



July 2025

ECONOMIC NEWSLETTER

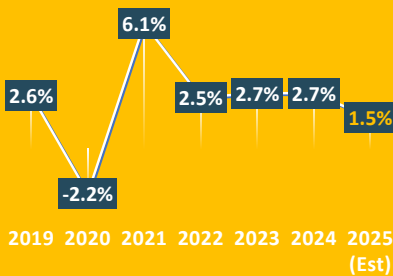
for the Construction Industry



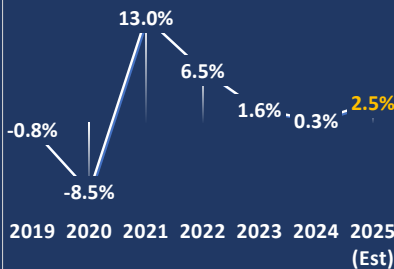
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Selected Indices

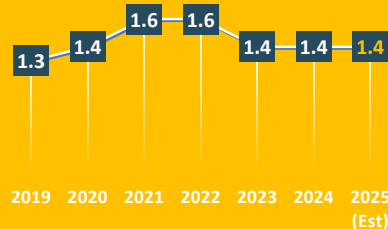
REAL GDP



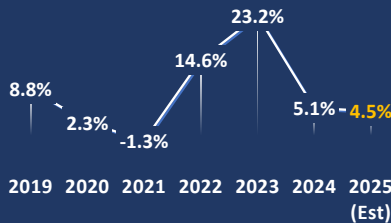
BUSINESS INVESTMENT



NEW HOUSING STARTS (MILLIONS)



NON-RESIDENTIAL CONSTRUCTION



Big Items

Real GDP: The GDP roller coaster has been something to behold. The Q1 numbers fell apart at the end as tariff concerns prompted businesses to load up on imports before expected price hikes. Imports pull away from GDP (Gross DOMESTIC Product) and for a few weeks it looked as if the economy would sink into recession. Q2 reversed that trend as import volumes returned to normal or below. It currently stands around 2.4%. The concern is over Q3 as projections are as low as 1.3% based on dwindling activity on the part of business and the consumer. Construction is a key factor in all this as many projects have been delayed due to price uncertainty.

Raw Material Prices/Availability: No area has been as uncertain as commodity pricing as these have been subject to some extreme tariff threats. Steel and aluminum have seen tariff predictions that have ranged from 50% to 100% (over 100% from some nations). Now Copper has joined the list with the threat of 50% tariffs. There has been an unusual degree of instability as users of these commodities have lobbied hard (and often successfully) for exemptions on select grades or imports from select nations. Steel and aluminum tariffs are at 50% (up from 25%) and copper is expected to follow the same pattern unless there are cutouts and exemptions. The UK already has a deal that lowered the tariff to 25% for steel and aluminum.

Labor Situation / Labor Costs: The latest reading for the Employment Cost Index for construction was 166.9 and grew at a 2.9% annual rate (for those of you that set raises based on the ECI). There has been a bit of decline lately in the ECI as projects have been slowed by tariff induced uncertainty. There are many questions about the role of deportations but the evidence shows that most of those affected are in the low-skilled categories, government layoffs have had minimal impact on construction jobs and activity. The big issue is still an aging demographic and the impact of retirements. There were still 7.7 million jobs open across the country and over 6 million seeking work. The problem is that those seeking work lack the skills and training to take those open construction jobs.

Manufacturing: The latest data has the US reading in the Purchasing Managers' Index was an improvement over the last month – going from 52.0 to 52.9. This puts the US ahead of most of the other nations in the index. Seventeen nations had readings in contraction territory (under 50) and nine of the 30 saw their readings decline. The Canadian reading was 45.6 and Mexico was 46.3, both were in deep contraction. Most of the Asian states are above 50 and most of Europe is under 50. The latest industrial production numbers are up but this has been attributed in part to efforts to beat those threatened August tariff hikes. The capacity utilization numbers have weakened somewhat and remain in the mid-70s (normal is still seen as between 80% and 85%)

Risks

Tariffs: This has begun to sound like a broken record (remember those?). Each month there seems to be a confident assertion that tariff policy will finally settle down but that never seems to happen as tariff negotiations have been about a lot more than economics. There have been talks regarding immigration rules, interdiction of fentanyl, Ukraine war and the Brazilian courts. It has resulted in wild confusion on tariff impact. Copper was not part of the conversation a few weeks ago but the administration wants to put pressure on Brazil – a copper exporter. Steel and aluminum still face tariffs of 50% but some nations have received an exemption. Most of the big tariff imposition has been put off to August but few think this will be the last adjustment.

The business community is also looking at the implications of the recently passed tax bill. There are some major tax breaks for projects. There is a provision for 100% expensing for “qualified production property”. This is aimed at non-residential development for manufacturing and production. The catch is that the projects must begin before January of 2029 and be completed before the end of 2030. This will set off intense competition for labor and materials that are already in short supply.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

Peering Ahead in a Fog - In my misspent youth I engaged in activities that were probably ill-advised. Such as white-water canoe trips when my skill level was not up to the challenge. There is nothing quite so disorienting as hurtling down a raging river with only minimal knowledge of what is ahead. This is how it feels when trying to navigate the current economy (only without the immediate threat of drowning). What can be projected for the remainder of the year and into 2026? Are there any trends that can be counted on? To some degree there are always constants in the economy – reactions that can be generally counted upon but the challenge now is that we are not sure what the triggers will be.

Inflation has been trending lower for the last few years after a surge that corresponds with the pandemic. The rate climbed to as high as 8.0% for a few months and it took several years for the factors driving inflation to fade. For the past year, the rate was dropping ever closer to the level preferred by the Federal Reserve (around 2.0%). That trend is now reversing as inflation is now sitting at 2.7% and that equals the rate set in February of this year. In February, the rate climbed to 2.7% over fears related to the imposition of tariffs and that is what is driving it now. The bottom line is that inflation is very likely to get worse – maybe around 3.0% to 3.5% by year's end. If this rate climbs as expected there will likely be a reaction from the Federal Reserve. A hike in inflation will push the Fed to raise rates rather than lower them.

What does the economic growth situation look like? The Q1 numbers were recessionary and some even went so far as to assert that a full-blown downturn was taking place. By the second quarter these numbers bounced back, and growth was at 2.4% - nearly back to the level at the end of last year. That Q1 decline was largely attributed to a huge influx of imports. The next question is what to expect in Q3 and the news is not good. Most projections are for growth at less than 1.0%. This is attributed to the slowdowns occurring as supply chains are disrupted by the tariff uncertainty. Consumer confidence has also been falling and that is bad timing for the retail sector. CICPAC members are already affected by slowdowns in construction.

This brings us to the supply chain. It was a major problem during the pandemic recession and now we have another crisis as the tariff/trade wars have completely altered the supply chain. Business has been locked in a battle to rethink the way they supply and all of the options have been more complex and expensive. Projects are on hold pending some kind of price stability and there has been no sign of this. Most companies assert they can manage tariffs if they know what they are, but uncertainty has made that management difficult.

