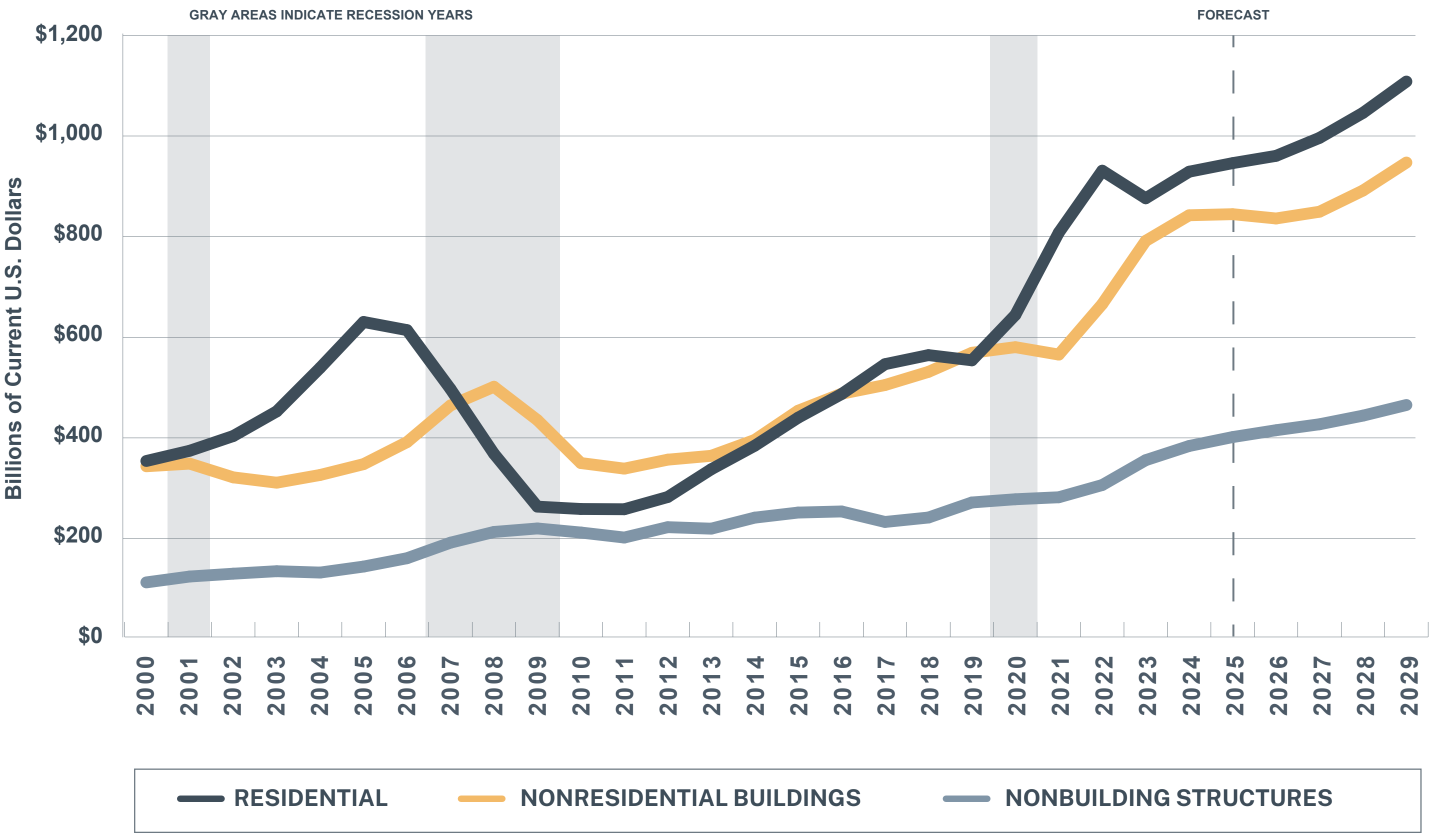
STABLE
0% to 4%

Single-family
Residential Improvements
Office
Health Care
Educational
Public Safety
Transportation
Communication
Power
Highway and Street

DOWN
Under 0%

Multifamily
Lodging
Commercial
Manufacturing
Conservation and Development

CONSTRUCTION SPENDING PUT IN PLACE
ESTIMATED FOR THE UNITED STATES

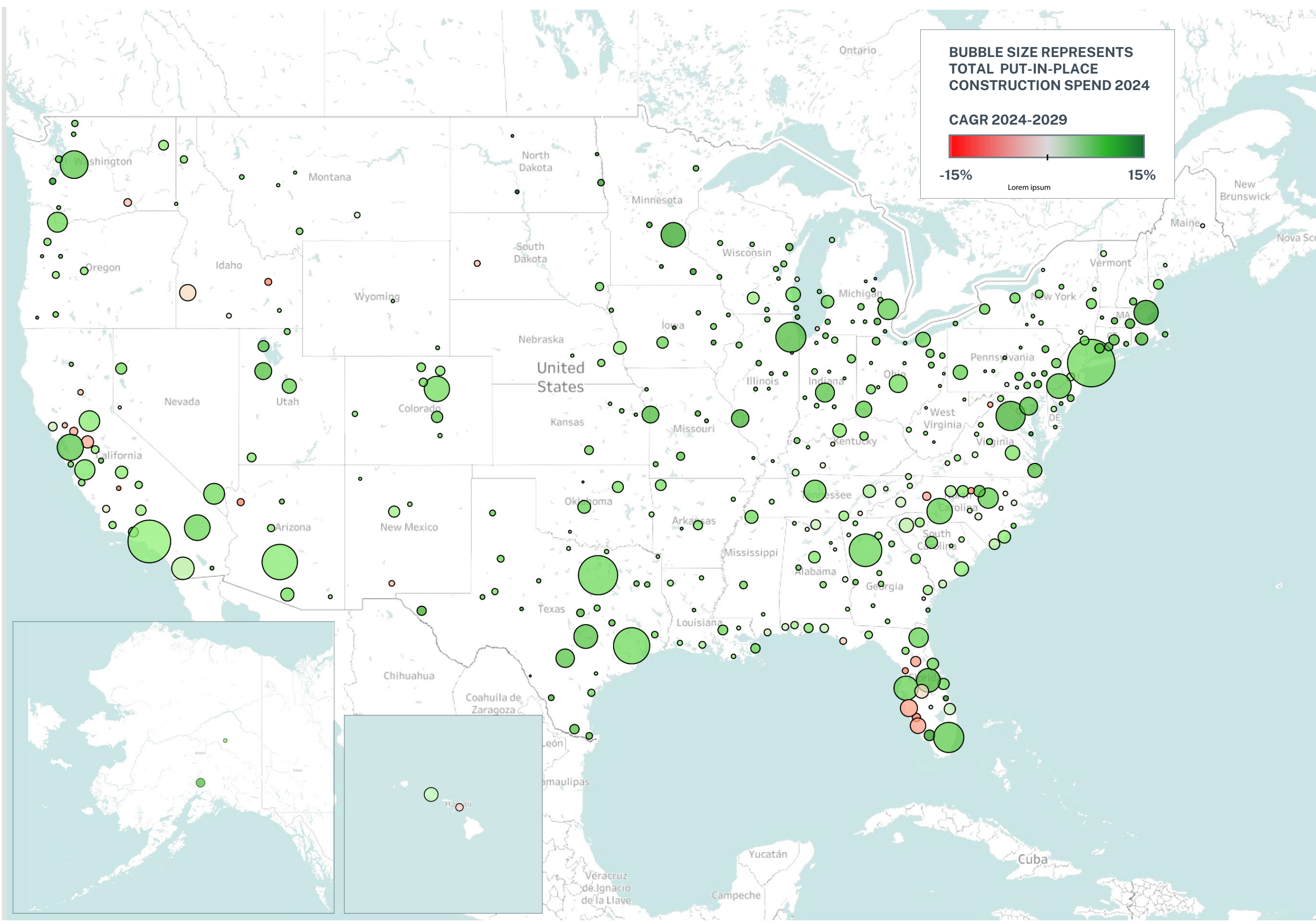


SOURCE: FMI FORECAST Q3 2025

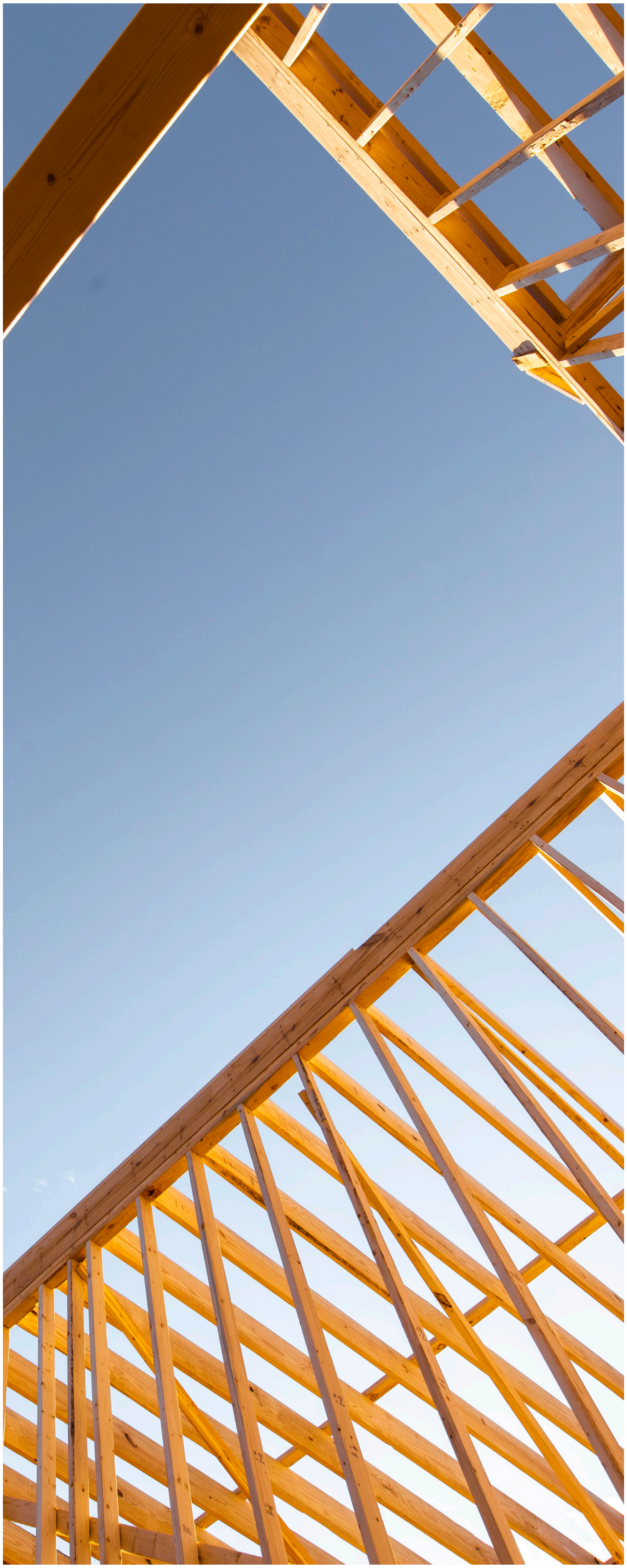
Third quarter forecast based on first quarter 2025 actuals and second quarter assumptions.

