



CONSTRUCTION MIDYEAR UPDATE



In 2025, the U.S. construction industry has demonstrated remarkable resilience in the face of economic uncertainties, adapting to shifting market dynamics and leveraging technological advancements to drive growth. This mid-year update provides a comprehensive overview of the current state of the U.S. construction market, highlighting key trends, challenges, and strategic adaptations that are shaping its trajectory.

U.S. CONSTRUCTION MARKET OVERVIEW

The U.S. construction market experienced robust growth from 2020 to 2024, achieving a compound annual growth rate (CAGR) of 7.3%. This upward trend is expected to continue, with the market forecasted to grow at a CAGR of 4.4% from 2025 to 2029. **By the end of 2029, the construction sector is projected to expand from its 2024 value of \$1.20 trillion to approximately \$1.59 trillion.**¹

Real GDP is forecasted to grow by 1.2% in 2025, a significant downgrade from previous updates and well below the economy's potential. Uncertainty from U.S. trade policy is likely to harm businesses, disrupt supply chains, and result in weaker demand. This uncertainty is expected to keep the Federal Reserve rate on hold until the end of the year, with a single 25-basis-point cut anticipated in December.²

Total U.S. construction starts are forecasted to contract by 1.8% in 2025. Civil construction will remain the strongest summary category, but it is expected to stagnate throughout the year. Both residential and nonresidential building starts are projected to decline. Many businesses continue to delay planned investments as they wait for this period of economic uncertainty to pass. This impact is expected to be felt across all three major sectors.

- **Total nonresidential building** activity is forecasted to decline by 3.9% in 2025.
- **Institutional construction** is projected to decline by 11.8% in 2025.
- **Commercial construction** is expected to grow by 7.4% in 2025.
- **Civil construction** is set for stagnation in 2025.

Looking beyond the coming year, the medium-term outlook has been marginally downgraded as the economy struggles to recover from the multiple shocks of 2025, including expected cuts to immigration that may erode the construction labor force and businesses taking time to adapt to the costs of tariffs.

CONSTRUCTION STARTS

- January and February experienced a sharp contraction in activity, with total construction spending down 24% year-over-year. Residential construction plummeted 32.7%, and nonresidential construction fell 29.9%. Civil construction, which had been a bright spot in 2024, declined by 6.1%. This early weakness was largely attributed to the absence of the unusually high megaproject activity that inflated early 2024 figures.
- March marked a pivotal turnaround, with nonresidential starts rebounding to \$55.3 billion. This resurgence was driven by a surge in megaprojects, including two large sports arenas on the East Coast (\$2.3 billion), a \$1 billion airport expansion, and three data center and three apartment megaprojects totaling \$6 billion.
- May highlighted that recovery had gained significant traction. Total nonresidential construction starts reached \$77.2 billion, up 25.7% from May 2024 and 19.8% from April 2025.³

In summary, while 2025 began with a notable slump, the construction sector has shown resilience and adaptability, with mega projects playing a central role in stabilizing and driving growth. The industry's trajectory now hinges on the balance between macroeconomic pressures—such as inflation and public funding constraints—and the continued rollout of large-scale, high-impact developments across the country.



CONSTRUCTION SPENDING

According to the latest Summer 2025 Q2 Put-in-Place Construction Forecast by ConstructConnect, total construction spending in the United States is projected to reach approximately \$2.23 trillion, reflecting a 3.3% increase over the previous year. While this growth remains positive, it represents a slight downward revision from earlier expectations, which had forecast a 4.1% increase. The adjustment reflects a more cautious outlook amid evolving economic conditions, including tighter financial markets, inflationary pressures, and shifting public policy priorities.

The construction sector continues to demonstrate resilience, with all three major segments—residential, nonresidential, and civil (heavy engineering)—expected to post year-over-year gains in 2025.





EMPLOYMENT

Total construction employment has experienced a slowdown since February.

Between March and May, the average monthly rate of construction job creation was slightly above 5,000, significantly lower than the 14,400 average monthly job creation rate recorded during the second half of 2024.

Recent job losses have predominantly occurred in the residential sub-trades segment, which has seen a net loss of 22,000 jobs over the past three months. In contrast, all other construction labor segments have posted net gains during the same period, led by nonresidential sub-trades with 20,000 jobs, followed by residential buildings with 9,000 jobs.⁴

\$39.42

Average construction wage

39

Average hours worked per week

Compared to

\$36.24

Private sector avg. wage

34.3

Private sector avg. hours worked per week

*Based on May 2025 figures

LABOR SHORTAGE, IMMIGRATION POLICY, AND SKILLED WORKFORCE GAP

According to estimates from Associated Builders and Contractors, there is a need for 439,000 additional workers in 2025 to meet the projected demand. This demand is expected to increase to 499,000 in 2026, driven by rising construction activity amid anticipated interest rate reductions.