A consistent issue for those in construction is workforce. There may be some 6 million people available to hire but the vast majority of them lack the skills needed. This creates project delays as there are chronic labor shortages and there has also been significant wage inflation. This issue will get steadily worse as by 2030 every single Boomer will have reached retirement age, and attrition has already been a factor. Business has been working hard to develop the talent needed but the demand for these trained people has been growing exponentially. Very little attention is devoted to training for the jobs in construction and manufacturing by the general education system.

One last trend to think about is the mood and attitude of the consumer. The level of consumer confidence is lower than it has been in many years but consumer attitude can swing radically from one week to the next based on the latest news and reports. The message from the media is generally downbeat – inflation threats, tariff threats, hints of unemployment. The consumer worries and generally that makes them frugal – not what the retailers want to hear at this point in the year. Will the consumer mood improve? That is anybody's guess at this point.

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Regional MSA Construction Potential Index

The following section shows the Construction Potential Index developed by Armada in conjunction with Pioneer IQ for the largest Metropolitan Statistical Areas (MSAs) in the country. This index measures growth potential and construction spending per capita to create a construction potential index. The score itself is not as important as the index in relation to all other markets, which is important in understanding and the index incorporates both residential and nonresidential construction potential. Q3 data is the latest available.

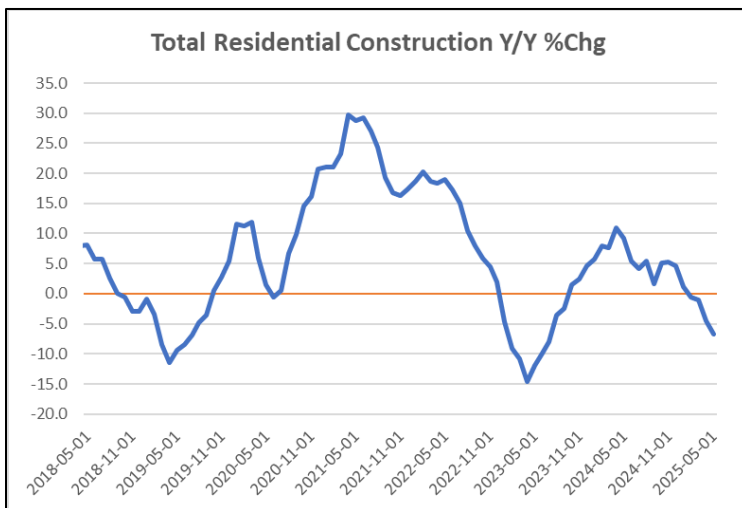
Rank	MSA	Construction Scoring System	Change in Gross Construction GDP		BEA Region
		Construction Potential Score	Q1 2025 Q/Q Change in Gross Construction GDP	Q1 2025 Y/Y Change in Gross Construction GDP	
1	Dallas-Fort Worth-Arlington, TX	2784.6	1.3%	6.5%	SW
2	Houston-The Woodlands-Sugar Land, TX	2586.5	1.3%	6.5%	SW
3	New York-Newark-Jersey City, NY-NJ-PA	2521.9	0.3%	2.8%	ME
4	Chicago-Naperville-Elgin, IL-IN-WI	2514.2	-0.2%	3.1%	GL
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	2362.1	0.2%	3.4%	ME
6	Los Angeles-Long Beach-Anaheim, CA	2175.5	0.2%	1.5%	FW
7	Phoenix-Mesa-Scottsdale, AZ	1907.8	0.5%	3.0%	SW
8	Atlanta-Sandy Springs-Roswell, GA	1696.6	0.2%	0.0%	SE
9	Miami-Fort Lauderdale-West Palm Beach, FL	1539.6	1.1%	6.9%	SE
10	San Francisco-Oakland-Hayward, CA	1425.2	0.2%	1.5%	FW
11	Seattle-Tacoma-Bellevue, WA	1314.0	-1.7%	1.5%	FW
12	Minneapolis-St. Paul-Bloomington, MN-WI	1251.6	1.2%	4.3%	GL
13	Boston-Cambridge-Newton, MA-NH	1231.2	0.1%	2.7%	NE
14	Denver-Aurora-Lakewood, CO	1101.6	-0.5%	2.0%	RM
15	Las Vegas-Henderson-Paradise, NV	1098.8	0.4%	4.1%	FW
16	Riverside-San Bernardino-Ontario, CA	1023.7	0.2%	1.5%	FW
17	Baltimore-Columbia-Towson, MD	1006.1	-0.4%	0.3%	ME
18	Austin-Round Rock, TX	993.8	1.3%	6.5%	SW
19	Orlando-Kissimmee-Sanford, FL	987.3	1.1%	6.9%	SE
20	Tampa-St. Petersburg-Clearwater, FL	939.2	1.1%	6.9%	SE
21	Salt Lake City, UT	916.2	3.2%	10.0%	RM
22	Portland-Vancouver-Hillsboro, OR-WA	908.2	-1.0%	1.8%	FW
23	Nashville-Davidson-Murfreesboro-Franklin, TN	798.9	0.1%	3.9%	SE
24	Indianapolis-Carmel-Anderson, IN	791.3	0.4%	3.7%	GL
25	Sacramento-Roseville-Arden-Arcade, CA	731.4	0.2%	1.5%	FW
26	Detroit-Warren-Dearborn, MI	721.7	3.8%	7.3%	GL
27	Charlotte-Concord-Gastonia, NC-SC	717.1	1.5%	4.8%	SE
28	St. Louis, MO-IL	693.0	-0.5%	3.2%	P
29	San Diego-Carlsbad, CA	684.3	0.2%	1.5%	FW
30	Raleigh, NC	662.7	1.5%	4.8%	SE
31	Columbus, OH	652.0	1.8%	6.4%	GL
32	San Antonio-New Braunfels, TX	650.6	1.3%	6.5%	SW
33	Kansas City, MO-KS	562.1	0.8%	5.1%	P
34	Cincinnati, OH-KY-IN	556.2	1.5%	5.6%	GL
35	San Jose-Sunnyvale-Santa Clara, CA	552.8	0.2%	1.5%	FW
36	Baton Rouge, LA	539.0	-1.2%	2.4%	SE
37	Jacksonville, FL	527.8	1.1%	6.9%	SE
38	Provo-Orem, UT	440.8	3.2%	10.0%	RM
39	Charleston-North Charleston, SC	404.2	2.4%	5.8%	SE