HISTORICAL CONSTRUCTION SPENDING PUT IN PLACE

FORECAST GROWTH ACROSS METROPOLITAN STATISTICAL AREAS



SOURCE: FMI FORECAST Q3 2025



RESIDENTIAL CONSTRUCTION PUT IN PLACE

SINGLE-FAMILY RESIDENTIAL

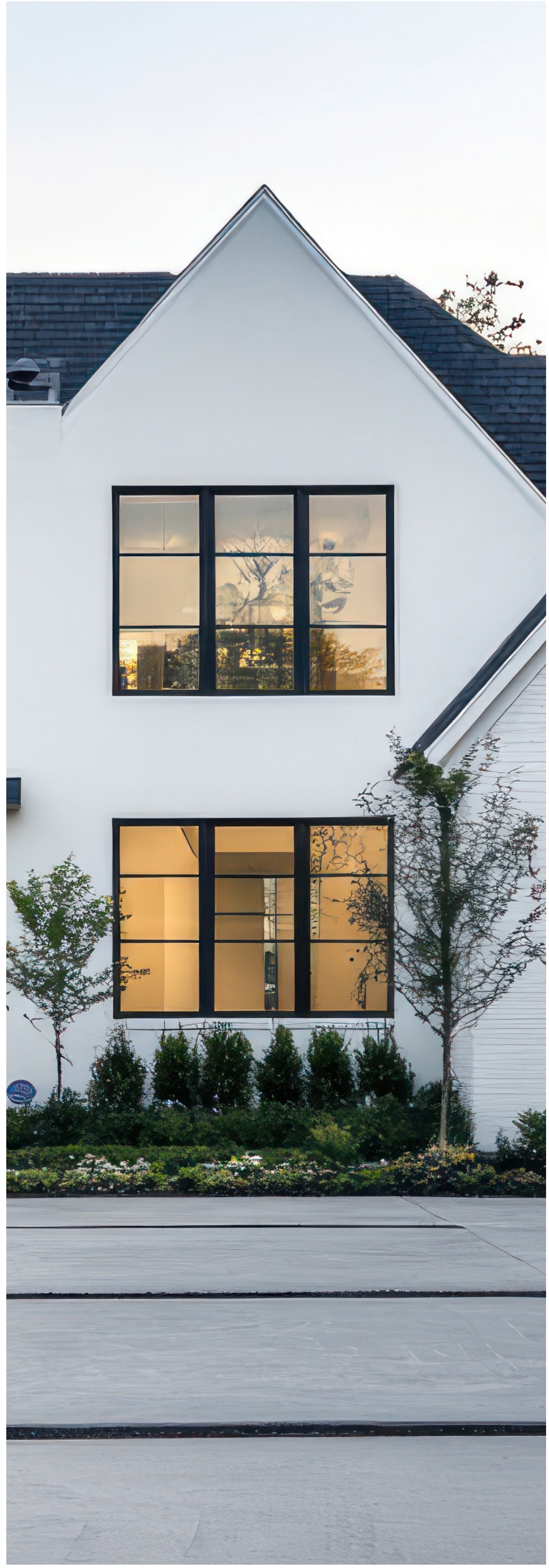
1%

$434 BILLION
2025/2024 Comparison

DRIVERS:
- Unemployment rates
- Core CPI
- Income
- Mortgage rates
- Home prices
- Housing starts
- Housing permits

2026	STA	2%	$441 B
2027	STA	3%	$456 B
2028	STA	4%	$475 B
2029	UP	5%	$500 B

- Monetary policy guidance suggests borrowing rates will remain relatively stable, with 30-year mortgage rates projected to stay between 6% and 7% through 2026. Additionally, tariffs on construction materials and tighter immigration policies are expected to keep construction and replacement costs elevated.
- New home sales in April reached a seasonally adjusted annual rate of 743,000 units, up 3% from a year ago, reflecting steady demand. Sale prices of new homes, however, are down about 2% over the same period, narrowing the gap with existing homes.
- The home price-to-income ratio remains at all-time highs, and rising, at approximately 7.4:1, well above the long-term average, highlighting ongoing affordability challenges despite improving sales activity.
- Builder sentiment remains pessimistic and cautious, with the NAHB Housing Market index at 32 in June. Many builders are relying on incentives to drive sales. Growth is expected to remain moderate and concentrated in lower-cost and disaster-recovery markets.

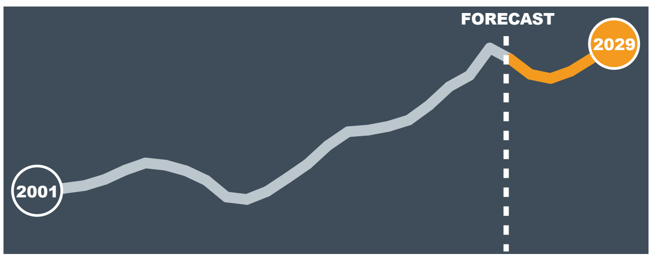


MULTIFAMILY RESIDENTIAL

-9%

$125 BILLION
2025/2024 Comparison

DRIVERS:
- Unemployment rates
- Core CPI
- Income
- Mortgage rates
- Home prices
- Housing starts
- Housing permits



2026	DWN	-3%	$121 B
2027	UP	5%	$127 B
2028	UP	8%	$137 B
2029	UP	9%	$149 B

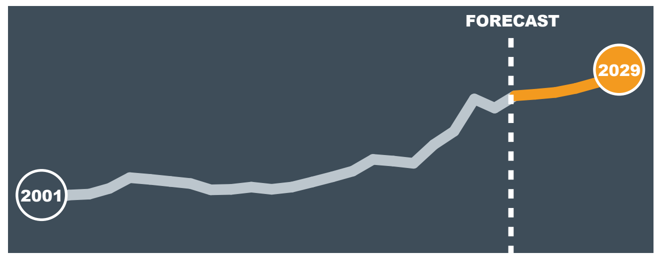
- Developers continue to face elevated replacement and operating costs, including, insurance and materials. At the same time, condo prices have dropped sharply in dense markets such as San Francisco, Seattle and Chicago, reflecting weaker investor demand and ongoing affordability challenges.
- With vacancy rates rising and capital availability limited, new multifamily activity is expected to remain subdued through late 2025 and into 2026, with few new or renovation projects outside of affordable and mixed-use segments.
- NAHB projects multifamily starts will fall to around 349,000 units in 2025, with the steepest declines in the South and West, including markets like Phoenix, Austin and Atlanta, where new supply has outpaced demand.
- Despite near-term softness, the wide and persistent cost gap between owning and renting continues to support long-term demand for rental housing, particularly among younger households and in constrained urban cores.
- Modular construction is expected to gain traction as developers pursue faster, more cost-effective delivery methods in response to labor shortages and rising material costs.

IMPROVEMENTS

1%

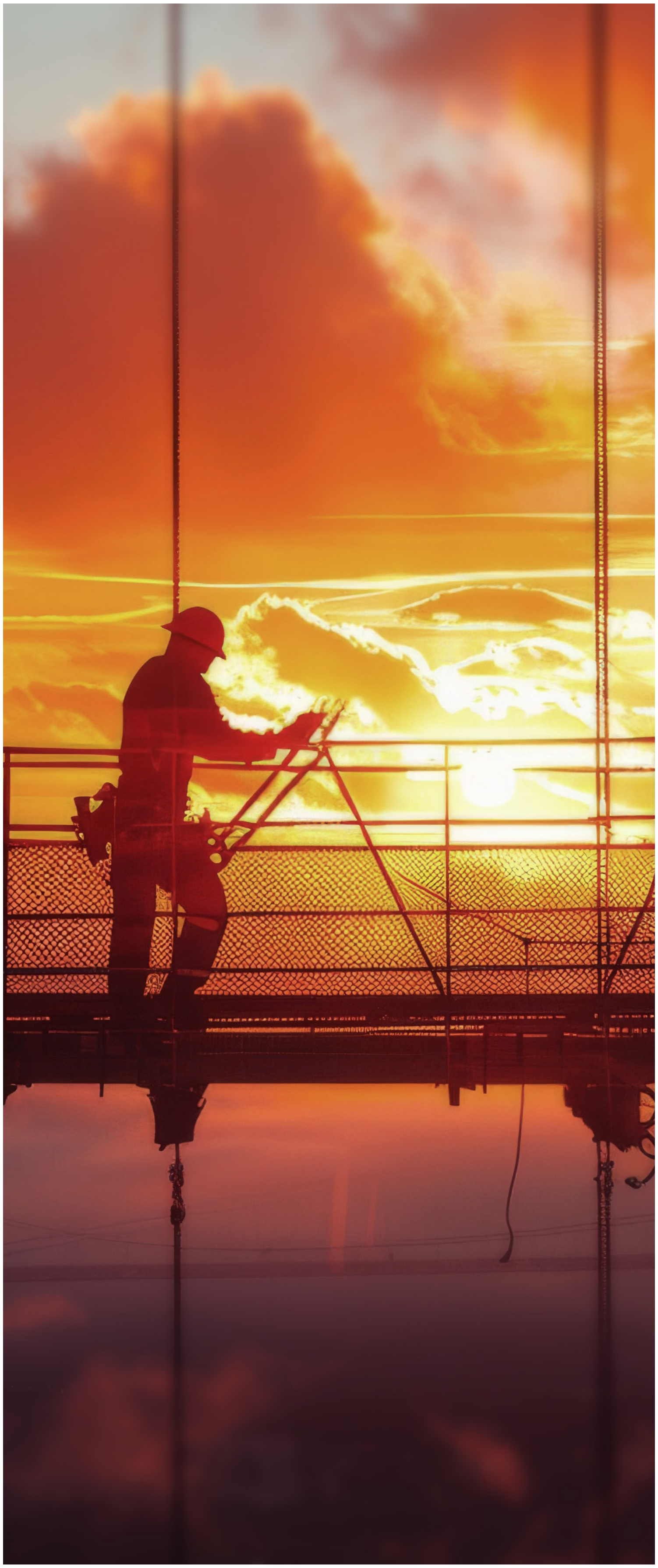
$368 BILLION
2025/2024 Comparison

DRIVERS:
- Unemployment rates
- Core CPI
- Income
- Mortgage rates
- Home prices
- Housing starts
- Housing permits