Immigrants play a critical role in the industry, comprising 34% of the workforce nationally and nearly half in states such as California, Texas, New Jersey, Florida, Georgia, and New York, according to the Associated General Contractors of America. However, that reliance on foreign-born workers is now a growing risk. According to a recent article published by Forbes, the trades were already short on workers, with too few young people entering the field to meet demands. Furthermore, the article suggests that Immigration and Customs Enforcement raids are exacerbating the gap, making it harder to retain labor. Thus, builders across the country are bracing for deeper shortages, higher costs, and delayed projects. The estimated impact will not be evenly distributed—larger firms with more resources may adapt, but smaller builders and contractors could face significant challenges.⁵

TRAINING AND DEVELOPMENT NEEDS

Another significant challenge is the skills gap, as many available workers lack the necessary qualifications. A report by Arcoro indicates that **62% of construction firms find candidates lacking essential skills or certifications**. Addressing this gap necessitates a strong emphasis on training and development to equip workers with the skills required for modern construction projects.

WORKFORCE AGING AND RETIREMENT

The aging workforce adds another dimension to the labor shortage problem. **Over 20% of American construction workers are aged 55 and older**, which will result in an increase in retirements in the near future. This trend could leave the industry lacking experienced workers, making it more critical than ever to transfer knowledge to the next generation.

The challenge is further compounded by the insufficient number of younger workers entering the construction industry at the necessary rates.



TECHNOLOGY AND INNOVATION

Labor shortages, cost pressures, safety regulations, and demands for client transparency are the four main drivers pushing U.S. contractors towards the adoption of digital tools. In early 2025, a staggering 94% of construction firms reported challenges in filling open positions, with the industry needing to attract approximately 439,000 net new workers merely to meet demand. For instance, Franklin Builders, a mid-sized contractor in the Midwest, faced the sudden loss of two veteran project managers. In response, they implemented schedule-tracking software and drone-based site surveys, transforming what previously required three weeks of manual measurements into a task completed in under 48 hours, ensuring they remained on schedule.

In the 2025 AGC survey, **59% of contractors identified the rapid adoption of technology as a primary concern**. Furthermore, 44% plan to increase their investment in artificial intelligence, while 26% aim to boost spending on building information modeling (BIM) this year. These figures underscore a critical necessity for businesses: adapt swiftly or risk falling behind. A recent case study by Propeller exemplifies this point, showcasing how a residential earth-moving team transitioned from traditional rover surveys to drone technology, reducing the time needed to produce site maps from days to mere minutes. As material costs rise and labor becomes scarcer, such advancements in efficiency are no longer optional but vital for firms aiming to maintain competitiveness in 2025.

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[Emerging Technologies in Construction:
Risks and Implications](#)

CONSTRUCTION SAFETY AND RISK MANAGEMENT

Construction work continues to be one of the most hazardous occupations, with fatality rates consistently higher than those in other private industries. Year after year, data reveals concerning trends that underscore persistent risks and the necessity for enhanced safety measures. In 2024, the construction industry remained the most perilous private sector, with over 1,000 deaths, or 9.6 fatal work injuries per 100,000 full-time workers.

- The construction sector is responsible for one in five workplace fatalities.
- Between 2011 and 2022, the construction industry recorded the highest number of workplace fatalities among private industry sectors, reaching a peak of 1,069 deaths in 2022, which constituted 21.36% of all U.S. worker fatalities.
- **In 2023, the construction industry once again recorded the highest number of fatal work injuries in the U.S. private sector with 1,075 deaths—accounting for 23.71% of all workplace fatalities.** This is particularly striking given that **construction workers made up only 6.05% (8.099 million) of the total private industry workforce that year.**
- The overall fatal work injury rate for construction and extraction occupations rose from 12.3 deaths per 100,000 workers in 2021 to 13.0 in 2022, with a slight decrease to 12.9 in 2023.
- Texas has reported the highest number of construction fatalities among U.S. states, with over 1,100 fatal injuries since 2011, followed by California (745), Florida (672), New York (457), and North Carolina (332).⁶

Safety training and education are key parts of a comprehensive approach to risk management. We work closely with clients to remedy workplace hazards before accidents and injuries occur. Whether through accredited online health and safety training programs or onsite training programs, we can assist in helping to ensure workers are informed, engaged, and protected. Safety training programs are crucial for risk management, as they proactively implement site safety measures and protocols. By identifying and assessing workplace risks, developing control strategies, and taking proactive steps to mitigate them, companies can reduce TCOR and safeguard both workers and their reputation.