Rank	MSA	Construction Scoring System	Change in Gross Construction GDP		BEA Region
		Construction Potential Score	Q1 2025 Q/Q Change in Gross Construction GDP	Q1 2025 Y/Y Change in Gross Construction GDP	
40	Boise City, ID	388.3	0.9%	2.1%	RM
41	Richmond, VA	369.6	0.6%	6.1%	SE
42	Louisville-Jefferson County, KY-IN	367.1	1.2%	4.9%	SE
43	Grand Rapids-Wyoming, MI	342.4	3.8%	7.3%	GL
44	North Port-Sarasota-Bradenton, FL	324.2	1.1%	6.9%	SE
45	Ogden-Clearfield, UT	323.7	3.2%	10.0%	RM
46	Urban Honolulu, HI	317.1	0.9%	3.0%	FW
47	Cape Coral-Fort Myers, FL	315.4	1.1%	6.9%	SE
48	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	313.5	0.4%	2.3%	ME
49	Reno, NV	309.2	0.4%	4.1%	FW
50	New Orleans-Metairie, LA	302.8	-1.2%	2.4%	SE
51	Milwaukee-Waukesha-West Allis, WI	293.1	0.2%	3.7%	GL
52	Greenville-Anderson-Mauldin, SC	290.1	2.4%	5.8%	SE
53	Oklahoma City, OK	284.6	3.5%	9.9%	SW
54	Des Moines-West Des Moines, IA	280.4	0.0%	1.3%	P
55	Colorado Springs, CO	254.6	-0.5%	2.0%	RM
56	Omaha-Council Bluffs, NE-IA	236.2	0.8%	3.0%	P
57	Columbia, SC	234.7	2.4%	5.8%	SE
58	Birmingham-Hoover, AL	218.9	0.4%	6.2%	SE
59	Memphis, TN-MS-AR	218.1	0.2%	3.5%	SE
60	Lakeland-Winter Haven, FL	216.6	1.1%	6.9%	SE
61	Tucson, AZ	214.7	0.5%	3.0%	SW
62	Tulsa, OK	209.1	3.5%	9.9%	SW
63	Durham-Chapel Hill, NC	205.1	1.5%	4.8%	SE
64	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	199.6	1.8%	5.1%	SE
65	Madison, WI	188.9	0.2%	3.7%	GL
66	Greensboro-High Point, NC	184.5	1.5%	4.8%	SE
67	Naples-Immokalee-Marco Island, FL	177.9	1.1%	6.9%	SE
68	Fresno, CA	176.4	0.2%	1.5%	FW
69	Deltona-Daytona Beach-Ormond Beach, FL	174.4	1.1%	6.9%	SE
70	Albuquerque, NM	172.0	1.0%	1.6%	SW
71	Palm Bay-Melbourne-Titusville, FL	166.3	1.1%	6.9%	SE
72	Lancaster, PA	165.6	1.7%	4.4%	ME
73	Fayetteville-Springdale-Rogers, AR-MO	164.1	-0.2%	3.4%	SE
74	Stockton-Lodi, CA	160.3	0.2%	1.5%	FW
75	Albany-Schenectady-Troy, NY	159.3	-0.2%	2.3%	ME
76	Bridgeport-Stamford-Norwalk, CT	157.7	-1.6%	0.4%	NE
77	Knoxville, TN	157.0	0.1%	3.9%	SE
78	Greeley, CO	153.6	-0.5%	2.0%	RM
79	Augusta-Richmond County, GA-SC	150.8	0.8%	1.7%	SE
80	Santa Rosa, CA	148.4	0.2%	1.5%	FW
81	Little Rock-North Little Rock-Conway, AR	147.7	-1.1%	0.3%	SE
82	Rochester, NY	146.1	-0.2%	2.3%	ME
83	Corpus Christi, TX	142.1	1.3%	6.5%	SW
84	Lexington-Fayette, KY	140.9	2.7%	7.3%	SE
85	Bakersfield, CA	137.5	0.2%	1.5%	FW
86	Huntsville, AL	135.1	-1.2%	2.4%	SE
87	Oxnard-Thousand Oaks-Ventura, CA	128.7	0.2%	1.5%	FW
88	Fort Collins, CO	127.3	-0.5%	2.0%	RM
89	Pensacola-Ferry Pass-Brent, FL	125.1	1.1%	6.9%	SE
90	Anchorage, AK	124.9	3.5%	6.7%	FW
91	Salisbury, MD-DE	123.6	-0.3%	0.5%	ME
92	Vallejo-Fairfield, CA	118.4	0.2%	1.5%	FW
93	Wichita, KS	117.6	2.2%	6.0%	P
94	Spokane-Spokane Valley, WA	115.8	-1.7%	1.5%	FW
95	Port St. Lucie, FL	113.3	1.1%	6.9%	SE
96	Killeen-Temple, TX	104.0	1.3%	6.5%	SW
97	Fargo, ND-MN	103.0	1.7%	4.5%	P
98	Savannah, GA	100.9	0.2%	0.0%	SE
99	Sioux Falls, SD	97.6	4.4%	8.5%	P

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		Construction Potential Score	Q1 2025 Q/Q Change in Gross Construction GDP	Q1 2025 Y/Y Change in Gross Construction GDP	
100	McAllen-Edinburg-Mission, TX	97.0	1.3%	6.5%	SW
101	Kennewick-Richland, WA	95.7	-1.7%	1.5%	FW
102	Modesto, CA	85.0	0.2%	1.5%	FW
103	Santa Maria-Santa Barbara, CA	75.6	0.2%	1.5%	FW
104	Lafayette, LA	69.2	-1.2%	2.4%	SE
105	Visalia-Porterville, CA	48.5	0.2%	1.5%	FW

Residential Construction

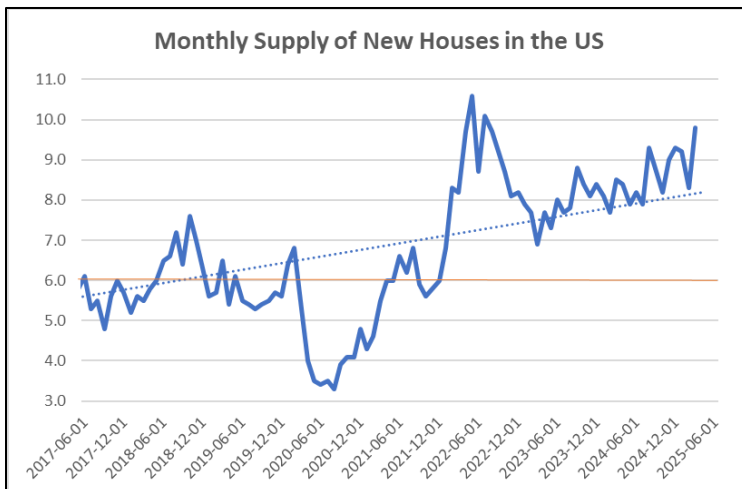
The following section includes viewpoints on factors in the residential construction sector.



Total Residential Construction (PRRESCONS)

- Total residential construction in May (latest available), was down by 6.7% Y/Y (down 4.5% last month). It was down 0.5% M/M (also down 0.5% last month).
- Outlook:** Unfortunately, under higher 10Y bond yield rates, the residential market is slowing. With the residential market representing more than 16% of GDP, that is partially why pressure is building on the Federal Reserve now from many different directions. The process will take time; after the Federal Reserve trims short-term interest rates, it takes time for the broader bond market to respond.

The US Treasury is working on limiting auctions of US bonds to try and pull yield rates down. There has been some slight softening, but nothing material. The US Treasury really needs the Fed to trim first, and that will help pull bond yields lower.