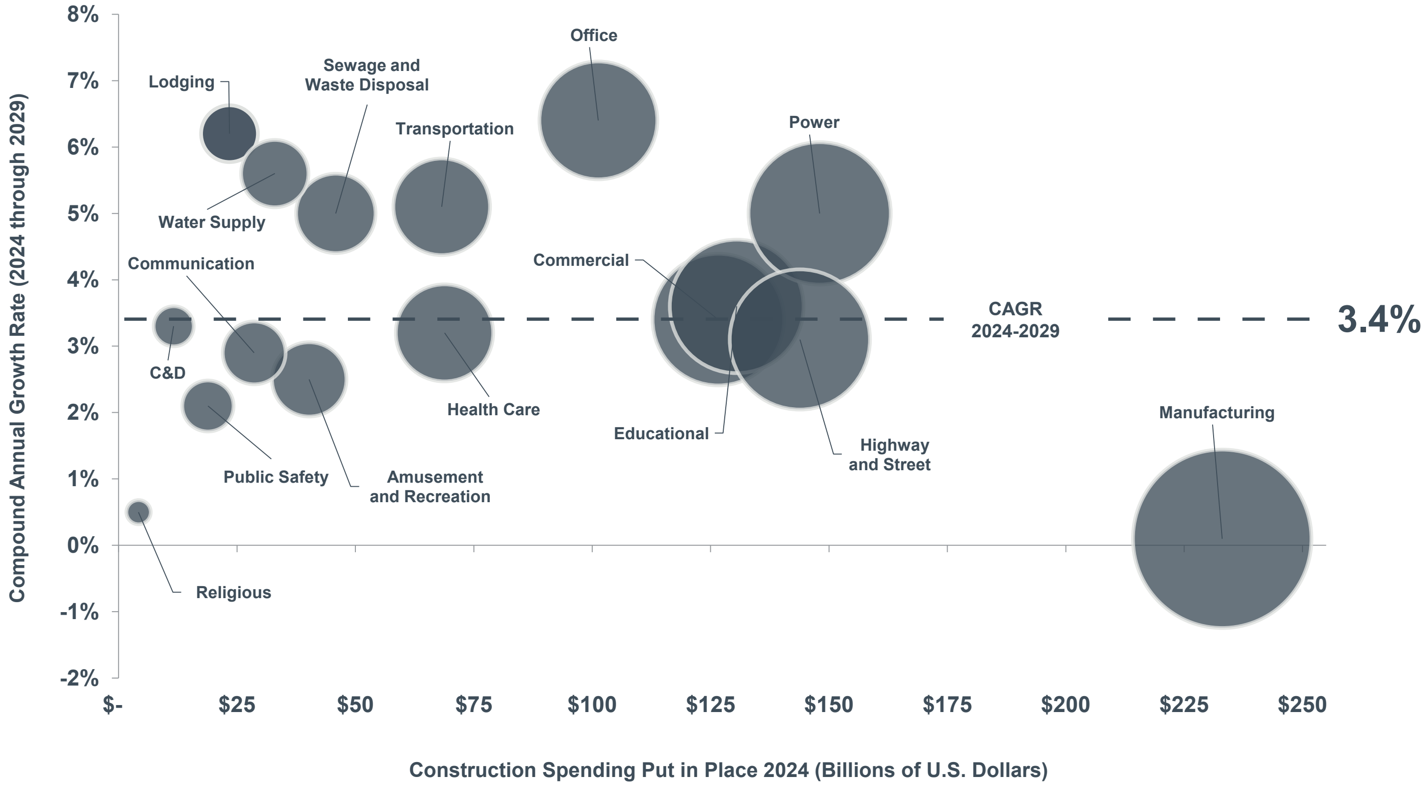
2026	STA	1%	$373 B
2027	STA	3%	$383 B
2028	STA	4%	$398 B
2029	STA	4%	$416 B

- Improvements spending will be supported by record-high home valuations, aging housing stock, demographic demand for multigenerational living and a continued preference for retrofitting over moving in a high-mortgage-rate environment.
- Renovation and improvement projects remain constrained by high labor, materials and borrowing costs in addition to longer project schedules due to ongoing supply chain issues for mechanical systems and finished products.
- Rising insurance premiums and stricter building codes in coastal and disaster-prone areas are prompting more homeowners to invest in resilience-focused exterior upgrades.
- Home Depot and Lowe's both reported in the first quarter that consumers are deferring larger discretionary projects due to cost pressures and high interest rates, while professional contractor sales remain more stable than do-it-yourself activity.
- The outlook for the rest of 2025 calls for modest but steady improvement investment, with activity concentrated in system upgrades, energy efficiency improvements and aging-in-place renovations. After 2026, existing home sales are projected to rebound, supporting a return to more natural and stable demand in the home improvement segment.



NONRESIDENTIAL CONSTRUCTION PUT IN PLACE

NONRESIDENTIAL CONSTRUCTION SPENDING PUT IN PLACE
FORECAST GROWTH BY CONSTRUCTION SEGMENT



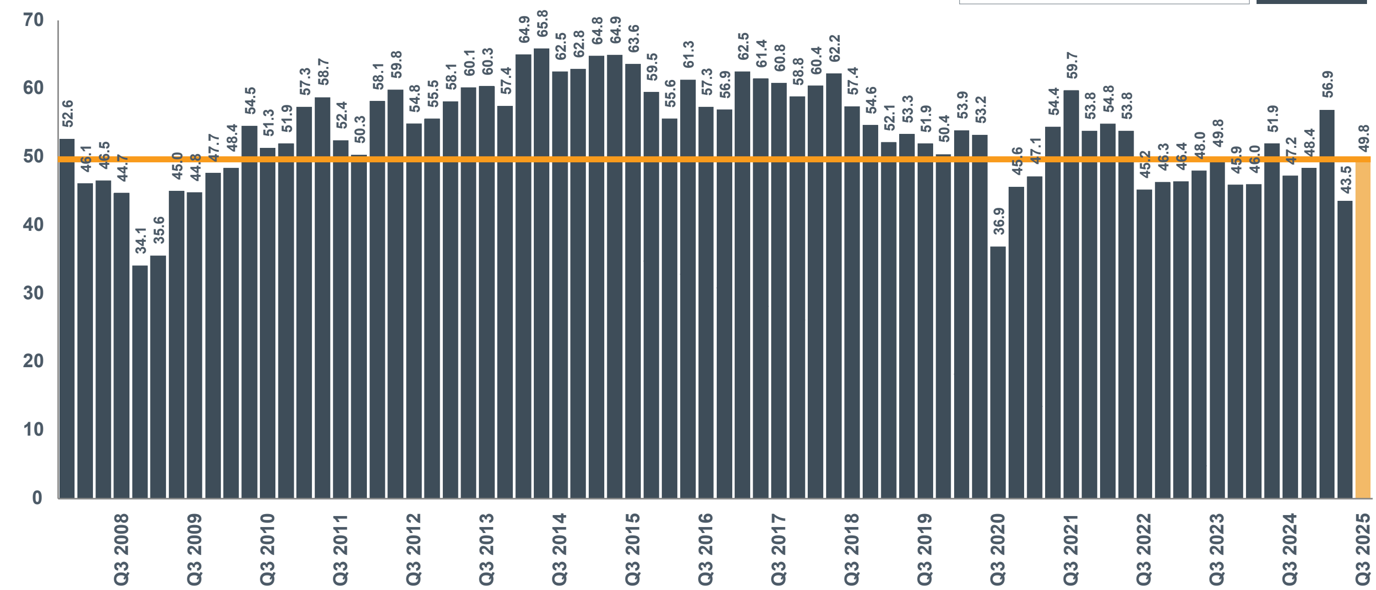
SOURCE: FMI FORECAST Q3 2025

TOTAL NONRESIDENTIAL CONSTRUCTION INDEX (NRCI)

Q4 2007 TO Q3 2025

Scores above 50 indicate expansion; scores below 50 indicate contraction.

Current NRCI Reading for Q3 2025 Survey dates: June 3-20, 2025	**49.8**
Previous Reading March 4-21, 2025	**43.5**

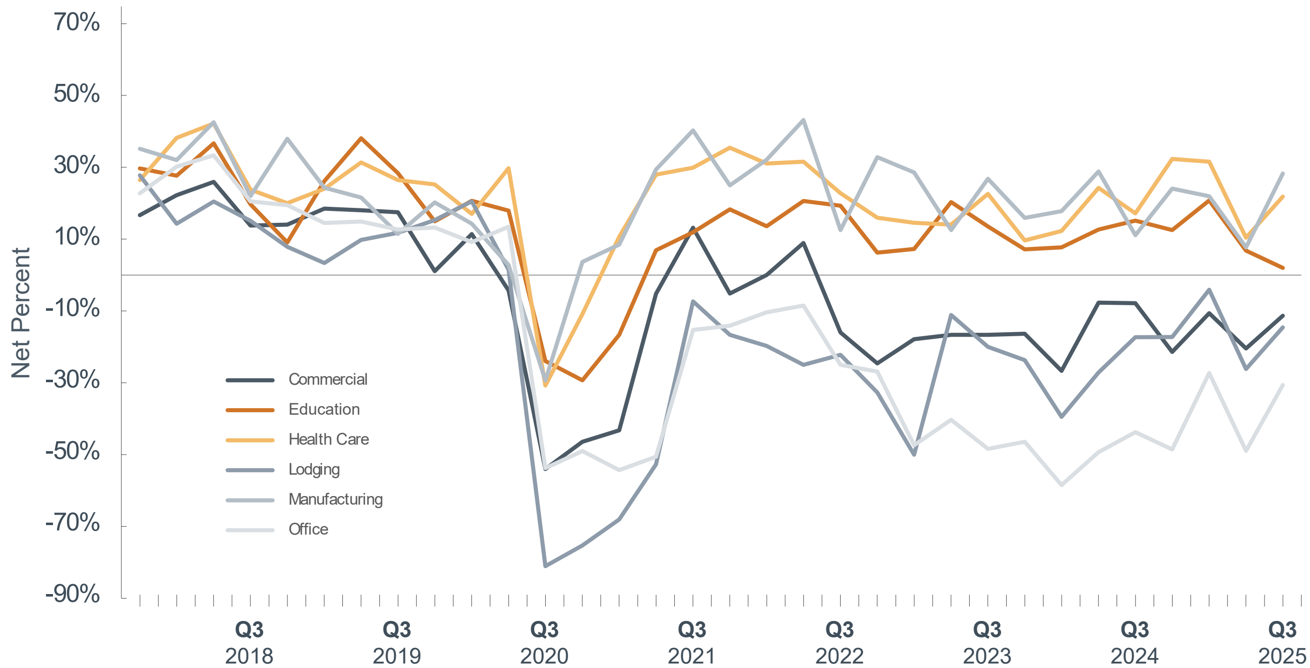


NRCI INDEX MOVEMENT		Q3 2025	Q2 2025
Overall U.S. Economy	↑	47.0	36.1
Economy Where We Do Business	↑	49.2	37.7
Our Engineering and Construction Business	↑	55.4	49.2
Engineering and Construction Where We Do Business	↑	47.7	41.0
Backlog	↑	52.3	45.8
Cost of Materials	↑	22.7	8.2
Cost of Labor	↓	27.3	32.0
Productivity	↑	48.5	45.9

The data in the NRCI is presented as a sampling of construction industry executives voluntarily serving as panelists for this FMI survey. Responses are based on their experience and opinions, and the analysis is based on FMI's interpretation of the aggregated results. See the full NRCI analysis on our website.

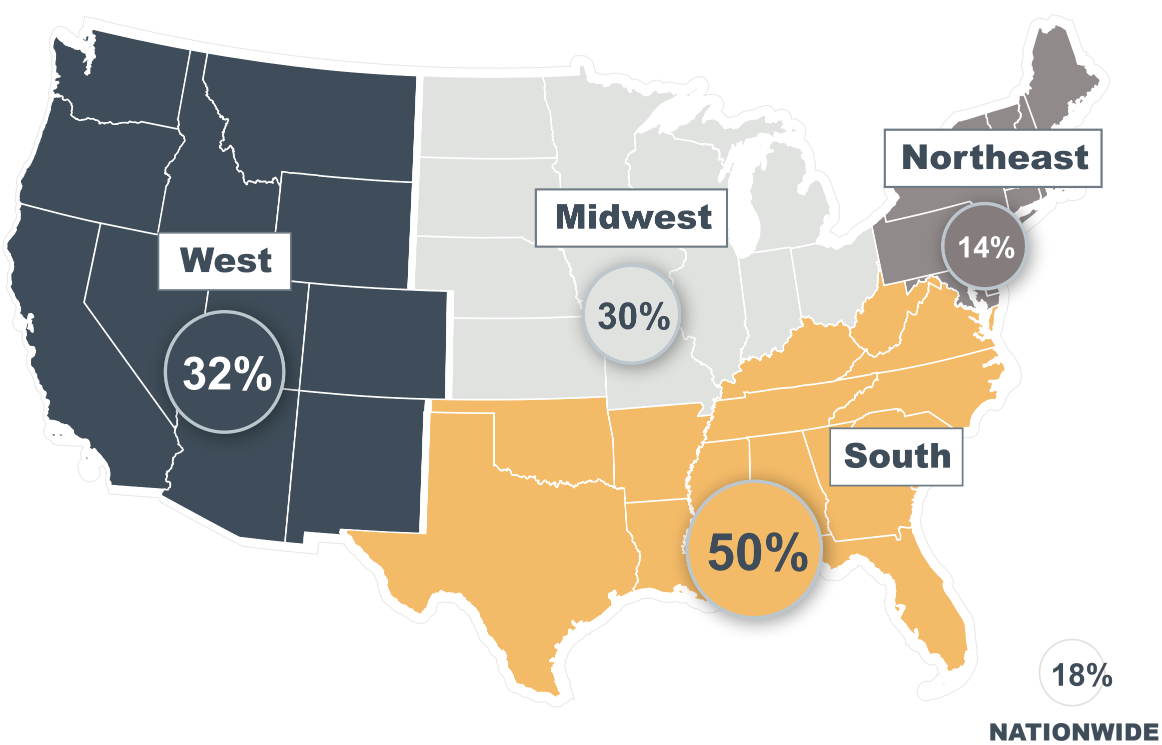
If you are interested in participating in this important industry index, please submit a request via our NRCI Participation Request form.

