

Markets in Focus

Q4 2024

CONSTRUCTION

Economic Overview
& Market Update

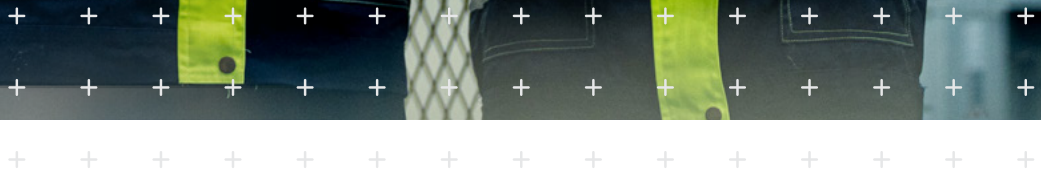


TABLE OF CONTENTS

Economic Outlook3

Construction Economy Current State4

Nonresidential Spending.....4

Public vs. Total Spending7

Residential Spending8

Spending vs. Volume9

Construction Economy Future State10

Architectural Billing Index.....10

Backlog.....10

Project Stress Index12

Construction Employment14

Producer Price Index15

In Summary.....16



ECONOMIC OUTLOOK

This edition covers the construction economy prior to the U.S. Presidential Election in November 2024. The new administration will impact various industry indicators, which will be examined in the next edition.

The construction economy comprises several variables that provide a holistic picture of the construction industry. We examine data on variables specific to spending, volume, and starts. Insights on the current state of the construction economy are gathered based on the total spending in different segments relative to volume and actual spending put in place. The current state highlights indicators provide key insights into the future state based on year-over-

year trends and relative to monthly changes in the construction economy. The key variables in both the current and future states provide an insight into the overall risks and insurance implications of the construction industry as there is both growth and decline in the industry.

The following data showcases the current state of the construction economy prior to the U.S. Presidential election. We provide analysis of trends in the industry related to jobs, spending, and inflation, as well as actionable insights to help your organization navigate current challenges and make informed decisions for sustainable growth.

CONSTRUCTION ECONOMY CURRENT STATE

NONRESIDENTIAL SPENDING

Between October 2022 and October 2023, nonresidential spending increased by 16.6%, totaling approximately \$169 billion year-over-year. However, from October 2023 to October 2024, growth slowed significantly, increasing by just 3.9%, with spending increasing by nearly \$46 billion year-over-year. By October 2024,

leading up to the U.S. presidential election, the spending rate reflected a decline of -0.4% year-over-year, marking the first decrease since July. This trend may indicate that the construction economy is finally stabilizing, having shifted from last year's 16% growth to a more modest 4% increase this year.

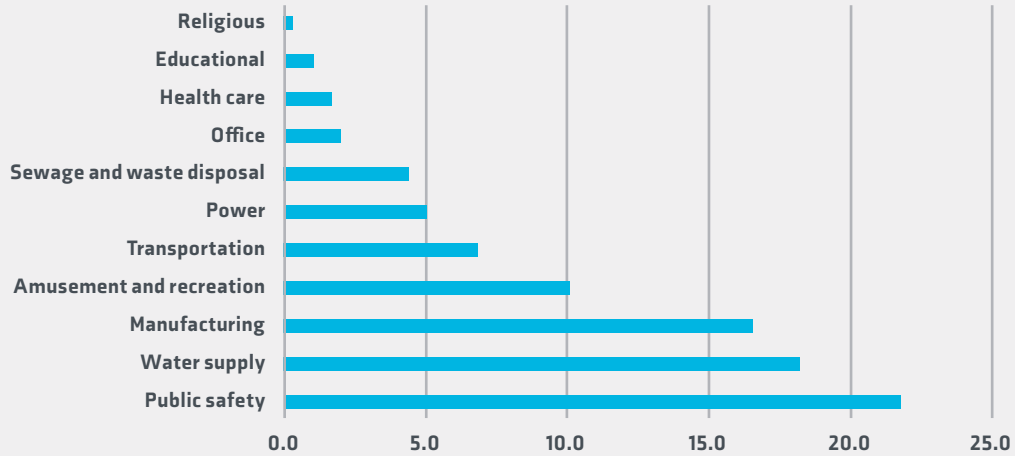
CONSTRUCTION PUT-IN-PLACE SPENDING RATE (IN MILLIONS)