Monthly Supply of Homes (MSACSR)

- The monthly supply of homes came in at 9.8, which is the highest since 2022 and the highest since the 2007 housing collapse prior to that. A balanced market would be roughly 6 months of inventory on hand.
- Outlook:** Builders are reportedly discounting new home construction deeply to try and stimulate the industry. Higher interest rates and inflation impacts on home construction materials that outpace consumer affordability have allowed inventories to build at a national level. As the chart on the left shows, this figure can be volatile and adjustments to home inventories can happen quickly. It will likely take a significant decrease in interest rates to help. Weaker demand in the interim should help with construction material costs, some sectors are sitting on significant inventory levels.

Month	United States				
	Total	1 unit	2 units	3 to 4 units	5 units or more
May 2024	132.4	94.1	3.5	1.7	33.1
Jun 2024	125.7	83.7	2.6	1.5	37.8
Jul 2024	126.5	85.8	2.8	1.7	36.1
Aug 2024	131.9	86.1	3.4	1.9	40.5
Sep 2024	113.5	76.7	3.3	1.5	32.1
Oct 2024	125.1	84.4	3.2	1.8	35.8
Nov 2024	107.3	66.6	2.4	1.5	36.8
Dec 2024	112.6	68.3	2.4	1.6	40.3
Jan 2025	111.5	73.1	2.7	1.5	34.2
Feb 2025	106.4	73.9	2.7	1.3	28.5
Mar 2025	124.2	84.5	3.1	1.8	34.9
Apr 2025	129.9	88.3	3.7	1.9	36.0
May 2025	124.9	84.1	3.2	1.7	36.0

Housing Permits (<https://www.census.gov/construction/bps/>)

- Housing Permits were up slightly by 0.2% M/M in May (latest available) vs. April but were 4.4% lower year-over-year. Single-family permits were down 3.7% M/M and were 8.4% lower vs. May of last year. Multi-family was a bigger story; permits were sharply higher by 8.1% M/M in May and were up 2.1% Y/Y.
- Looking Ahead:** Permits are obviously one of the better forecasting data points. The 10Y Treasury rate is still simply too high, and that is keeping mortgage rates higher. The Federal Reserve is planning to trim rates two times in the second half of the year. Odds are that there will be a quarter point cut in both September and December, as long as inflation remains reasonable. The US Treasury continues to change its bond issuance strategy, which should help lower rates more aggressively later in Q3 or Q4.

The following section shows housing permits authorized by region for total, single-family, and multi-family.

Month	Northeast											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
May 2024	10.9	-11.4%	-8.5%	-9.9%	5.8	5.5%	11.9%	3.6%	5.1	-25.0%	-20.4%	-21.5%
Jun 2024	11.8	12.4%	-1.4%	8.3%	5.7	-1.7%	9.7%	-1.7%	6.1	29.8%	-6.9%	19.6%
Jul 2024	12.3	38.2%	0.9%	4.2%	5.4	20.0%	-1.1%	-5.3%	6.9	56.8%	3.7%	13.1%
Aug 2024	12.6	14.5%	5.0%	2.4%	6.0	15.4%	1.4%	11.1%	6.6	13.8%	9.5%	-4.3%
Sep 2024	10.1	20.2%	-4.4%	-19.8%	5.1	10.9%	-3.1%	-15.0%	5.0	31.6%	-5.2%	-24.2%
Oct 2024	11.1	5.7%	-2.5%	9.9%	5.8	18.4%	3.3%	13.7%	5.3	-5.4%	-7.5%	6.0%
Nov 2024	11.0	54.9%	-3.6%	-0.9%	4.3	0.0%	-9.0%	-25.9%	6.7	139.3%	2.7%	26.4%
Dec 2024	13.9	71.6%	11.8%	26.4%	4.4	25.7%	-3.3%	2.3%	9.5	106.5%	24.7%	41.8%
Jan 2025	9.8	-8.4%	-1.3%	-29.5%	4.4	0.0%	-7.8%	0.0%	5.4	-14.3%	8.3%	-43.2%
Feb 2025	7.6	-46.9%	-8.5%	-22.4%	4.1	-2.4%	-1.5%	-6.8%	3.5	-65.3%	-12.2%	-35.2%
Mar 2025	10.3	-16.9%	-5.5%	35.5%	5.5	25.0%	9.1%	34.1%	4.8	-40.0%	-13.7%	37.1%
Apr 2025	10.8	-10.7%	6.0%	4.9%	5.5	-1.8%	9.1%	0.0%	5.3	-18.5%	4.1%	10.4%
May 2025	10.8	-0.9%	13.5%	0.0%	5.2	-10.3%	9.6%	-5.5%	5.6	9.8%	17.7%	5.7%

Month	Midwest											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
May 2024	18.3	-3.7%	8.7%	13.0%	11.8	3.5%	10.8%	-3.3%	6.5	-14.5%	11.4%	62.5%
Jun 2024	18.1	-4.2%	4.6%	-1.1%	11.2	-2.6%	2.2%	-5.1%	6.9	-6.8%	14.7%	6.2%
Jul 2024	17.3	12.3%	2.5%	-4.4%	11.3	10.8%	-2.5%	0.9%	6.0	15.4%	18.5%	-13.0%
Aug 2024	19.8	-2.9%	3.0%	14.5%	11.6	0.0%	-0.5%	2.7%	8.2	-6.8%	9.9%	36.7%
Sep 2024	18.3	6.4%	0.8%	-7.6%	11.6	10.5%	1.2%	0.0%	6.7	0.0%	1.8%	-18.3%
Oct 2024	20.5	23.5%	6.3%	12.0%	12.6	18.9%	3.8%	8.6%	7.9	31.7%	12.1%	17.9%
Nov 2024	16.6	11.4%	-4.9%	-19.0%	8.9	3.5%	-6.9%	-29.4%	7.7	22.2%	-1.0%	-2.5%
Dec 2024	14.2	20.3%	-7.2%	-14.5%	7.6	10.1%	-11.8%	-14.6%	6.6	34.7%	0.4%	-14.3%
Jan 2025	12.9	4.9%	-14.2%	-9.2%	7.3	10.6%	-16.0%	-3.9%	5.6	-1.8%	-10.7%	-15.2%
Feb 2025	14.2	-0.7%	-4.5%	10.1%	7.6	-13.6%	-4.8%	4.1%	6.6	20.0%	-3.9%	17.9%
Mar 2025	16.9	6.3%	6.6%	19.0%	10.6	0.0%	13.2%	39.5%	6.3	18.9%	-0.6%	-4.5%
Apr 2025	18.3	13.0%	12.5%	8.3%	12.6	3.3%	20.8%	18.9%	5.7	42.5%	1.3%	-9.5%
May 2025	20.8	13.7%	13.7%	13.7%	12.4	5.1%	18.9%	-1.6%	8.4	29.2%	11.1%	47.4%