RESPONDENTS REPORTING IMPROVING SEGMENT CONDITIONS
QUARTER OVER QUARTER



SOURCE: FMI RESEARCH

WHERE SURVEY PARTICIPANTS WORK BY GEOGRAPHY*



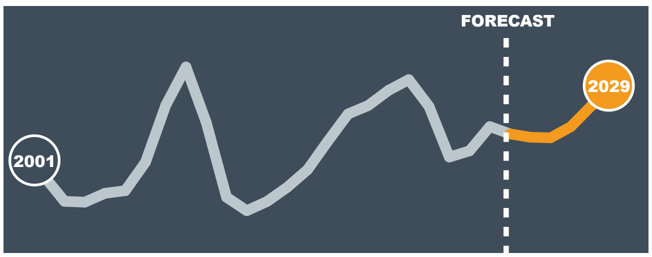
*RESPONDENTS ARE ABLE TO SELECT MORE THAN ONE OPTION.

LODGING

-3%

$23 BILLION
2025/2024 Comparison

DRIVERS:
- Occupancy rates
- RevPAR
- Average daily rates
- Room starts



2026	STA	0%	$23 B
2027	UP	9%	$25 B
2028	UP	15%	$29 B
2029	UP	11%	$32 B

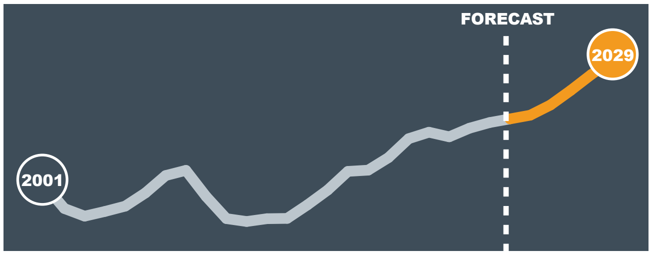
- STR and Tourism Economics recently lowered their forecasts for 2025 and 2026. They now project that hotel occupancy will decrease slightly to 62.8% this year, down from last year's 63%. Other key metrics, including average daily rates and revenue per available room, were also revised to be slightly weaker than the estimates published earlier in January.
- Corporate and group travel demand remain weak, and as a result, new project starts and construction pipelines are expected to stay flat. Most new activity will concentrate in leisure-driven and destination markets led by renovation spending.
- More than 80% of rooms currently under construction are affiliated with chain and large operator brands, reflecting continued consolidation in the development pipeline.
- Industry consolidation is expected to increase as high interest rates, declining property values, maturing debt and tighter consumer budgets increase pressure on hotel owners and operators.

OFFICE

2%

$104 BILLION
2025/2024 Comparison

DRIVERS:
- Office vacancy rates
- Unemployment rates



2026	UP	6%	$110 B
2027	UP	8%	$119 B
2028	UP	8%	$129 B
2029	UP	7%	$138 B

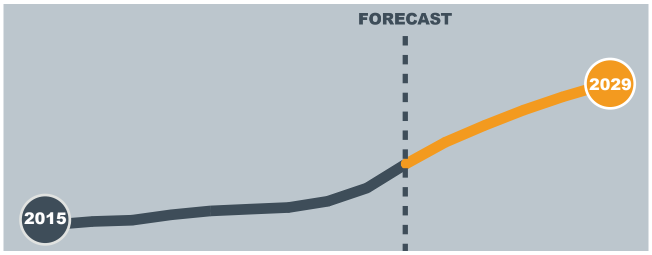
- According to CBRE, in 2025 an estimated 23.3 million square feet of office space will be demolished or converted, surpassing new deliveries for the first time in 25 years. Over 70% of this activity is converting offices to multifamily use, with hotels ranking a distant second.
- The national office vacancy rate reached 19.4% in May, up slightly from the previous year, with limited signs of near-term improvement despite modest improvements in listing rates.
- In late April, Deloitte signed an 800,000-square-foot lease at the planned 70 Hudson Yards tower in Manhattan, marking one of the largest post-pandemic leases and signaling renewed demand in high-end markets.
- Boston continues to lead in active office construction by square footage, driven by life science projects begun during the pandemic. New activity has slowed sharply due to cuts in National Institutes of Health (NIH) funding and a pullback in private capital.
- Office property owners are likely to face continued financial pressure as elevated interest rates, weaker lease renewal activity and rising cap rates weigh on valuations and transaction volumes.

SPECIALTY SUBSEGMENT: DATA CENTER

32%

$38 BILLION
2025/2024 Comparison

Data center spending estimates are a subset of office and are included in office.



2026	UP	19%	$45 B
2027	UP	15%	$51 B
2028	UP	11%	$57 B
2029	UP	9%	$62 B

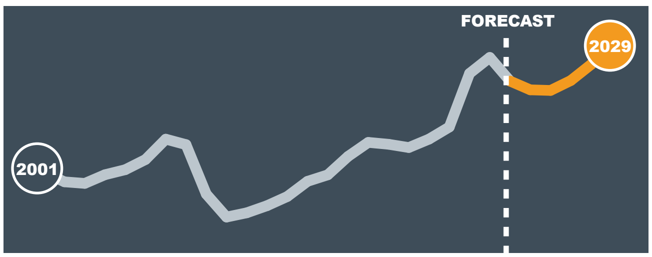
- Although the development pipeline remains active, with several new megaprojects announced in the first half of the year, construction spending data through early 2025 shows growth is slowing from the rapid pace recorded last year.
- The deceleration is partly due to power and labor constraints that are limiting delivery capacity, along with political and trade policy disruptions affecting project pricing and schedules.
- Data center inventory expanded by more than 20% in 2024, with the most active growth in Northern Virginia, Dallas Fort Worth, Silicon Valley, Chicago, Phoenix and Atlanta.
- Investment in secondary and tertiary markets is accelerating as developers seek lower costs for land, power and water to support latency-tolerant workloads. Recent announcements include $7 billion in Google data centers in Iowa; a $14 billion project near Birmingham, Alabama; and a $10 billion Meta campus near Monroe, Louisiana.
- Hyperscale operators such as Microsoft and Amazon continue to build large owner-operated campuses, though both have scaled back leasing activity, signaling possible future softening in the colocation segment.

COMMERCIAL

-4%

$121 BILLION
2025/2024 Comparison

DRIVERS:
- Retail sales
- CPI
- Income
- Home prices
- Housing starts



2026	STA	0%	$121 B
2027	UP	5%	$127 B
2028	UP	8%	$137 B
2029	UP	9%	$150 B

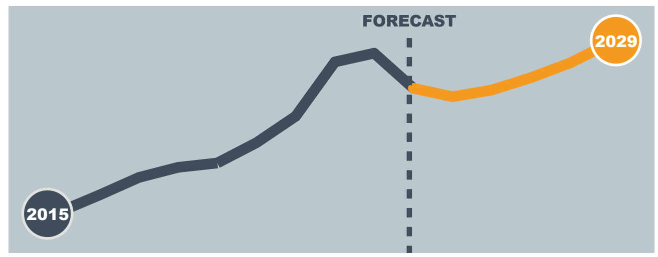
- An estimated 15,000 store closures are projected in 2025, more than double last year's closures, marking the first time in more than a decade that closures will exceed openings.
- Closures and bankruptcies from major chains including Forever 21, Joann, Rite Aid and Big Lots reflect sustained pressure on traditional retailers, driven by rising costs, e-commerce competition and tighter consumer budgets.
- Despite contraction in footprint, brick-and-mortar stores accounted for nearly 85% of total U.S. retail sales in early 2025, with in-store spending rising about 3% year over year. Fit-out costs rose 4% over the same period, driven by labor and material pricing.
- Retailers are investing in artificial intelligence-powered inventory systems, personalization tools, and unified digital and physical platforms to improve engagement and operational efficiency.

SPECIALTY SUBSEGMENT: WAREHOUSE

-5%

$60 BILLION
2025/2024 Comparison

Warehouse spending estimates are a subset of commercial and are included in commercial.



2026	STA	4%	$62 B
2027	UP	7%	$67 B
2028	UP	8%	$72 B
2029	UP	10%	$80 B

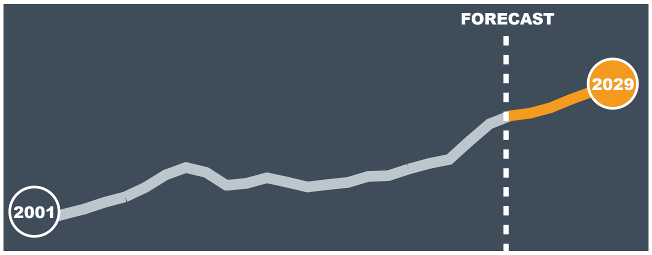
- Cushman and Wakefield expects vacancy rates will continue to rise through 2025, peaking at slightly lower than 8% in 2026 as added supply continues to outpace absorption. Vacancy increased most in secondary logistics hubs, while port and intermodal markets remain more stable.
- More than 61% of the 73 million square feet delivered in the first quarter of 2025 came online without tenants, with speculative construction accounting for 71% of the new supply.
- E-commerce continues to support structural demand despite softening investment. Online sales have grown at an average annual rate of 10.3%, with first quarter 2025 reaching 16.2% of total retail sales. This share of sales is expected to surpass the 2020 peak of 16.4% later this year.
- Demand is rising for warehouse spaces of less than 100,000 square feet, where vacancy remains below 4%. This is fueling the adoption of fractional warehousing, which offers shared space, transactional pricing and flexible scaling based on real-time needs.

HEALTH CARE

2%

$70 BILLION
2025/2024 Comparison

DRIVERS:
- Population change
- Population change ages 75+
- Uninsured population
- Government spending
- Nonresidential structure investment



2026	STA	3%	$72 B
2027	UP	5%	$76 B
2028	STA	4%	$79 B
2029	STA	2%	$81 B

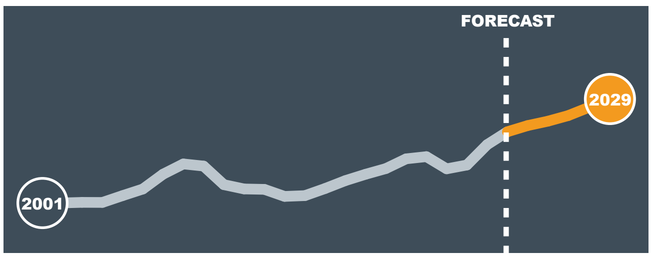
- Growth in 2025 is being led by hospital and specialty care facility investment, while medical office development faces near-term headwinds from economic and political uncertainty, moderating rent growth, rising vacancies and capitalization rates, as well as tighter access to government funding.
- A continued shift from inpatient to outpatient care is reshaping long-term investment priorities, with decentralized facilities such as ambulatory centers, urgent care clinics and neighborhood medical offices leading development in fast-growing suburban markets.
- Recent policy changes including Medicare payment reforms, federal transparency rules and state level disclosure laws are disrupting capital planning. Additionally, the new spending and tax bill is expected to add greater strain on hosptial finances, potentially leading to closures and reduced services.
- Health care facilities are adopting smart technologies such as connected devices, artificial intelligence-enabled systems and touchless operations, while modular construction methods are helping to reduce waste and accelerate delivery.