Type of Construction	Oct. 2024	Oct. 2023	Percent Change	
			Oct. 2024 from -	Sept. 2024
Total Construction	2,173,968	2,071,136	0.4	5.0
Residential	945,875	888,700	1.5	6.4
Nonresidential	1,228,093	1,182,437	-0.4	3.9
Lodging	23,422	24,916	-0.4	-6.0
Office	101,107	99,167	0.7	2.0
Commercial	124,659	138,030	-1.0	-9.7
Health care	67,161	66,034	-1.1	1.7
Educational	130,133	128,868	-0.6	1.0
Religious	4,125	4,112	4.0	0.3
Public safety	19,606	16,101	1.3	21.8
Amusement and recreation	41,281	37,486	0.0	10.1
Transportation	70,117	65,602	-0.1	6.9
Communication	28,603	29,051	-0.1	-1.5
Power	147,118	140,171	0.0	5.0
Highway and street	142,050	143,839	-0.8	-1.2
Sewage and waste disposal	46,075	44,148	-1.6	4.4
Water supply	35,166	29,754	-0.5	18.2
Conservation and development	11,357	12,582	-3.2	-9.7
Manufacturing	236,114	202,578	-0.1	16.6

Source: Annual Value of Construction Put in Place in the United States, Not Seasonally Adjusted. U.S. Census Bureau. Construction Spending. December 2, 2024. <https://www.census.gov/construction/c30/pdf/pr202410.pdf>

Construction spending was strong in public safety, water, manufacturing, amusement, and recreation, and a few key others reflected in positive year-over-year spending.