Month	South											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
May 2024	73.2	-3.7%	4.4%	-5.5%	55.8	6.1%	4.2%	-0.4%	17.4	-25.6%	6.4%	-19.1%
Jun 2024	67.2	-8.3%	0.5%	-8.2%	48.3	-9.7%	-1.5%	-13.4%	18.9	-4.5%	8.0%	8.6%
Jul 2024	69.9	5.1%	-3.2%	4.0%	50.7	9.5%	-2.9%	5.0%	19.2	-5.0%	-3.0%	1.6%
Aug 2024	72.6	-5.1%	-0.1%	3.9%	50.1	-4.6%	-3.2%	-1.2%	22.5	-6.3%	9.1%	17.2%
Sep 2024	59.1	-7.8%	-3.6%	-18.6%	43.0	-5.9%	-3.5%	-14.2%	16.1	-12.5%	-3.2%	-28.4%
Oct 2024	65.6	-7.1%	-1.2%	11.0%	47.9	0.2%	-1.3%	11.4%	17.7	-22.4%	-0.4%	9.9%
Nov 2024	54.7	-2.7%	-8.1%	-16.6%	38.9	-5.4%	-7.2%	-18.8%	15.8	4.6%	-9.7%	-10.7%
Dec 2024	59.9	1.4%	1.3%	9.5%	41.3	4.8%	-0.4%	6.2%	18.6	-5.6%	5.6%	17.7%
Jan 2025	66.0	-1.0%	1.0%	10.2%	44.8	-6.7%	-1.4%	8.5%	21.2	13.4%	7.0%	14.0%
Feb 2025	62.8	-3.2%	4.9%	-4.8%	46.4	-6.3%	6.1%	3.6%	16.4	6.5%	3.0%	-22.6%
Mar 2025	70.1	4.3%	5.7%	11.6%	50.5	-1.4%	7.0%	8.8%	19.6	22.5%	3.6%	19.5%
Apr 2025	71.1	-8.3%	2.7%	1.4%	51.6	-7.9%	4.9%	2.2%	19.5	-9.3%	-1.2%	-0.5%
May 2025	65.2	-10.9%	1.6%	-8.3%	48.8	-12.5%	1.9%	-5.4%	16.4	-5.7%	1.0%	-15.9%

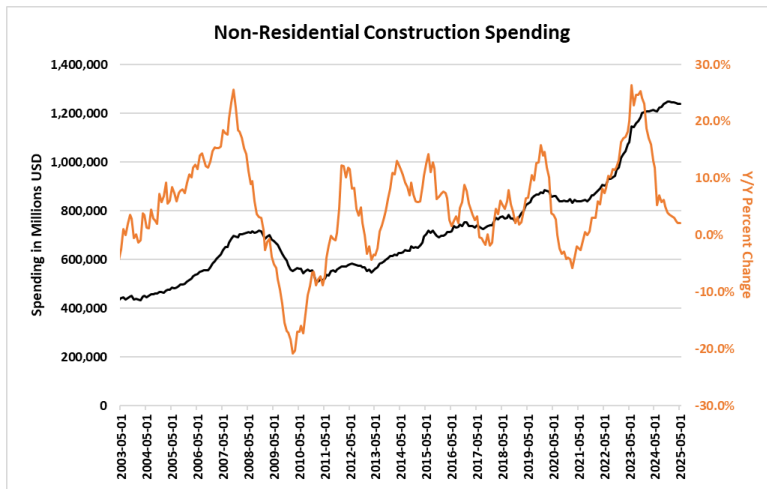
Month	West											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
May 2024	30.0	-6.8%	5.9%	13.2%	20.6	5.6%	6.9%	4.0%	9.4	-26.0%	7.3%	40.3%
Jun 2024	28.6	-13.1%	0.2%	-4.7%	18.5	-8.4%	-0.5%	-10.2%	10.1	-20.5%	5.1%	7.4%
Jul 2024	27.1	-2.5%	1.1%	-5.2%	18.5	10.1%	-2.1%	0.0%	8.6	-21.8%	11.0%	-14.9%
Aug 2024	26.9	-20.6%	-3.5%	-0.7%	18.3	-3.7%	-3.8%	-1.1%	8.6	-42.3%	-2.5%	0.0%
Sep 2024	25.9	-4.4%	-3.2%	-3.7%	17.0	8.3%	-2.7%	-7.1%	8.9	-21.9%	-3.8%	3.5%
Oct 2024	27.8	0.7%	1.0%	7.3%	18.1	9.7%	-0.6%	6.5%	9.7	-12.6%	4.2%	9.0%
Nov 2024	25.0	-18.3%	-2.2%	-10.1%	14.5	-7.1%	-6.8%	-19.9%	10.5	-30.0%	6.9%	8.2%
Dec 2024	24.6	-5.4%	-1.4%	-1.6%	15.0	-0.7%	-3.3%	3.4%	9.6	-11.9%	2.9%	-8.6%
Jan 2025	22.8	-9.2%	-6.3%	-7.3%	16.6	-2.4%	-1.9%	10.7%	6.2	-23.5%	-11.9%	-35.4%
Feb 2025	21.9	-14.5%	-4.3%	-3.9%	15.7	-7.1%	2.9%	-5.4%	6.2	-28.7%	-14.7%	0.0%
Mar 2025	26.9	-6.6%	3.9%	22.8%	17.9	-5.3%	6.4%	14.0%	9.0	-9.1%	3.2%	45.2%
Apr 2025	29.8	12.5%	9.9%	10.8%	18.6	-6.1%	4.2%	3.9%	11.2	67.2%	23.2%	24.4%
May 2025	28.1	-6.3%	9.3%	-5.7%	17.7	-14.1%	4.4%	-4.8%	10.4	10.6%	20.8%	-7.1%

Housing and Interest Rate Forecast, 07/02/2025

	2021	2022	2023	2024	2025	2026	2027
Housing Activity (000)							
Total Housing Starts	1,605	1,552	1,421	1,371	1,351	1,382	1,424
Single Family	1,131	1,006	949	1,016	959	994	1,042
Multifamily	474	546	473	355	392	388	382
New Single Family Sales	770	637	666	685	665	699	724
Existing Single-Family Home Sales	5,425	4,533	3,676	3,673	3,715	4,176	4,510
Interest Rates							
Federal Funds Rate	0.08%	1.68%	5.03%	5.15%	4.13%	3.63%	3.40%
Treasury Yield:							
Ten Year Maturity	1.44%	2.95%	3.96%	4.21%	4.34%	4.13%	3.96%
Fixed Rate Mortgages	2.96%	5.34%	6.81%	6.72%	6.70%	6.30%	5.99%
Prime Rate	3.25%	4.85%	8.19%	8.31%	7.28%	6.76%	6.53%

[For more forecast details, visit www.nahb.org.](http://www.nahb.org)

Nonresidential Construction



Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in May (latest available) was 1.1% lower than it was a year ago (-1.6% lower last month) and was 0.2% lower M/M (-0.1% in the last report). Overall spending was still near all-time highs at \$1.237T (the prior annualized run rate peak of \$1.272B was in December of 2023).
- Outlook:** The non-residential construction sector showed some softness through May when comparing Y/Y and M/M percent changes. But what is lost in the data is what is visually easy to see in the chart on the left. Note the black line and how much higher current activity is vs. periods prior to the pandemic (~25% higher). Although there is some slight cooling, that cooling is coming off a historically aggressive run. Mentioned below is the impact of a new wave of foreign investment in the US which should hit in 2026 and beyond.