EDUCATIONAL

4%

$135 BILLION
2025/2024 Comparison

DRIVERS:
- Population change younger than age 18
- Population change ages 18-24
- Stock markets
- Government spending
- Nonresidential structure investment



2026	STA	3%	$139 B
2027	STA	3%	$143 B
2028	STA	4%	$150 B
2029	STA	4%	$156 B

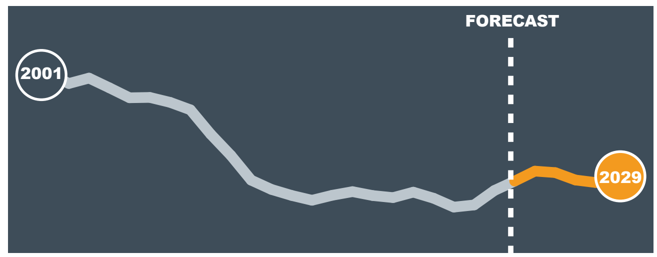
- Public investment remains a key driver of growth in 2025, supported by higher education spending on instructional, dormitory and recreational facilities. Private educational construction declined modestly across both K-12 and higher education.
- Despite long-term needs tied to aging systems and renovation backlogs, capital planning this year is being disrupted by changes at the Department of Education and uncertainty around unallocated Inflation Reduction Act funds.
- The new spending and tax bill eliminates tax credits for school energy upgrades and shifts more nutritional program costs to states, increasing budget pressure and potentially limiting local infrastructure investment.
- In response to the current tax and spending proposals, higher-education institutions are delaying or scaling back capital projects due to increased endowment taxes, reduced federal aid and enrollment uncertainty tied to changes in student loan eligibility.

RELIGIOUS

10%

$5 BILLION
2025/2024 Comparison

DRIVERS:
- GDP
- Population
- Income
- Personal savings



2026	DWN	-1%	$5 B
2027	DWN	-7%	$4 B
2028	DWN	-3%	$4 B
2029	STA	4%	$4 B

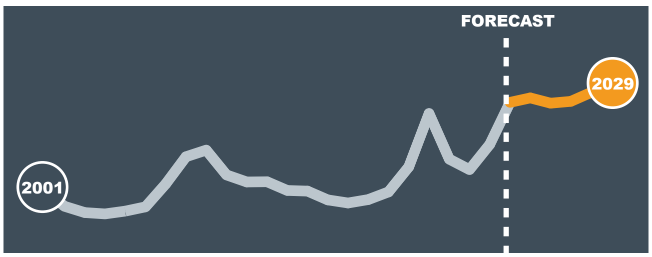
- Growth is being driven by pent-up facility needs and a continued return to in-person engagement.
- Investment is increasingly focused in high-growth regions like Texas and the Southeast, where migration trends are supporting demand, particularly among Hispanic Catholic communities.
- Institutions are moving away from traditional sanctuaries in favor of multipurpose campuses with gathering space, classrooms and integrated technology.
- In slower-growth areas, underused religious properties are being converted into community centers, schools or event venues, while some institutions consolidate or divest to manage financial strain.

PUBLIC SAFETY

2%

$19 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Government spending
- Incarceration rates
- Nonresidential structure investment



2026	DWN	-3%	$19 B
2027	STA	1%	$19 B
2028	UP	5%	$20 B
2029	UP	5%	$21 B

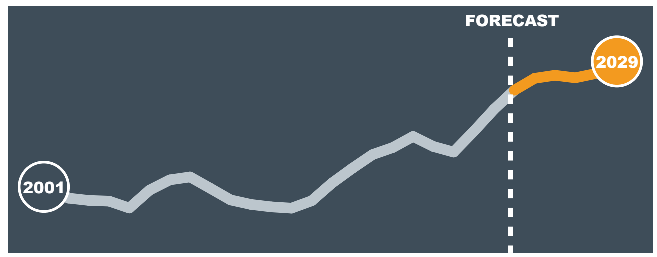
- Illegal border crossings have declined by more than 90% since the inauguration of the new administration, shifting attention toward construction and modernization of existing security infrastructure.
- In June, U.S. Customs and Border Protection awarded a second border wall contract worth $309 million for construction near Tucson, Arizona, with environmental requirements waived to expedite the project.
- Federal prison officials recently visited Alcatraz, which has been closed for more than 60 years, to conduct assessments following President Trump's declared intention to rebuild and reopen the facility.
- Increased privatization of corrections infrastructure is expected, with future public safety construction likely to shift toward facility upgrades and leased space rather than new ground-up development.

AMUSEMENT AND RECREATION

6%

$43 BILLION
2025/2024 Comparison

DRIVERS:
- Income
- Personal savings rates
- Unemployment rates
- Employment



2026	STA	2%	$43 B
2027	DWN	-1%	$43 B
2028	STA	2%	$44 B
2029	STA	4%	$46 B

- Rising labor and material costs, inflation in leisure equipment and elevated insurance premiums are beginning to limit the scale and complexity of new entertainment projects.
- Investment in the sports and entertainment submarket remains strong, supported by major global events such as Formula One, the FIFA World Cup and the 2028 Olympics, as well as demand for technology-enabled venues and modernized meeting spaces with integrated systems.
- As of 2024, public spending accounts for more than half of total investment in the segment, a trend expected to continue into 2026. In the second half of the year, investments are likely to focus on legacy site upgrades, accessibility improvements and smaller-scale family and community venues rather than large-format developments.

TRANSPORTATION

4%

$71 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Government spending
- Transportation funding

2026	STA	4%	$74 B
2027	UP	6%	$79 B
2028	UP	6%	$83 B
2029	UP	5%	$87 B

- Public spending, which makes up approximately two-thirds of transportation investment, is leading 2025 growth, driven by air terminals and port infrastructure.
- Public and private sector investment is expected to grow steadily over the forecast period, to meet rising industrial and supply chain demands. Recent labor strikes underscored infrastructure vulnerabilities, accelerating efforts to improve automation, resiliency and operational efficiency.
- In June, the Trump administration approved a $10 billion project to construct a 165-mile elevated autonomous freight railway between Laredo, Texas, and Monterrey, Mexico, to improve cross-border logistics.
- The current spending and tax bill includes $12.5 billion to modernize the Federal Aviation Administration's air traffic control systems and more than $21 billion to recapitalize U.S. Coast Guard assets and build new support facilities.

COMMUNICATION

2%

$29 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Security and regulation standards
- Private investment
- Innovation and technology investment

2026	STA	2%	$30 B
2027	STA	3%	$31 B
2028	STA	4%	$32 B
2029	STA	4%	$33 B

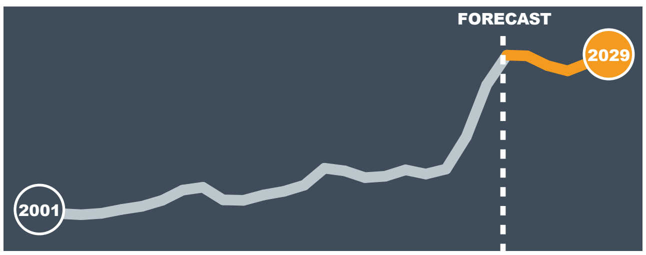
- Rising demand for communication infrastructure is being driven by continued investment in data centers, manufacturing, transportation and logistics, along with increasing connectivity across devices and systems.
- Changes to the Broadband Equity, Access and Deployment (BEAD) program expand eligibility for satellite internet providers, potentially shifting funding away from traditional fiber-based infrastructure.
- The recently passed spending and tax bill adds $500 million to the BEAD program, favoring satellite providers such as Starlink, while also linking the funds to a 10-year moratorium on state-level AI regulations.

MANUFACTURING

0%

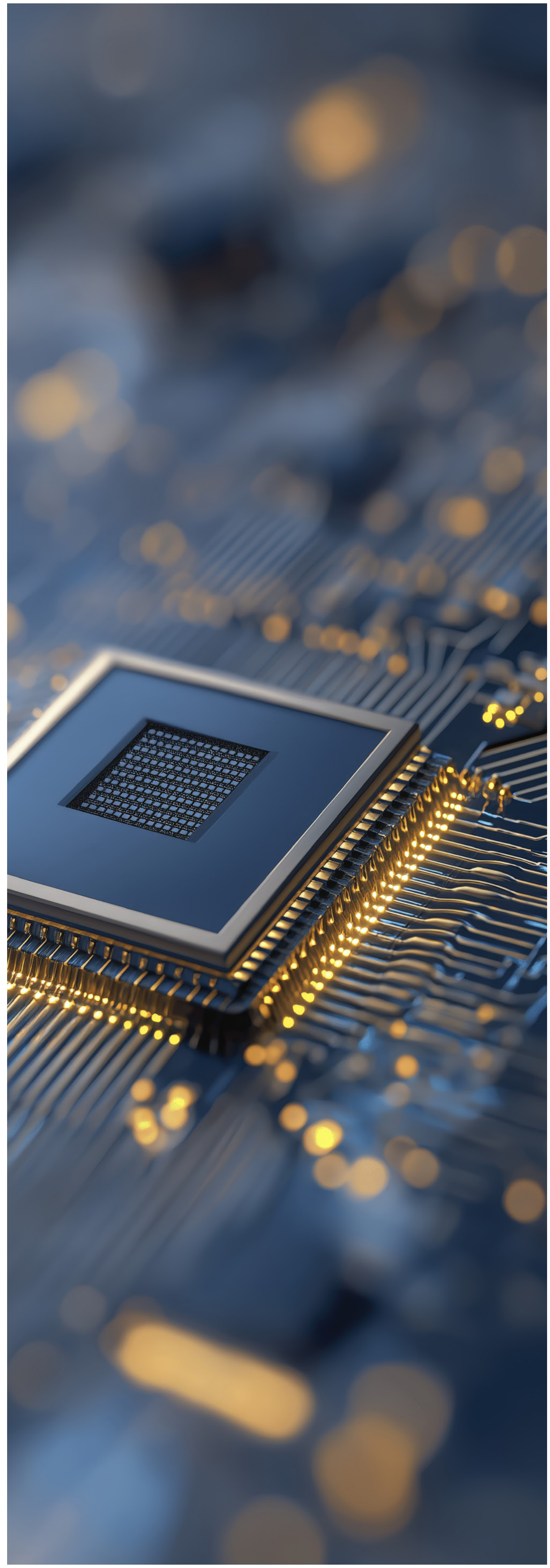
$232 BILLION
2025/2024 Comparison

DRIVERS:
- PMI
- Industrial production
- Capacity utilization
- Durable goods orders
- Manufacturing inventories



2026	DWN	-6%	$219 B
2027	DWN	-3%	$212 B
2028	UP	5%	$223 B
2029	UP	5%	$234 B

- Manufacturing construction spending is expected to plateau in 2025 and decline slightly over the next few years, driven by a slowdown in project starts, particularly tied to the timing of major semiconductor investments.
- Tariffs and shifting trade dynamics are expected to spur a new wave of domestic manufacturing projects. Recent megaproject announcements include major investments by J&J, Merck, Clarios, Hyundai Steel, TSMC and GE Aerospace.
- New tax incentives, permitting reforms and workforce training provisions are expected to support long-term manufacturing growth, particularly in advanced sectors such as pharmaceuticals, defense and electronics.
- Conversely, the rollback of clean energy incentives will add new cost pressures for manufacturers planning to integrate solar or battery systems. Similarly, planned manufacturing investments in battery, electric vehicles and renewable power technologies will likely also be disrupted by the new spending priorities.
- The segment continues to show resilience, with the S&P U.S. Manufacturing Purchasing Managers' Index rising to 52.3 in May 2025, signaling improving business conditions and modest expansion.