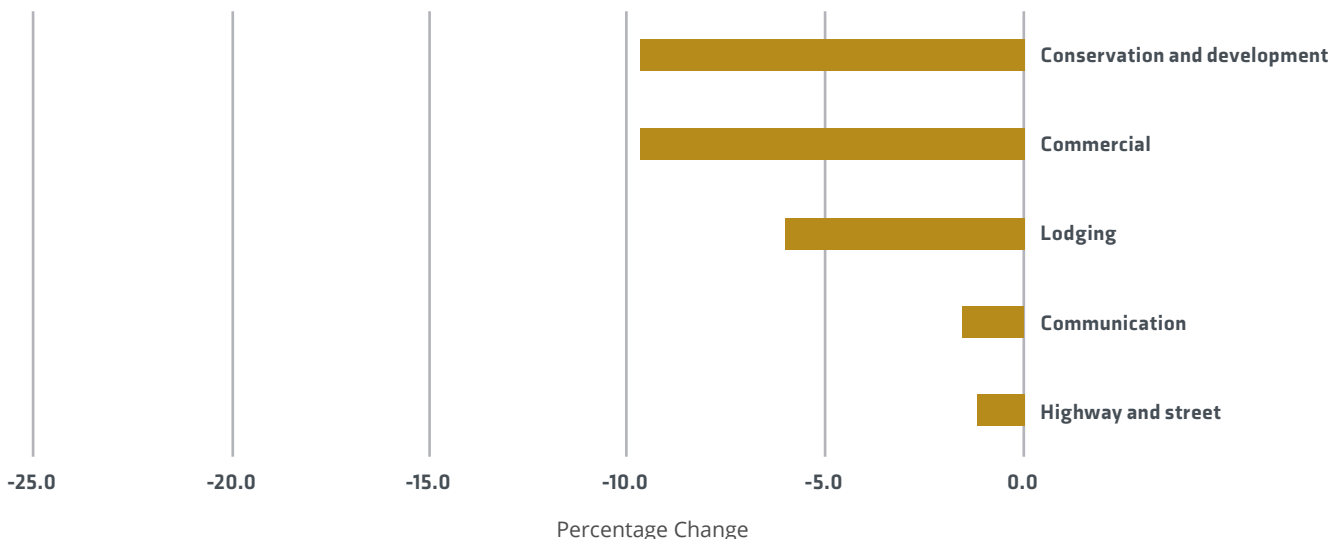
POSITIVE YEAR-OVER-YEAR % CHANGE IN SPENDING



SOURCE: Data from Annual Value of Construction Put in Place in the United States, Not Seasonally Adjusted. Year over Year % change in spending. U.S. Census Bureau. Construction Spending. December 2, 2024. <https://www.census.gov/construction/c30/pdf/pr202410.pdf>

The areas with significant decline in year-over-year spending were conservation and development, commercial, and lodging. This is partly due to the delay in getting jobs online due to permitting and bidding. This is projected to change in 2025 post-election and new administration.

NEGATIVE YEAR-OVER-YEAR % CHANGE IN SPENDING



SOURCE: Data from Annual Value of Construction Put in Place in the United States, Not Seasonally Adjusted. Year over Year % change in spending. U.S. Census Bureau. Construction Spending. December 2, 2024. <https://www.census.gov/construction/c30/pdf/pr202410.pdf>



WHAT THIS MEANS FOR YOU

- + Transmission lines and any building associated with power lines were part of the total power spending at 5% year-over-year, including transmission lines and any buildings associated with transmission lines. Solar has been a strong category in power over the last several years, which has increased overall spending.
- + Office spending is up 2%, partly due to data center projects. Data center projects were a major spending area under the Biden Administration, and we may continue to see this spending under the new administration in 2025.
- + College and non-college stadiums led amusement and recreation spending at 10%.
- + The current spending does not indicate a strong forecast unless Architectural Insurance Agency (AIA) or Architectural Billing Index (ABI) begins to see increased projects. Insurance schedules may need adjustments if the current spending changes do not occur.
- + A strong focus on due diligence and properly listing all insureds are key to ensuring accurate coverage.

PUBLIC VS. TOTAL SPENDING

- + The United States government substantially influenced public sector spending in 2024 prior to the election. The rate of increase was noteworthy due to the size and scope of projects at a federal level.
- + As noted in nonresidential spending, total construction spending increased in response to inflation. Government spending continued at approximately 23.3% of the total spending rate, nearly the same as the previous year. While the spending rate is nearly the same, it is important to note this spending is spread across state, local, municipality, or federal governments. As the public sector increases, it is typical to see the private sector reduce spending. Changes may occur under the new presidential administration.

PUBLIC CONSTRUCTION SPENDING RATE AS A % OF TOTAL CONSTRUCTION SPENDING (IN MILLIONS)

YTD October	2023	2024	1 Year % Change
Public Sector Spending Rate	476,064	502,491	5.55%
% of Total Spending Rate	22.9%	23.3%	

Source: Data compiled from U.S. Census Bureau, Total Public Construction Spending: Total Construction in the United States. Retrieved from FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/TLPBLCONS>.

WHAT THIS MEANS FOR YOU

- + Government contracts and the process for bidding on larger may see an increase in competition in 2025. This could be a result of several factors, given inflation, labor, and supplies.
- + If public spending decreases, there may be an increase in backlog for private work nonresidential spending. This may positively impact contractors in pure commercial and other segmented areas.

RESIDENTIAL SPENDING

As of October 2024, residential spending increased by 6.9% year-over-year, driven by private residential improvements and new single-family construction. This reflects a strong overall performance in the sector; however, new multifamily spending year-over-year is down 4.3% year-over-year, marking a significant change from the past several months.