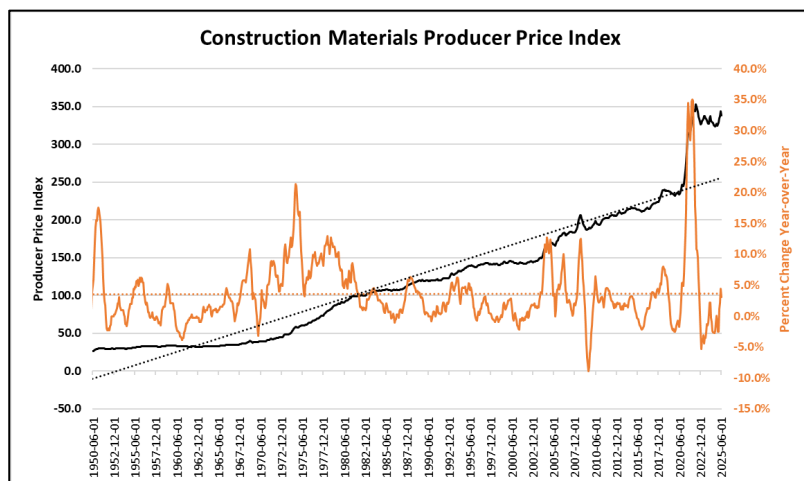
Type of Construction	May 2025 ^p	Apr 2025 ^f	Mar 2025 ^f	Feb 2025 ^f	Jan 2025 ^f	May 2024 ^f	Percent change May 2025 from -	
							Apr 2025	May 2024
Total Construction	2,138,215	2,145,537	2,150,847	2,165,431	2,169,595	2,215,350	-0.3	-3.5
Residential	901,086	905,678	909,661	920,572	923,551	963,902	-0.5	-6.5
New single family	421,275	429,128	435,542	435,945	435,098	441,069	-1.8	-4.5
New multifamily	115,048	115,017	115,149	115,062	114,668	129,097	0.0	-10.9
Nonresidential	1,237,129	1,239,858	1,241,186	1,244,859	1,246,043	1,251,447	-0.2	-1.1
Manufacturing	227,557	227,963	228,888	230,589	230,876	236,248	-0.2	-3.7
Power	155,429	156,275	156,917	157,695	157,284	156,499	-0.5	-0.7
Highway and street	144,023	144,679	143,469	143,168	143,722	145,072	-0.5	-0.7
Educational	135,970	135,812	136,362	136,752	138,196	137,431	0.1	-1.1
Commercial	119,711	120,728	121,641	122,786	122,697	133,474	-0.8	-10.3
Office	103,987	104,223	104,340	105,816	105,604	102,970	-0.2	1.0
Health care	68,811	68,549	68,673	68,727	69,226	68,790	0.4	0.0
Transportation	67,626	67,494	67,976	67,277	66,338	64,956	0.2	4.1
Sewage and waste disposal	49,733	49,720	49,499	49,247	49,470	45,548	0.0	9.2
Amusement and recreation	42,306	42,094	41,861	41,199	40,541	40,777	0.5	3.7
Water supply	33,787	34,018	33,810	33,402	33,624	31,834	-0.7	6.1
Communication	29,123	29,020	28,963	29,095	29,284	29,542	0.4	-1.4
Lodging	22,879	23,211	23,061	23,555	23,888	24,352	-1.4	-6.0
Public safety	19,740	19,608	19,200	19,323	19,252	18,455	0.7	7.0
Conservation and	11,862	11,802	11,691	11,301	11,304	11,391	0.5	4.1
Religious	4,587	4,664	4,835	4,928	4,739	4,110	-1.7	11.6

Non-Residential Spending by Sector

(<https://www.census.gov/construction/c30/c30index.html>)

- The manufacturing/industrial sector continues to be the largest construction sector based on annualized spending. Although it was showing some deceleration year-over-year, dropping by 3.7% Y/Y. Still, on \$227B in annual spending, this is still 4 times higher than it was in the years prior to the pandemic. Data centers, chip manufacturing, and now a host of additional sectors are driving this growth. More on the OBBBA impact below.
- Ironically, many of the infrastructure categories are still showing growth, despite this being an area likely to experience some trimming of government spending and contribution in the coming quarters.
- Power generation and spending in this sector is once again taking front-and-center. The media is covering it at length and a recent press conference covered more than \$90 billion being earmarked for energy and industrial build-out in Pennsylvania alone. Look for significant increases in spending in this category continuing in 2026 and beyond. The US (and world for that matter) still needs to double electricity output by the early 2030's to meet expected demand.
- Looking forward, there is much being expected out of the One Big Beautiful Bill Act (OBBBA) – it's official title. The boost for nonresidential construction should be significant. Qualifying industrial buildings and investments should get 100% bonus depreciation as long as the spending and construction is started before January 2029 and completed before January of 2030. In other words, for the typical nonresidential project that has a construction timeline of 3-5 years, "shovels will have to hit dirt" in 2026 and 2027 to meet the depreciation timelines. Investment estimates place the total investment somewhere between \$5 trillion and \$8 trillion if those "promises" to come in as expected. This would far exceed the annual industrial construction spending experienced in the past two years.

Raw Materials



Construction Materials Price Index (WPUSI012011)

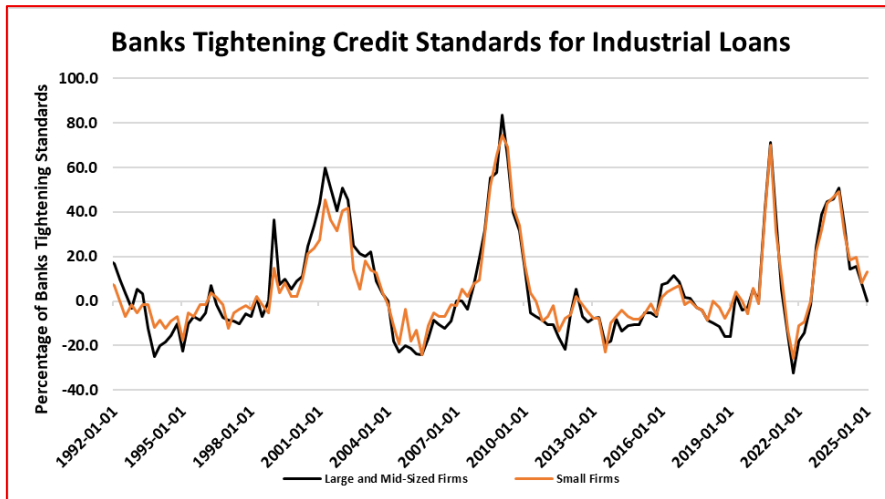
- The Producer Price Index for Construction Materials was lower by 1.6% M/M and were up 3.1% Y/Y through May (latest available). The current index is at 338.5 points; the peak in the index was 349 in May of 2022.
- Outlook:** Copper prices are still surging on supply and tariff concerns. Tariff threats are still the biggest concern for many purchasing managers. Global demand is weaker with 17 countries having manufacturing sectors in contraction, but tariff pressures on some key commodities (primarily the 232 tariffs on steel and aluminum and soon to be copper). Many companies saw early inbound of materials (many of which ran tariff-free). But as those inventories get depleted, tariff impacts will begin to be felt in Q3 and Q4.