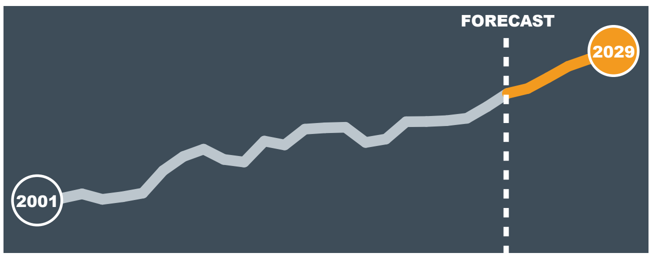
NONBUILDING STRUCTURES CONSTRUCTION PUT IN PLACE

POWER

3%

$153 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Industrial production
- Government spending



2026	UP	8%	$165 B
2027	UP	7%	$177 B
2028	STA	4%	$184 B
2029	STA	2%	$189 B

- Utilities are raising capital investment to meet growing electricity demand from data centers, new manufacturing facilities and the growing adoption of electric vehicles.
- The newly passed tax bill introduces tax incentives and permitting reforms aimed at long-term growth in energy capacity and grid modernization. However, it also rolls back clean energy incentives. The rollbacks, along with new tariffs, contributed to $14 billion in delayed or cancelled renewable energy projects so far this year.
- The Grain Belt Express, an 800-mile transmission line developed by Invenergy, awarded nearly $2 billion in contracts to Quanta Services and Kiewit in May. Once complete, it will add 5,000 megawatts of capacity across Kansas, Missouri, Illinois and Indiana.
- Federal contracts and private sector partnerships are advancing nuclear development, including domestic uranium production, small modular reactor projects and a planned 1 gigawatt plant in New York — the first state-backed facility in more than 15 years.

HIGHWAY AND STREET

2%

$147 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Government spending
- Nonresidential structure investment

2026	STA	2%	$150 B
2027	STA	3%	$154 B
2028	STA	4%	$160 B
2029	UP	5%	$168 B

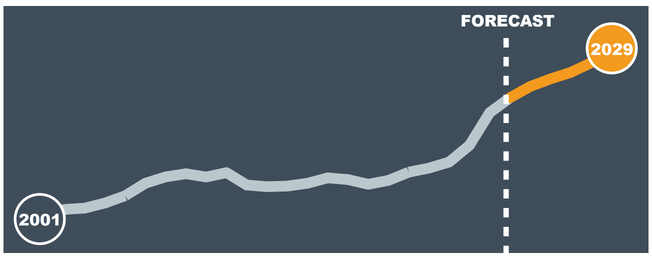
- Programmed highway funding under the Infrastructure Investment and Jobs Act (IIJA) is set to expire in September 2026. As part of the reauthorization process, unspent IIJA funds originally allocated to areas like energy efficiency, renewables and other non-transportation categories are expected to be redirected to road and bridge funding to maintain and expand annual federal funding levels over the forecast period.
- Policy momentum is building ahead of the 2026 reauthorization, with lawmakers and industry leaders calling for reforms to speed up project delivery, streamline permitting and expand the adoption of efficient digital construction methods and tools.
- According to the American Society of Civil Engineers' (ASCE) 2025 report card, roads and bridges represent the largest category of infrastructure needed in the U.S. through 2033, with total requirements slightly less than $3 trillion and a projected funding gap of about $1 trillion.
- In May, the Federal Highway Administration directed more than $5 billion to bridge projects, with more than 80% of the funds targeting repair or replacement of structures in poor condition.

SEWAGE AND WASTE DISPOSAL

7%

$49 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Industrial production
- Government spending



2026	STA	4%	$51 B
2027	STA	3%	$53 B
2028	UP	5%	$55 B
2029	UP	6%	$58 B

- Migration trends, aging infrastructure and the increasing frequency of billion-dollar weather events are driving significant investment in storm cleanup, infrastructure hardening and stormwater management systems.
- ASCE's 2024 report card assigned grades of a D+ for wastewater, D for stormwater and C+ for solid waste. These scores indicate that only about 30% of the nation's sewage and waste disposal capital needs are currently being met.
- The new spending bill includes an 89% reduction to the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF), close to $2.5 billion in cuts. This reduction will significantly limit states' abilities to finance wastewater system upgrades.
- Within the bill, additional cuts to U.S. Department of Agriculture (USDA) rural water programs and potential changes to tax-exempt bond access could further restrict funding for both urban and rural sewage infrastructure projects.

WATER SUPPLY

6%

$35 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Industrial production
- Government spending

2026	STA	4%	$36 B
2027	UP	5%	$38 B
2028	UP	6%	$40 B
2029	UP	7%	$43 B

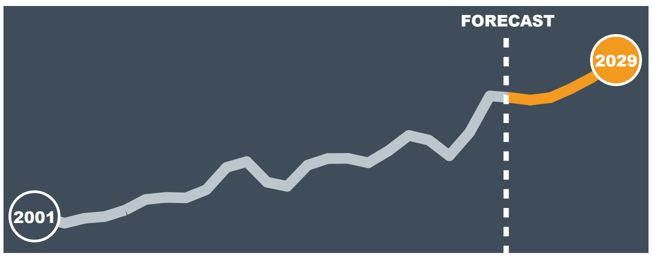
- ASCE's 2024 report card gave the nation's drinking water infrastructure a grade of C-, citing aging systems and rising investment needs. Nearly two-thirds of future funding requirements are tied to water transmission and distribution, with less than 20% related to treatment.
- The Environmental Protection Agency's (EPA) Lead and Copper Rule requires full replacement of all lead service lines within 10 years, with estimated costs between $50 billion and $80 billion. Rising industrial activity is also increasing the focus on source water protection and runoff control.
- Budget cuts under the spending bill include a $2.5 billion reduction to the state revolving funds, a significant 89% cut from 2025 levels. With these programs serving as the primary federal funding source for drinking water projects, reduced support will likely result in major disruptions to near-term projects in planning.

CONSERVATION AND DEVELOPMENT

-1%

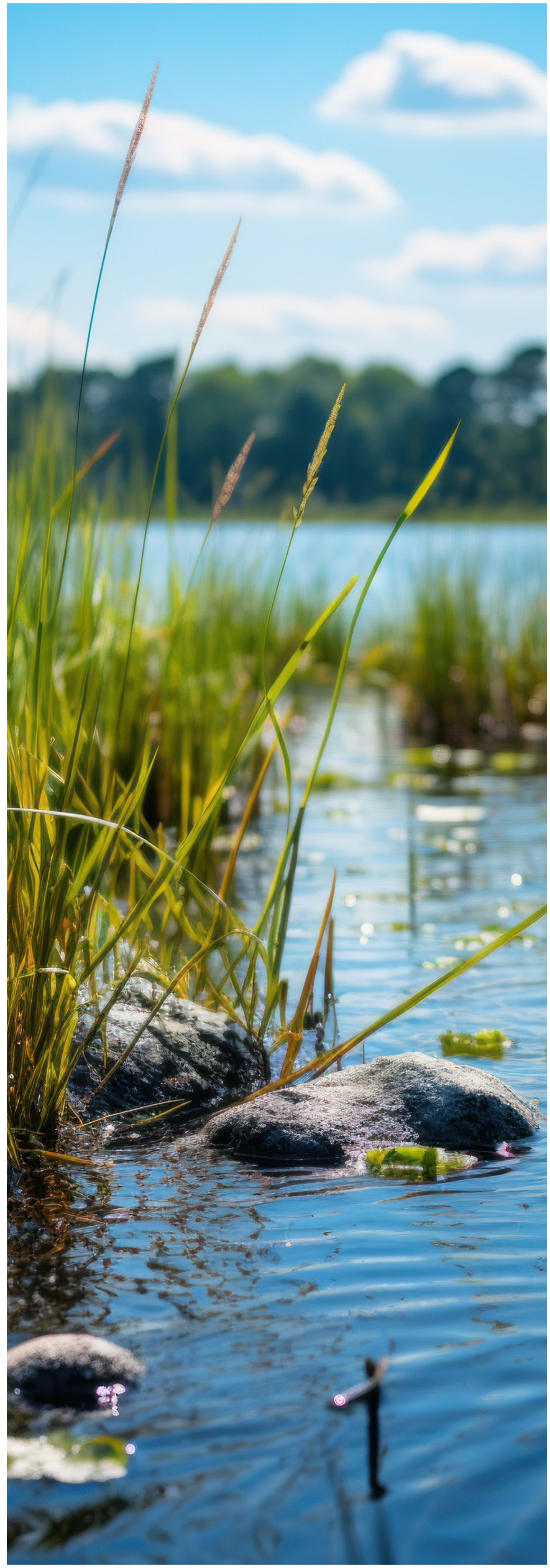
$11 BILLION
2025/2024 Comparison

DRIVERS:
- Population
- Government spending



2026	STA	1%	$12 B
2027	UP	5%	$12 B
2028	UP	6%	$13 B
2029	UP	6%	$14 B

- Planned funding from the Harbor Maintenance Trust Fund, the U.S. Army Corps of Engineers' civil works program and the IIJA will continue to drive investment over the next several years.
- The U.S. Army Corps of Engineers' civil works work plan in 2025 budgets nearly $9 billion, one of the biggest in the program's history.
- The new tax and spending bill has significant investments in conservation and development, including just more than $27 billion for USDA conservation programs and collaborative partnerships focused on supporting America's farms, ranches and private forests.
- Ongoing regulatory changes at the EPA will streamline permitting processes and reduce compliance costs for future infrastructure projects involving dams, levees, dredging and erosion control.