PUT-IN-PLACE SPENDING RATE

Put-in-Place Spending Rate	Oct 2024	Oct 2023	% Change
Total Residential	782,435	731,884	6.9%
New Single Family	360,823	331,595	8.8%
New Multifamily	108,061	113,989	-5.2%
Private Residential Improvements	313,551	286,300	9.5%

Source: Data from Value of Construction Put in Place in the United States, NotSeasonally Adjusted. U.S. Census Bureau. Construction Spending. December 2, 2024. <https://www.census.gov/construction/c30/pdf/pr202410.pdf>

WHAT THIS MEANS FOR YOU

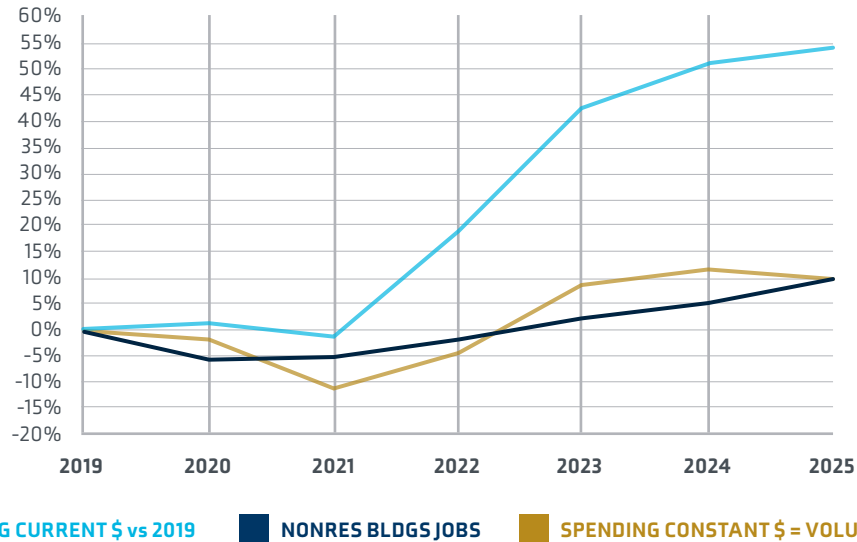
- + Contractors in private residential improvements, such as home service contractors, kitchen remodels, pool services, and electricians, are poised for continued growth as the new single-family continues to grow.
- + Private equity firms are still acquiring firms and may not slow down. Competition for acquiring new firms may become more entrenched as new entrants are projected.



SPENDING VS. VOLUME

Inflation has significantly impacted construction jobs relative to project volume. Overall, contractors chase fewer projects due to fewer jobs being available.

CONSTRUCTION JOBS VS CONSTRUCTION VOLUME NONRESIDENTIAL BUILDINGS GROWTH 2020 THRU 2025



Source: Zarenski, E. (2024). Construction Jobs vs Construction Volume: Nonresidential Buildings Growth 2020 thru 2025. *Construction Analytics: Economics Behind the Headlines*. chart, Ed Zarenski. Retrieved January 7, 2025, from <https://edzarenski.com/2024/09/05/construction-data-july-briefs-9-5-24-2/>.

Current spending in today's dollars is going up due to construction inflation. In addition to that, construction volume has been flat in the last two years, with projects projected to decrease by the end of 2025. Contractors have greater revenue coming in, and the same number of project volumes are projected to decline from the year prior.