Producer Price Index - Key Industry Products						
Category	PPI Code	Jun-25	May-25	M/M% Chg	Jun-24	Y/Y % Chg
Core Materials						
Copper	WPU019011	594.8	582.0	2.2%	577.9	2.9%
Lumber	WPU081	266.3	269.5	-1.2%	250.0	6.5%
Nickel	WPU102504	209.4	208.5	0.5%	209.5	0.0%
Cement	PCU32732032732	397.0	398.4	-0.4%	389.1	2.0%
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	476.5	475.8	0.2%	444.9	7.1%
Gates, globes, angles and check valves	WPU114902011	184.6	184.4	0.1%	171.5	7.6%
Ball valves	WPU11490202	610.8	610.8	0.0%	570.2	7.1%
Butterfly valves (formerly W2421490203)	WPU11490203	356.9	344.0	3.8%	318.0	12.2%
Industrial plug valves	WPU11490204	345.8	345.8	0.0%	325.4	6.2%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	444.5	445.8	-0.3%	407.9	9.0%
Automatic valves	WPU11490211	277.1	277.1	0.0%	263.7	5.1%
Metal pipe fittings, flanges and unions	WPU11490301	513.5	513.5	0.0%	509.7	0.7%
Steel pipe and tube	WPU101706	386.3	384.5	0.5%	370.3	4.3%
Steel pipe and tube, stainless	WPU10170674	144.1	139.9	3.0%	135.3	6.6%
Copper & copper-base alloy pipe and tube*	WPU10250239	314.7	314.7	NA	440.7	-28.6%
Plastic pipe	WPU07210603	177.8	179.1	-0.8%	187.9	-5.4%
Plastic pipe fittings and unions	WPU07210604	326.7	325.7	0.3%	323.1	1.1%
Plumbing Fixtures, Fittings and Trim						
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	211.2	211.2	0.0%	207.9	1.6%
Enameled iron and metal sanitary ware	WPU1056	284.5	284.5	0.0%	284.5	0.0%
Steam and Hot Water Equipment						
Cast iron heating boilers, radiators and convectors	WPU10610106	326.5	326.1	0.1%	304.2	7.3%
Domestic water heaters	WPU106601	641.4	641.4	0.0%	590.6	8.6%
Electric water heaters	WPU10660101	638.5	638.5	0.0%	586.6	8.8%
Non-electric water heaters	WPU10660114	389.4	389.4	0.0%	359.0	8.5%
Warehousing, Storage and Related Services						
	WPU321	141.4	143.0	-1.1%	140.2	0.9%

*The Federal Reserve has not reported new prices on this item since March 2025 due to lack of survey response

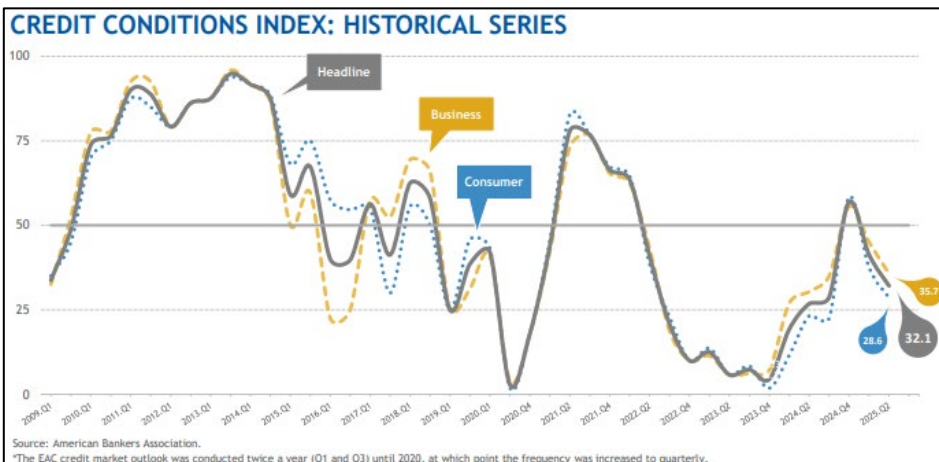
Banking Credit and Finance

Overall Observations: The Federal Reserve has failed to reduce interest rates thus far in 2025 but reportedly has two more interest rate cuts of a quarter-point each on the table for the rest of the year. The first could come as early as September (some slight chances of a July quarter-point cut). The second could be timed in December with just one more in 2026 and one scheduled in 2027. The Fed is still focused on inflation pressures, and with tariff risk still possible, that has the Fed remaining on pause.



Banks Tightening Conditions (DRTSCILM; DRTSCIS)

- Banks were tightening credit standards through Q2, 18.5% of large and medium-sized commercial firms were getting tighter conditions and 15.9% of smaller firms were seeing tightening.
- Outlook:** Banks are going through uncertainty at the hands of tariff pressures. And despite increasing standards in Q2, there is potential for this rate to plummet in Q3. The Build, Back, Better Bill will give many companies incentives to invest in new industrial structures and equipment, as has been written about much in this month's publication. With this easing of overhead burden, many banks could begin to chase this business and are likely to ease lending standards to firms as a result.

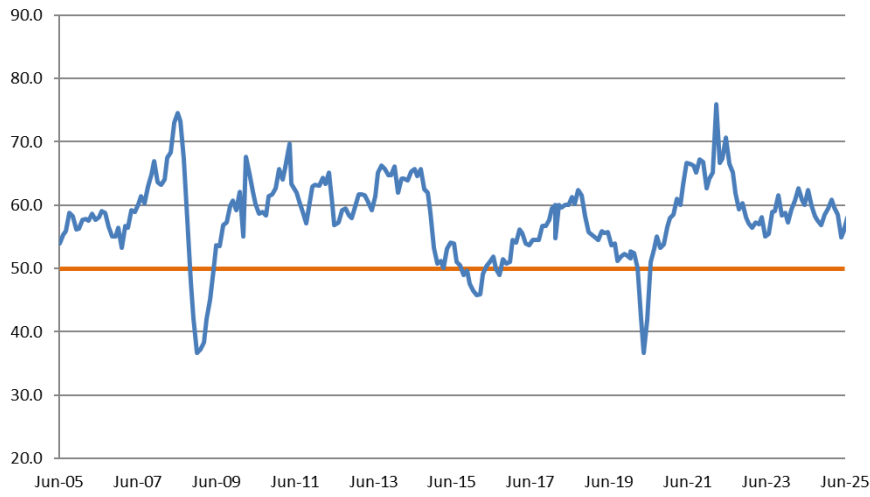


ABA Credit Conditions (ABA)

- The American Bankers Association's Credit Conditions Index for business credit fell by 9.1 points to 32.1 in Q2. This was the second consecutive quarterly decline according to the ABA but it is below the 50 level, it suggests that bankers believe credit conditions will deteriorate over the next 6 months.
- Outlook:** According to the ABA: "The Consumer Credit Index fell 8.9 points to 28.6. Most surveyed bank economists expect consumer credit quality to deteriorate over the next six months, though most also expect consumer credit availability to remain unchanged. Overall, banks appear likely to maintain a prudent but stable lending posture in the near term. The Business Credit Index fell 9.3 points to 35.7 due to falling expectations for business credit quality. While just over half of respondents expect credit quality to weaken, respondents were more upbeat about firms maintaining access to credit, with all respondents indicating they expect business credit availability to hold steady over the next six months."