Construction Put in Place Estimated for the United States

Millions of Current Dollars

3rd Quarter 2025 Forecast, Based on 1st Quarter 2025 Actuals and 2nd Quarter 2025 Assumptions

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RESIDENTIAL BUILDINGS										
Single-family	310,060	424,491	453,752	400,909	429,737	434,242	441,335	455,630	475,229	500,431
Multifamily	100,089	114,926	123,801	145,587	136,905	124,693	121,384	127,121	137,069	148,806
Improvements*	234,108	269,551	355,215	331,100	363,730	367,658	372,586	383,222	398,195	415,593
Total Residential	**644,257**	**808,968**	**932,768**	**877,596**	**930,372**	**926,593**	**935,305**	**965,973**	**1,010,492**	**1,064,830**
NONRESIDENTIAL BUILDINGS										
Lodging	28,483	19,082	20,236	24,740	23,389	22,764	22,660	24,715	28,540	31,544
Office	92,831	89,902	95,382	98,989	101,297	103,652	110,145	119,423	129,373	138,435
Data Center	9,231	9,947	12,584	18,201	28,464	37,615	44,741	51,251	56,904	61,791
Commercial	89,714	97,394	131,503	141,702	126,633	121,062	120,683	126,988	137,213	149,567
Warehouse	42,810	52,637	72,794	76,037	63,008	59,868	62,360	66,954	72,430	79,693
Health Care	48,599	50,327	58,098	65,429	68,823	69,949	72,245	75,798	78,923	80,550
Educational	110,692	100,988	104,035	120,226	130,500	135,404	138,885	143,336	149,741	155,614
Religious	3,472	3,096	3,187	3,801	4,199	4,622	4,560	4,245	4,138	4,306
Public Safety	17,667	12,826	11,715	14,395	18,852	19,322	18,763	18,955	19,900	20,885
Amusement and Recreation	28,288	27,102	31,527	36,203	40,227	42,752	43,393	42,855	43,748	45,610
Transportation	60,734	59,075	60,908	65,246	68,229	70,961	74,136	78,556	83,073	87,494
Communication	23,876	23,091	24,366	28,004	28,615	29,050	29,722	30,546	31,659	32,939
Manufacturing	75,425	82,030	125,025	193,630	233,035	232,174	219,203	212,231	222,730	233,803
Total Nonresidential Buildings	**579,781**	**564,913**	**665,982**	**792,365**	**843,799**	**851,712**	**854,394**	**877,648**	**929,038**	**980,749**
NONBUILDING STRUCTURES										
Power	118,168	119,108	121,605	134,010	148,026	153,160	164,689	176,729	184,265	188,738
Highway and Street	102,321	103,381	115,655	138,060	143,858	147,426	149,961	153,930	160,337	167,624
Sewage and Waste Disposal	27,189	28,811	33,246	41,912	45,854	48,836	50,849	52,570	55,101	58,492
Water Supply	18,952	20,284	24,056	27,999	32,973	34,789	36,240	37,980	40,388	43,211
Conservation and Development	8,903	7,911	9,392	11,719	11,617	11,455	11,614	12,179	12,859	13,653
Total Nonbuilding Structures	**275,533**	**279,495**	**303,954**	**353,700**	**382,328**	**395,666**	**413,353**	**433,388**	**452,950**	**471,718**
Total Put in Place	**$1,499,571**	**$1,653,376**	**$1,902,704**	**$2,023,661**	**$2,156,499**	**$2,173,971**	**$2,203,052**	**$2,277,009**	**$2,392,481**	**$2,517,297**

Construction Put in Place Estimated for the United States

Change From Prior Year - Current Dollar Basis

3rd Quarter 2025 Forecast, Based on 1st Quarter 2025 Actuals and 2nd Quarter 2025 Assumptions

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RESIDENTIAL BUILDINGS										
Single-family	11%	37%	7%	-12%	7%	1%	2%	3%	4%	5%
Multifamily	13%	15%	8%	18%	-6%	-9%	-3%	5%	8%	9%
Improvements*	27%	15%	32%	-7%	10%	1%	1%	3%	4%	4%
Total Residential	**16%**	**26%**	**15%**	**-6%**	**6%**	**0%**	**1%**	**3%**	**5%**	**5%**
NONRESIDENTIAL BUILDINGS										
Lodging	-15%	-33%	6%	22%	-5%	-3%	0%	9%	15%	11%
Office	5%	-3%	6%	4%	2%	2%	6%	8%	8%	7%
Data Center	9%	8%	27%	45%	56%	32%	19%	15%	11%	9%
Commercial	6%	9%	35%	8%	-11%	-4%	0%	5%	8%	9%
Warehouse	21%	23%	38%	4%	-17%	-5%	4%	7%	8%	10%
Health Care	5%	4%	15%	13%	5%	2%	3%	5%	4%	2%
Educational	2%	-9%	3%	16%	9%	4%	3%	3%	4%	4%
Religious	-7%	-11%	3%	19%	10%	10%	-1%	-7%	-3%	4%
Public Safety	47%	-27%	-9%	23%	31%	2%	-3%	1%	5%	5%
Amusement and Recreation	-7%	-4%	16%	15%	11%	6%	2%	-1%	2%	4%
Transportation	6%	-3%	3%	7%	5%	4%	4%	6%	6%	5%
Communication	8%	-3%	6%	15%	2%	2%	2%	3%	4%	4%
Manufacturing	-7%	9%	52%	55%	20%	0%	-6%	-3%	5%	5%
Total Nonresidential Buildings	**2%**	**-3%**	**18%**	**19%**	**6%**	**1%**	**0%**	**3%**	**6%**	**6%**
NONBUILDING STRUCTURES										
Power	0%	1%	2%	10%	10%	3%	8%	7%	4%	2%
Highway and Street	3%	1%	12%	19%	4%	2%	2%	3%	4%	5%
Sewage and Waste Disposal	4%	6%	15%	26%	9%	7%	4%	3%	5%	6%
Water Supply	16%	7%	19%	16%	18%	6%	4%	5%	6%	7%
Conservation and Development	-3%	-11%	19%	25%	-1%	-1%	1%	5%	6%	6%
Total Nonbuilding Structures	**2%**	**1%**	**9%**	**16%**	**8%**	**3%**	**4%**	**5%**	**5%**	**4%**
Total Put in Place	**8%**	**10%**	**15%**	**6%**	**7%**	**1%**	**1%**	**3%**	**5%**	**5%**

*Improvements includes additions, alterations and major replacements. It does not include maintenance and repairs.
Data center is a subsegment of office, and warehouse is a subsegment of commercial.

CANADIAN ENGINEERING AND CONSTRUCTION OUTLOOK

CANADIAN KEY TAKEAWAYS

- Total engineering and construction spending for Canada is forecast to end 2025 up 2.2%, after climbing 4.2% in 2024. Softening is due to slowing commercial and residential construction, while nonbuilding structures are expected to remain strong.
- Growth in 2025 will be tempered by a sluggish residential market and private sector investments. Segments expected to be down include single-family, lodging, commercial and religious. Stable segments (growth between 0% and 4%) include multifamily, residential improvements, office, educational, amusement and recreation, communication and manufacturing.
- Health care, public safety, transportation, power, highway and road, water supply, and conservation and development are strong growth segments, with each anticipated to experience 2025 year-end growth rates of more than 5%.
- The Canadian construction industry and economy is in a time of tumult largely attributed the uncertainty in Canada's relationship with the U.S. As a close trading partner, Canada's economy is highly sensitive to U.S. tariff policy and the broader economy. Forecasts from the Bank of Canada suggest a slow 2025 with a possible rebound in 2026.

CANADA 2025 SEGMENT PERFORMANCE
2024/2025 COMPARISON

UP
5% or more

Health Care
Public Safety
Transportation
Power
Highway and Street
Sewage and Water Disposal
Water Supply
Conservation and Development

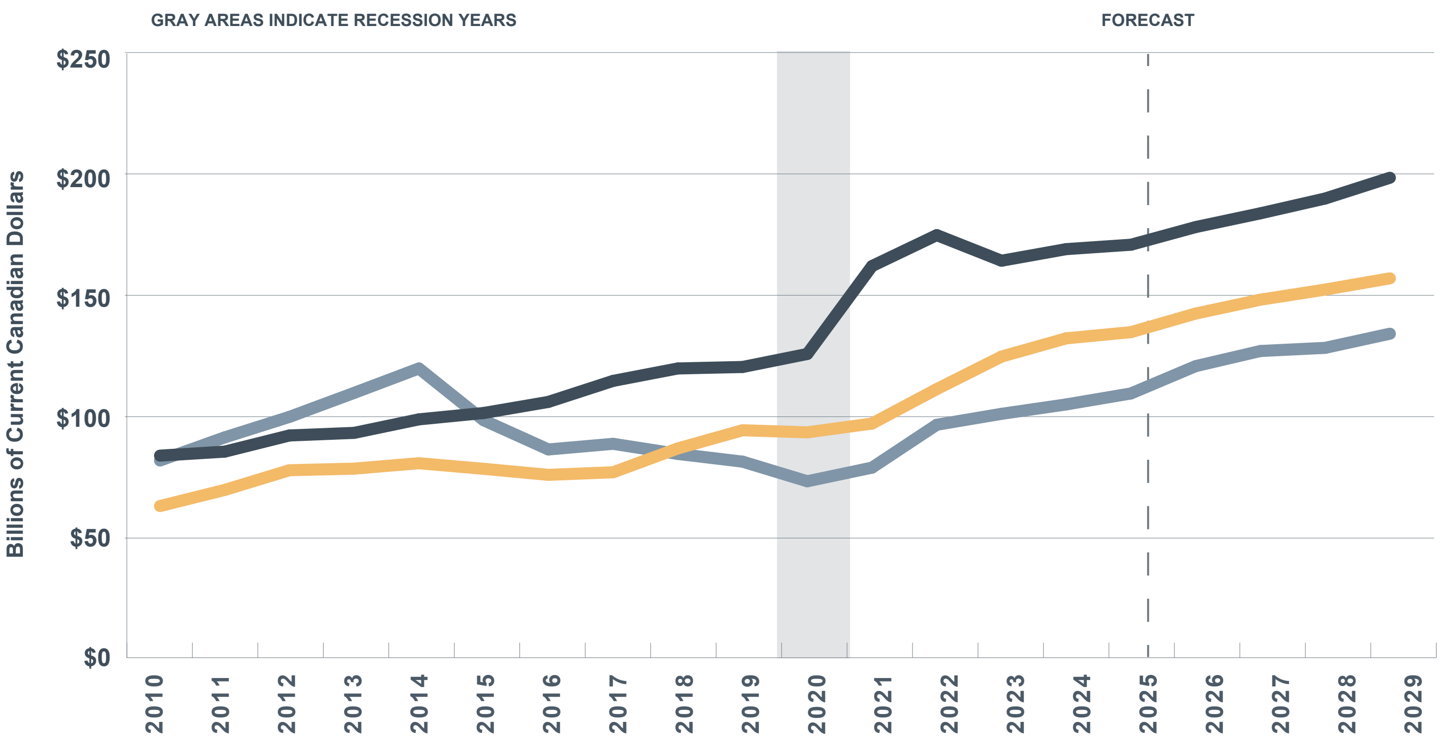
STABLE
0% to 4%

Multifamily
Residential Improvements
Office
Educational
Amusement and Recreation
Communication
Manufacturing