WHAT THIS MEANS FOR YOU

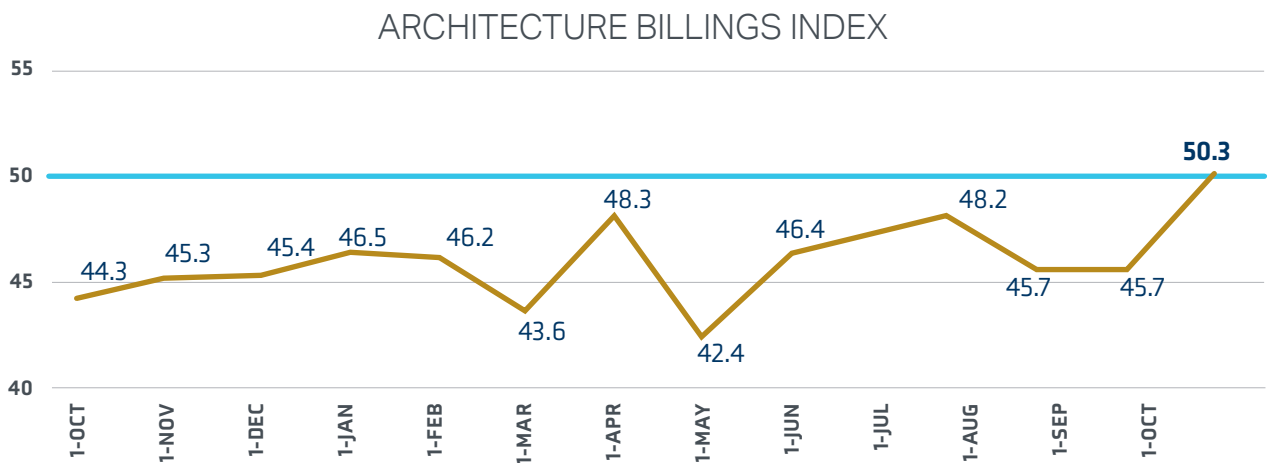
- + Insurance is often protected by inflationary pressure due to the premium rating basis. However, when the insurance rating exposure basis doubled, stagnant projects saw a reduced opportunity to sell. Premiums are going up largely due to the increasing cost of projects.

CONSTRUCTION ECONOMY FUTURE STATE

The outlook for construction spending in 2025 may differ from trends seen in 2024. In forecasting the future state of the construction economy, key indicators to watch are projects under contract that are set to begin, works in progress, and project owners' thoughts about future building. If inflation persists, spending may only undergo marginal growth as taxes, tariffs, and labor costs impact all lines of insurance coverage. Labor costs specifically affect workers' compensation premiums, which saw an overall decline in Q3 2024, according to CIAB.¹ Anticipating a construction slowdown may prompt a scaling back of investments, such as hiring people. Current spending reflects the interplay of all these factors.

ARCHITECTURAL BILLING INDEX

The Architecture Billings Index (ABI) was negative in December 2023. This was the environment going into 2024. The ABI represents architects asking the following question: are you building more this month than last? If that answer is yes, then it's positive, and then the second question is: to what degree? Current spending is a function of many past things, including backlog and construction starts, and the ABI is a nine to 12-month leading indicator.



Source: AIA/Deltek Architecture Billings Index. October 2024. <https://www.aia.org/resource-center/abi-october-2024-business-conditions-architecture-firms-begin-moderate>

WHAT THIS MEANS FOR YOU

- + For all but three of the last 12 months from October 2023, ABI participants did not bill more than they did the previous month. It decreased each month.
- + Actual billings reaching 50 is a positive sign that future starts are anticipated to be part of the 2025 forecast.

BACKLOG

Backlog refers to projects that have been signed up for and are in progress. Current spending is based on construction starts initiated during the year. Notably, spending often increases largely due to the impact of inflation.

CONSTRUCTION BACKLOG INDICATOR

	Nov 2024	Oct 2024	Nov 2023	1-Month Net Change	12-Month Net Change
Total	8.4	8.4	8.5	0.0	-0.1
Industry					
Commercial and institutional	8.5	8.5	8.6	0.0	-0.1
Heavy industrial	8.7	8.1	8.8	0.6	-0.1
Infrastructure	8.7	8.9	7.9	-0.2	0.8
Region					
Middle States	7.7	8.3	8.0	-0.6	-0.3
Northeast	8.0	7.9	8.0	0.1	0.0
South	9.4	9.4	9.8	0.0	-0.4
West	8.6	7.4	7.4	1.2	1.2
Company Size					
<\$30 Million	7.4	7.3	7.7	0.1	-0.3
\$30-\$50 Million	8.8	8.8	9.4	0.0	-0.6
\$50-\$100 Million	11.7	10.1	12.0	1.6	-0.3
>\$100 Million	11.4	12.3	9.0	-0.9	2.4

Source: Associated Builders and Contractors. (2024, December 10). Construction Backlog Indicator. *ABC's Construction Backlog Indicator Holds Steady in November, Contractor Confidence Surges.* chart, Associated Builders and Contractors. Retrieved January 30, 2025, from <https://www.abc.org/News-Media/News-Releases/abcs-construction-backlog-indicator-holds-steady-in-november-contractor-confidence-surges>.