Supply Chain and Transportation Situation

Composite Transportation Demand Index (TDI)



Transportation Demand Inches Higher

- The Transportation Demand Index shows the current demand environment for freight services, and it remains historically slightly softer – although improving sequentially.
- The composite TDI index came in 3.6% higher M/M in June (-1.7% last month) but was still 6.7% lower Y/Y (6.5% last month).
- **Outlook:** Obviously the uncertainty over tariffs continues to be the primary factor creating volatility in the freight sector. Most carriers were reporting in late June and early July that freight volumes were “sluggish”, and many were “looking for freight”. Some increases in inbound freight from Asia (particularly China) was expected to start hitting US shores in July, and there are some mild hints of that in the load-to-truck-ratios through June. But the surge is not what it was expected to be (more on this in the box below).

Mode Demand Improves M/M

There is still some weakness across the board year-over-year, but the sequential improvement across all modes between May and June is notable. This coincides somewhat with some traditional peak season activity, and it also suggests that inbound freight from China is lifting some segments. But the total volume is still weaker than last year. Domestic volumes (moving inventories from DC to DC and some potential retail level inventory balancing activity) are expected to help lift freight volumes in the near term. But keeping this momentum is a bigger challenge as highlighted below.

	25-Jun	25-May	24-Jun	Y/Y Change %	M/M Change %
Composite	58.1	56.1	62.3	-6.7%	3.6%
Rail	55.7	52.6	59.8	-6.9%	5.9%
Trucking	58.0	56.1	62.4	-7.1%	3.4%
Air	70.0	68.2	70.3	-0.4%	2.6%
Maritime	67.5	65.0	68.4	-1.3%	3.8%

What we are Watching in Transportation

- **Peering Into the Second Half of 2025.** Analysts were closely watching volumes of freight being released from China upon the granting of a 90-day tariff reduction. Many shippers that had inventories held at ports and warehouses (in China or in Free Trade Zones) released those shipments in May and June, creating a wave of inbound freight that should hit in July or early August. The problem is that there is not as much volume chasing it.

Manufacturing reports from around the world are not showing seasonal increases in new orders as would normally be experienced this time of year. New order activity (especially for exports to the US) were lukewarm at best, and well below normal seasonal volumes. As mentioned earlier in this quarter’s brief, inventories are elevated slightly, but not at levels one might expect given this weak reorder activity. That gives concern because it could lead to stockouts sometime in late Q3 or Q4 if current consumption volumes continue.

The bottom line is that it is important not to misread this current inbound volume (load-to-truck-ratios are higher than they have been in four years), there is not a lot of new volumes “chasing” these shipments **at this time to sustain the growth pattern**. Given some of the economic stimulus that can boost volumes, this could change. But it will be late in Q3 before those volumes hit the US.

Construction Industry Outlook

	2024				2025				2019	2020	2021	2022	2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4								
Real GDP	1.6	3.0	3.1	2.3	-0.5	2.0	1.3	1.4	2.3	-2.8	5.9	2.1	2.9	2.7	1.5	2.0
Unemployment rate (%)	3.8	4.0	4.2	4.2	4.2	4.1	4.2	4.3	3.7	8.1	5.4	3.6	3.6	4.2	4.3	4.2
PCE Inflation (%Y/Y)	2.7	2.6	2.3	2.5	2.5	2.5	2.5	2.4	1.5	1.1	4.0	5.6	3.7	2.5	2.5	2.5
Core PCE Inflation (%Y/Y)	3.0	2.7	2.6	2.8	2.6	2.7	2.6	2.4	1.7	1.3	3.5	4.8	4.1	2.5	2.5	2.5
Fed Funds Rate	5.4	5.2	4.8	4.3	4.3	4.1	3.8	3.8	1.6	0.1	0.1	4.4	5.4	4.3	3.8	3.0
Canada Real GDP	0.6	0.9	1.0	1.6	0.6	0.9	1.0	1.6	1.8	-5.2	4.5	3.4	1.1	1.6	1.7	2.0
Unemployment rate (%)	6.1	6.4	6.5	6.6	6.7	6.5	6.5	6.5	5.8	9.7	7.5	5.3	5.8	6.5	6.5	6.3
Mexico Real GDP	1.8	1.0	1.0	2.1	0.6	1.0	1.0	2.1	-1.8	-8.2	5.0	2.7	1.6	1.3	1.5	2.5
Unemployment rate (%)	2.3	2.9	3.0	3.2	3.2	3.4	3.3	3.2	5.0	7.9	7.1	4.1	2.6	3.2	3.2	3.2

The current US economic environment is changing quickly. The new tax bill (which will boost consumer household income on average by \$3,000-\$7,000 a year and provide a window of benefits for nonresidential industrial construction projects (100% bonus depreciation) should change outlooks and sentiment looking forward. In addition, some of the much anticipated trade deals are being announced less than a week before the August 1st trade deadline. That will free up some supply chain managers and improve reorder processes, and slowly improve global economic activity.

Armada predictive models for residential construction show continued sluggishness in construction activity. The current model for the next 18 months (shown on the right) has a swoon period continuing over the next two quarters before finding some stability early in 2026. Note that the models will not predict a change in Fed interest rates – it assumes that the Fed will remain fixated at current rates for the next quarter. Until the Fed moves, it will be difficult to see middle income single-family construction improve.

Some multifamily activity was picking up in May and anecdotes suggest that it continued in June. In addition, custom home construction and some regional hot spots were still seeing activity. But activity is weak enough that some material prices are dropping as inventories build and demand remains sluggish.

Nonresidential construction is still holding its own but year-over-year growth rates are slowing. Looking ahead, the big story remains the volume of inbound investments headed to the US (estimated to be between \$5T and \$8T) and the provisions in the OBBBA that make this investment in industrial and energy projects front-loaded. Deadlines for having construction projects finished by 2030 will push many of these (which have 3-5 year construction timelines) to get “shovels in dirt” in 2026. Even starting a project in 2027 would push the timeline dangerously close to the deadline.

This brings into question the availability of raw materials, labor, and other factors that could play a role in limiting the volume of projects that can be completed. For example, the US has averaged \$234 Billion in annual spending on industrial/manufacturing projects alone in the past three years (nearly 4 times the volume achieved prior to the pandemic). If this foreign direct investment hits as expected, it would nearly double if not triple the annual volume in construction spending – especially if this \$5T to \$8T is front-loaded in this next 5 year period.