DOWN
Under 0%

Single-family
Lodging
Commercial
Religious

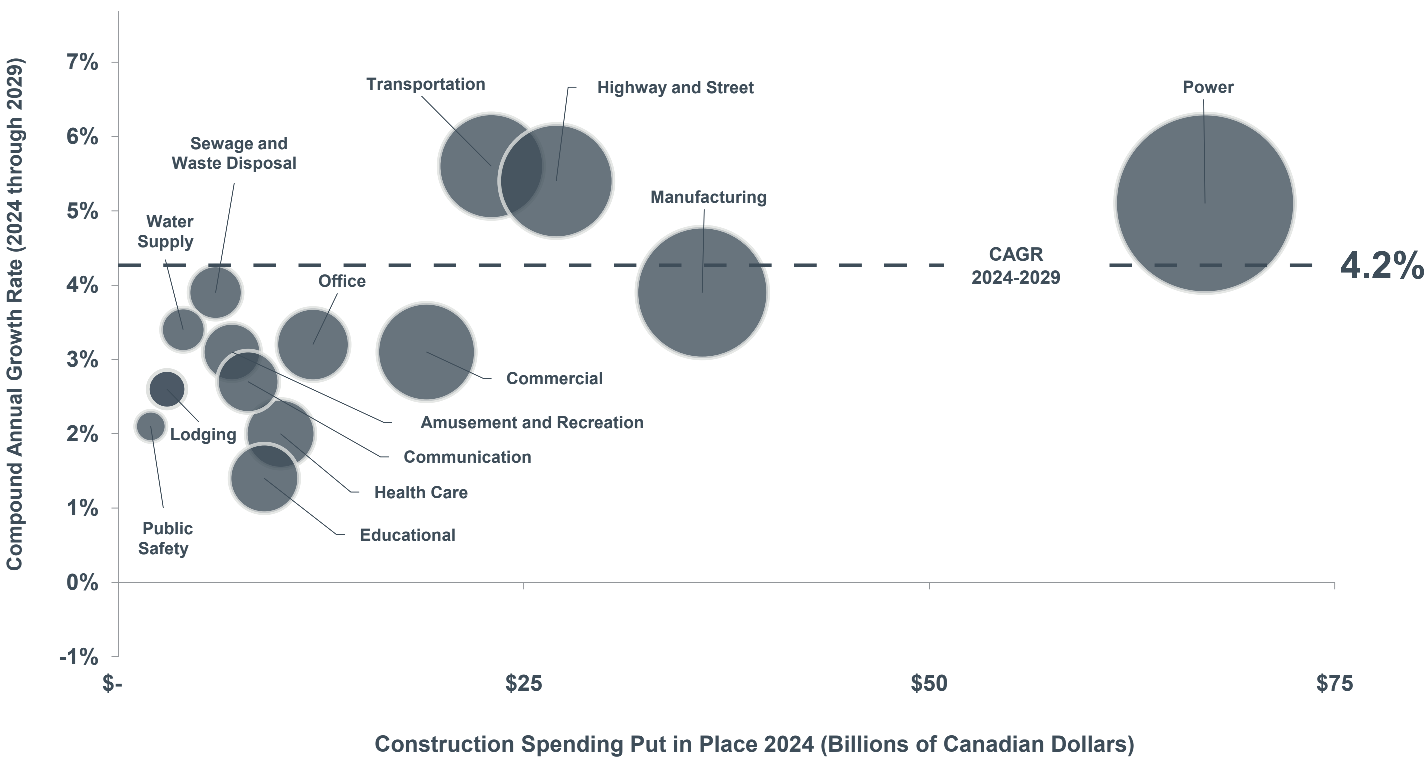
TOTAL CONSTRUCTION SPENDING PUT IN PLACE ESTIMATED FOR CANADA



SOURCE: FMI FORECAST Q3 2025

Third quarter forecast based on first quarter 2025 actuals and second quarter assumptions.

NONRESIDENTIAL CONSTRUCTION SPENDING PUT IN PLACE
FORECAST GROWTH BY CONSTRUCTION SEGMENT



SOURCE: FMI FORECAST Q3 2025

Construction Put in Place Estimated for Canada

Millions of Current Canadian Dollars

3rd Quarter 2025 Forecast, Based on 1st Quarter 2025 Actuals and 2nd Quarter 2025 Assumptions

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RESIDENTIAL BUILDINGS										
Single-family	23,976	34,821	36,364	29,329	29,225	29,016	30,213	30,716	31,765	33,552
Multifamily	38,292	46,199	50,406	52,425	56,744	57,846	60,607	63,655	65,905	68,276
Improvements*	63,083	80,820	87,912	82,299	82,893	83,827	87,203	89,356	92,197	96,656
Total Residential	**125,351**	**161,840**	**174,682**	**164,053**	**168,862**	**170,689**	**178,022**	**183,727**	**189,867**	**198,484**
NONRESIDENTIAL BUILDINGS										
Lodging	2,569	2,634	3,405	3,386	3,483	3,343	3,457	3,685	3,827	3,961
Office	11,674	10,692	11,302	12,002	11,468	11,860	12,507	12,976	13,235	13,435
Commercial	15,013	15,393	19,897	19,785	20,352	19,620	20,733	21,907	22,724	23,652
Health Care	5,756	6,311	7,163	7,996	10,127	10,616	10,932	11,435	11,629	11,189
Educational	6,938	8,004	8,332	8,785	9,555	9,899	10,016	10,194	10,319	10,253
Religious	415	318	312	361	442	432	454	437	386	376
Public Safety	1,753	1,605	1,697	1,802	1,722	1,811	1,839	1,894	1,932	1,913
Amusement and Recreation	4,352	3,983	4,872	6,066	7,325	7,516	7,725	7,964	8,330	8,530
Transportation	16,436	18,077	17,907	22,041	22,969	24,300	26,101	27,395	28,135	30,216
Communication	7,035	7,450	7,573	7,708	7,974	8,172	8,581	8,972	9,005	9,105
Manufacturing	20,883	22,013	28,310	34,329	36,426	36,840	39,784	41,020	42,550	44,111
Total Nonresidential Buildings	**92,824**	**96,481**	**110,771**	**124,261**	**131,842**	**134,408**	**142,130**	**147,878**	**152,072**	**156,739**
NONBUILDING STRUCTURES										
Power	45,348	51,359	65,574	66,032	67,163	69,895	78,293	81,664	81,371	86,247
Highway and Street	19,027	18,940	21,566	25,353	27,424	28,773	30,910	33,522	34,915	35,656
Sewage and Waste Disposal	4,846	4,784	5,207	5,373	5,797	6,034	6,452	6,531	6,725	7,003
Water Supply	3,214	3,047	3,532	3,653	3,935	4,157	4,508	4,619	4,634	4,656
Conservation and Development	81	49	95	93	94	106	141	249	243	198
Total Nonbuilding Structures	**72,516**	**78,179**	**95,974**	**100,504**	**104,413**	**108,964**	**120,303**	**126,584**	**127,888**	**133,760**
Total Put in Place	**$290,690**	**$336,500**	**$381,427**	**$388,818**	**$405,118**	**$414,062**	**$440,455**	**$458,189**	**$469,827**	**$488,984**

Construction Put in Place Estimated for Canada

Change From Prior Year - Current Canadian Dollars

3rd Quarter 2025 Forecast, Based on 1st Quarter 2025 Actuals and 2nd Quarter 2025 Assumptions

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RESIDENTIAL BUILDINGS										
Single-family	4%	45%	4%	-19%	0%	-1%	4%	2%	3%	6%
Multifamily	8%	21%	9%	4%	8%	2%	5%	5%	4%	4%
Improvements*	3%	28%	9%	-6%	1%	1%	4%	2%	3%	5%
Total Residential	**5%**	**29%**	**8%**	**-6%**	**3%**	**1%**	**4%**	**3%**	**3%**	**5%**
NONRESIDENTIAL BUILDINGS										
Lodging	-7%	3%	29%	-1%	3%	-4%	3%	7%	4%	3%
Office	3%	-8%	6%	6%	-4%	3%	5%	4%	2%	2%
Commercial	-7%	3%	29%	-1%	3%	-4%	6%	6%	4%	4%
Health Care	8%	10%	14%	12%	27%	5%	3%	5%	2%	-4%
Educational	3%	15%	4%	5%	9%	4%	1%	2%	1%	-1%
Religious	-7%	-24%	-2%	15%	22%	-2%	5%	-4%	-12%	-3%
Public Safety	3%	-8%	6%	6%	-4%	5%	2%	3%	2%	-1%
Amusement and Recreation	6%	-8%	22%	25%	21%	3%	3%	3%	5%	2%
Transportation	3%	10%	-1%	23%	4%	6%	7%	5%	3%	7%
Communication	16%	6%	2%	2%	3%	2%	5%	5%	0%	1%
Manufacturing	-10%	5%	29%	21%	6%	1%	8%	3%	4%	4%
Total Nonresidential Buildings	**-1%**	**4%**	**15%**	**12%**	**6%**	**2%**	**6%**	**4%**	**3%**	**3%**
NONBUILDING STRUCTURES										
Power	-16%	13%	28%	1%	2%	4%	12%	4%	0%	6%
Highway and Street	3%	0%	14%	18%	8%	5%	7%	8%	4%	2%
Sewage and Waste Disposal	5%	-1%	9%	3%	8%	4%	7%	1%	3%	4%
Water Supply	-7%	-5%	16%	3%	8%	6%	8%	2%	0%	0%
Conservation and Development	-45%	-40%	94%	-2%	1%	12%	34%	76%	-2%	-19%
Total Nonbuilding Structures	**-10%**	**8%**	**23%**	**5%**	**4%**	**4%**	**10%**	**5%**	**1%**	**5%**
Total Put in Place	**-1%**	**16%**	**13%**	**2%**	**4%**	**2%**	**6%**	**4%**	**3%**	**4%**

*Improvements includes additions, alterations and major replacements. It does not include maintenance and repairs.

U.S. Economic and Policy Considerations Assumed in Our Forecast

Our base case assumes recessionary pressures will persist through the second half of 2025, driven by weakening residential construction activity and a softening labor market. These expectations are supported by a range of indicators, including a recently uninverted yield curve, declining real gross domestic product (GDP) in the first quarter, and continued deterioration in housing and residential building and specialty trades employment. The Federal Reserve's ongoing tariff and inflation stance, including its decision to maintain elevated interest rates, reinforces this outlook. As in previous downturns, the construction industry is expected to experience a more prolonged stalled-growth period relative to the broader economy.

Key near-term factors influencing this forecast include both active and anticipated tariff policies, which are delaying private capital investment and increasing input costs. Other contributing elements include labor market weakness, abrupt shifts in immigration policies, changes in short- and long-term Treasury yields, elevated energy and commodity prices, continued volatility in asset prices and global economic headwinds, particularly in China. Constraints on logistics capacity, shortages of materials and skilled labor, and tightening in private credit markets continue to affect project delivery and investment decisions.

Inflation remains a concern, driven in part by a steady stream of tariff revisions and trade policy changes. The Federal Reserve has acknowledged these dynamics and signaled a more cautious approach to rate cuts in 2025 and 2026. As a result, our forecast assumes elevated construction costs will persist across the forecast period.

Labor force participation is slightly lower from this time last year, the unemployment rate has edged slowly higher and construction employment continues to rise. Asset valuations, particularly in equities and real estate, remain vulnerable as markets adjust to sustained high interest rates. Volatility observed in April and its aftermath suggests that equity market disruptions can quickly alter broader economic sentiment.

We also factor in significant policy uncertainty tied to sweeping budget cuts and the restructuring of multiple federal agencies under the current administration and the Department of Government Efficiency. These include proposed reductions to programs such as clean water, renewable energy, health care and education programs. The broader economic environment is further shaped by rapid technological change, including the widespread integration of artificial intelligence, and heightened geopolitical instability in regions such as Ukraine, the Middle East and China. These risks continue to exert downward pressure on growth expectations and increase volatility across all segments of the construction sector.

AUTHORS

BRIAN STRAWBERRY is chief economist at FMI. Brian leads FMI's efforts in market sizing, forecasting, building products and construction material pricing, and consumption trends. He focuses on primary research methods, including the implementation and analysis of surveys and interviews. Brian also leads and manages various external market research engagements and constructs tools and models for efficiently performing high-quality analyses. He can be reached at brian.strawberry@fmicorp.com.

JAY BOWMAN is a partner at FMI. Jay assists a broad range of stakeholders in the architecture, engineering and construction industry. As the leader of FMI's research and analytics practice, he develops data-driven, fact-based market intelligence to bring insights that catalyze exceptional company performance and competitive advantage. The research services he oversees include market sizing, forecasting, buying practices, preferences, competitive behaviors and response. He can be reached at jay.bowman@fmicorp.com.

JACOB MCCANN is a market sizing economist responsible for estimating and forecasting market sizes for construction industry products, geographies and services. He works across FMI's strategy practice to fulfill client engagements as well as on FMI's primary forecasting and research reports.. He can be reached at jacob.mccann@fmicorp.com.

CONTACT US

RALEIGH HEADQUARTERS
223 S. West Street
Suite 1200
Raleigh, NC 27603

919.787.8400

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OFFICES

Denver
44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Tampa
4200 W. Cypress Street
Suite 825
Tampa, FL 33607
813.636.1364

FMICORP.COM