Eight months of the backlog is a good foundation for contractors because it shows jobs are lined up for the future as current jobs reach the final stages, even though it is down slightly from a year ago. It's still above our 8.0 line of demarcation. The 12-month change by contractors by size is worth noting.



WHAT THIS MEANS FOR YOU

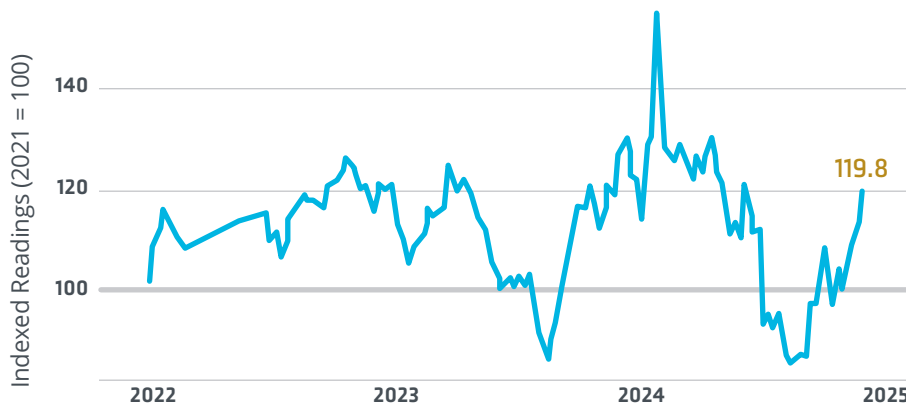
- + Reviewing and paying attention to backlogs if they begin to decrease will provide contractors with knowledge of how much time is needed to find new jobs and keep employees on payroll if backlogs decrease.
- + If you're under \$30 million, you will have more reasons to shore up resources and determine the next projects. A contractor with \$30 million may consider smaller jobs for the frequency of the job.
- + The \$30 million to \$50 million contractor is at a healthy 8.8, representing a year-over-year decrease from 2023. Jobs are getting bigger because of inflation, scope, and scale.
- + Larger company-size contractors have bigger months of backlogs due to jobs getting bigger.
- + Regionally, we are seeing differences in the trends that have passed. The backlog for the south is greater than that of all other regions due to the number of jobs lined up and will eventually start.

PROJECT STRESS INDEX

November's year-over-year project stress index remains in a similar state. The backlog may not be as strong as contractors would like, and as a result, the index is reflected as stressed and determines which jobs will be put on hold or abandoned.

PROJECT STRESS INDEX COMPOSITE

A seasonally adjusted, equal weight measure of delayed, on hold and abandoned projects



SUBCOMPONENT INDEX OF THE PSI

Delay Bid Date	On Hold	Abandoned
=	↑	↑

Source: Guckes, M. (2024, December 3). Project Stress Index Composite. ConstructConnect's Project Stress Index. chart, ConstructConnect. Retrieved January 7, 2025, from <https://www.constructconnect.com/construction-economic-news/project-stress-index-december-2024>.

WHAT THIS MEANS FOR YOU

- + The number of delayed projects in the last 30 days was stable month to month.
- + More jobs were put on hold or abandoned from the prior month. They may have had some jobs put on hold or delayed.
- + The total number of projects under stress will go down as jobs are removed from being on hold and fewer jobs are abandoned.
- + Regulatory changes may impact the stress index as trade and tariffs remain in question.



CONSTRUCTION EMPLOYMENT

Hourly earnings are up 4.1% year-over-year. This number was around 5%-5.3% prior to the presidential election. The total number of jobs added in November was 10,000, which is close to the 12,000 jobs added in September 2024.

CONSTRUCTION EMPLOYMENT STATISTICS: NOVEMBER 2024

	Nov 2024	Oct 2024	Nov 2023	1-Month Net Change	12-Month Net Change	12-month % Change
Employment						
Construction	8,313,000	8,303,000	8,102,000	10,000	211,000	2.6%
Nonresidential	4,939,100	4,932,300	4,780,200	6,800	158,900	3.3%
Nonresidential building	925,900	927,600	898,400	-1,700	27,500	3.1%
Nonresidential specialty trade contractors	2,851,900	2,844,900	2,750,300	7,000	101,600	3.7%
Heavy & civil engineering	1,161,300	1,159,800	1,131,500	1,500	29,800	2.6%
Residential	3,373,800	3,370,700	3,321,400	3,100	52,400	1.6%
Residential Building	957,600	956,200	931,400	1,400	26,200	2.8%
Residential specialty trade contractors	2,416,200	2,414,500	2,390,000	1,700	26,200	1.1%
Average Hourly Earnings						
All private industries	\$35.61	\$35.48	\$34.23	\$0.13	\$1.38	4.0%
Construction	\$38.74	\$38.69	\$37.21	\$0.05	\$1.53	4.1%
Average Weekly Hours						
All private industries	34.3	34.2	34.4	0.1	-0.1	-0.3%
Construction	38.9	39.1	39.3	-0.2	-0.4	-1.0%
Unemployment Rate						
All private industries (SA)	4.2%	4.1%	3.7%	0.1pp	0.5pp	n/a
Construction (NSA)	4.6%	4.2%	4.8%	0.4pp	-0.2pp	n/a

Source: U.S. Bureau of Labor Statistics. Note: SA: Seasonally adjusted. NSA: Not seasonally adjusted

WHAT THIS MEANS FOR YOU

- + Workers' compensation premiums will see more pressure than other lines of business. Employees work fewer hours for the first time at higher average hourly earnings, with fewer employees added over 12 months.
- + Workers' compensation payroll basis will increase at the rate of inflation.
- + The decrease in hours worked impacts the per-hour earnings. However, it does not count under workers' compensation if the hours are not worked. In addition, this has a positive effect on lowering employee overtime.

PRODUCER PRICE INDEX

Concrete products and products that go into the concrete will have a higher inflation rate than other products that go into heating. This was part of the demand for all infrastructure. This has driven up the cost of sand, gravel, and stone.

PRODUCER PRICE INDEX, NOVEMBER 2024

	1-Month % Change	12-Month % Change	Change since Feb. 2020
INPUTS TO INDUSTRIES			
Inputs to construction	0.0%	0.5%	39.0%
Inputs to multifamily construction	0.2%	1.6%	39.6%
Inputs to nonresidential construction	0.1%	0.3%	39.5%
Inputs to commercial construction	0.1%	0.7%	40.4%
Inputs to healthcare construction	0.2%	0.8%	40.1%
Inputs to industrial construction	0.1%	1.0%	36.4%
Inputs to other nonresidential construction	0.0%	0.1%	39.2%
Inputs to maintenance and repair construction	-0.2%	0.5%	37.0%
COMMODITIES			
Adhesives and sealants	0.0%	1.2%	35.3%
Brick and structural clay tile	0.0%	4.6%	31.0%
Concrete products	0.5%	3.6%	40.6%
Construction machinery and equipment	0.2%	1.3%	30.3%
Construction sand, gravel, and crushed stone	0.6%	7.8%	40.0%
Copper wire and cable	-1.3%	11.7%	43.7%
Crude petroleum	-3.3%	-11.9%	39.7%
Fabricated structured metal products	0.8%	0.6%	54.5%
Gypsum products	0.8%	5.3%	50.1%
Hot rolled steel bars, plates, and structural shapes	-2.5%	-10.0%	37.6%
Insulation materials	-0.3%	7.3%	46.6%
Iron and steel	0.6%	-5.5%	42.2%
Lumber and wood products	0.4%	1.5%	25.6%
Natural gas	2.6%	-17.3%	26.7%
Plumbing fixtures and fittings	0.1%	1.8%	20.1%
Prepared asphalt, tar roofing, and siding products	-1.5%	2.2%	43.9%
Softwood lumber	3.4%	11.8%	17.2%
Steel mill products	1.2%	-7.1%	47.7%
Switchgear, switchboard, industrial controls equipment	0.0%	5.3%	47.3%
Unprocessed energy materials	-2.0%	-11.9%	51.5%

Source: Associated Builders and Contractors. (2024, December 12). Construction Producer Price Index: November 2024. *Monthly construction Input Prices Unchanged in November, Says ABC.* chart, Associated Builders and Contractors. Retrieved December 30, 2024, from <https://www.abc.org/News-Media/News-Releases/monthly-construction-input-prices-unchanged-in-november-says-abc>

WHAT THIS MEANS FOR YOU

- + The increase in copper wire and cable could be driven by demand rather than supply. There is a need for copper wire for all the electricians going into projects, specifically to data centers and warehouses.
- + Overall, material input costs leveled out, reducing construction costs at the top line.
- + Confidence is strong among contractors following the U.S. presidential election. 43% of contractors anticipate no change to profit margin expectations as of November 2024 and up from the prior month.²
- + The percentage of people who think the construction economy is down has decreased and believe there will be no change in or up slightly in sales, profit, and staffing expectations.

IN SUMMARY

The construction sector is expected to see increased activity in privately financed segments over the next six months, including multifamily projects. However, overall construction growth in 2025 is projected to slow, with total spending for 2024 estimated at \$2.179 trillion. With fewer projects to bid on, contractors may seek out-of-state work, impacting insurance considerations, especially in high-risk states like Texas and Florida.

Project costs keep increasing due to inflation. Insurance has been a benefactor of this inflation-driven spending both on payroll and inflation costs. If inflation costs cool, insurance rates will cool as well.

Professional liability claims may rise with a growing focus on design-build and alternative project delivery methods. Private equity firms will continue to target contractors, necessitating thorough due diligence. Workers' compensation tracking for payroll expectations will prioritize hours worked over employee headcount. Meanwhile, builder's risk insurance will face increased competition and market saturation.

The future state of the construction economy will depend on factors such as upcoming projects, works in progress, and owner sentiment about future building. Persistent inflation, along with taxes, tariffs, and labor costs, may limit construction spending growth and impact insurance coverage. A potential slowdown in construction could lead to reduced investments, including hiring. Current spending reflects these combined influences.

Sources:

1 Vasile, N. and West, Z. (2024). *D&O Premium Increases Down while Umbrella Crept Up in Q3, The Council's P/C Market Report Shows. Commercial Property/Casualty Market Index Q3 2024.* Council of Insurance Agents and Brokers. <https://www.ciab.com/resources/news-release-do-premium-increases-down-while-umbrella-crept-up-in-q3-ciab-p-c-market-survey-shows/>

2 ABC. (2024, December 10). *ABC's Construction Backlog Indicator Holds Steady in November, Contractor Confidence Surges.* ABC. <https://www.abc.org/News-Media/News-Releases/abcs-construction-backlog-indicator-holds-steady-in-november-contractor-confidence-surges>



MARKETS IN FOCUS CONTRIBUTORS

MICHAEL CAMPO | *EVP, National Construction Practice Director*

ANGELA THOMPSON | *Senior Marketing Specialist, Market Intelligence & Insight*

SORAYA MARASHI | *Senior Marketing Coordinator, Market Intelligence & Insights*

KEEP READING

GENERAL EDITION

INSURANCE INSIGHTS

HR INSIGHTS

FOR ANY QUESTIONS, PLEASE REACH OUT TO:



MICHAEL CAMPO

EVP, National Construction
Practice Director

michael.campo@imacorp.com

This material is for general information only and should not be considered as a substitute for legal, medical, tax and/or actuarial advice. Contact the appropriate professional counsel for such matters. These materials are not exhaustive and are subject to possible changes in applicable laws, rules, and regulations and their interpretations.