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TRENDS, CHALLENGES, AND OUTLOOK

RESILIENCE IN CONSTRUCTION SPENDING

Though consumers continue to manage ongoing inflationary pressures, commercial building and infrastructure construction spending remains resilient. **Twenty-two cities are projected to drive 50% of construction spending, with the perimeter coastal cities and North and South Central regions expected to experience substantial growth.** These areas will see increased investment in data centers, lodging/hotels, water supply, and transportation, with advanced technology and new energy fueling this expansion. **Data centers alone are expected to account for 12.7% of construction spending** from 2024 to 2028—more than double that of any other industry segment according to the Insurance Marketplace Realities 2025 report published by WTW.

IMPACT OF NATURAL EVENTS

The impacts of natural events, such as the recent fires in Los Angeles, have had a profound impact on both the construction and insurance markets. With more than 16,000 properties destroyed, there's been a significant demand for rebuilding and repair services, a trend expected to continue in 2025. This demand presents opportunities for construction companies specializing in rebuilding homes and businesses.

SUSTAINABILITY AND INNOVATION

Sustainability trends are influencing the construction industry, particularly through the growth of modular and prefab construction methods. Supported by BIM and AI, these techniques are improving project planning, reducing costs, enhancing efficiency, and contributing to safer and more profitable projects. However, they also present unique safety challenges that require new strategies and solutions to ensure worker safety and project success.

READ MORE

[Adapting to Change: Safety Challenges and Solutions in Modular and Prefabricated Construction](#)

INVESTMENT IN NUCLEAR ENERGY

Significant investment in nuclear energy, especially in the context of next-generation technologies and expanding existing infrastructure, is expected. This investment is driven by the global need for cleaner, more reliable energy sources to meet rising electricity demand and reduce carbon emissions. The push for advanced nuclear reactors—such as small modular reactors and other next-generation designs—has been growing, as these technologies are seen as more efficient, safer, and potentially more environmentally friendly than older reactors. Additionally, nuclear energy is increasingly being seen as a viable option to complement renewable energy sources, particularly in balancing grid demands and providing consistent baseload power as demand for clean energy continues to rise.



TECHNOLOGICAL ADVANCEMENTS

The future of construction is being shaped by the integration of AI and robotics, offering new ways to address long-standing challenges in productivity and safety. Technologies such as drones and sensors are now being used for tasks like bricklaying, concrete pouring, and risk detection. These AI-powered tools are improving efficiency and changing the role of skilled labor and automated systems within the industry. This technological shift is expected to continue through 2025 and beyond, as the industry increasingly adopts these innovations to remain competitive and meet project deadlines. Additionally, the rise of smart personal protective equipment (PPE) is playing a crucial role in improving safety on construction sites. These advanced devices, which check biometrics and environmental factors, help prevent medical issues and potential risks to workers. When connected to Internet of Things (IoT) systems, the real-time data collected from these devices can be analyzed to improve safety protocols and create a safer working environment. As the industry evolves, the adoption of smart PPE and IoT technologies will become increasingly vital for both protecting workers and ensuring successful project outcomes.

INSURANCE—CONSTRUCTION INDUSTRY RATES

In 2025, rates are anticipated to be higher than in 2024, particularly in areas such as auto and umbrella/excess. The reasons for these hikes include social inflation, nuclear verdicts, and juries that favor plaintiffs. Contractors will encounter more rigorous evaluations and possible restrictions on coverage, especially concerning auto and driver protocols, including hired, non-owned, and third-party hauling risks. The Builder's Risk insurance market is becoming more stable due to increased capacity and favorable treaty renewals, resulting in more level rates. However, secondary natural catastrophe risks, such as severe storms and wildfires, are leading to heightened underwriting scrutiny and the implementation of sublimits and percentage-based deductibles, as well as restricted primary and excess capacities.

FUTURE TRAJECTORY AND STRATEGIC ADAPTATIONS

The industry's future trajectory will depend on the interplay of monetary policy, trade negotiations, and sectoral innovation. Firms that localize supply chains, embrace contract flexibility, and invest in productivity will be best positioned to navigate the current challenges. However, the risk of a broader downturn or recession remains, necessitating vigilance and adaptability from stakeholders. The coming months will be critical in determining whether the industry can stabilize and return to growth or face deeper challenges. Strategic adaptations are essential for survival, with data centers and government projects offering rare bright spots amid a broader slowdown. As the landscape continues to evolve, firms must also remain proactive in their risk management strategies and capitalize on opportunities for innovation and growth.⁷

GALLAGHER BASSETT: YOUR PARTNER IN CONSTRUCTION RISK MANAGEMENT

Gallagher Bassett provides comprehensive claims, risk management, and training programs that minimize the impact of risk on construction projects from start to finish. We safeguard both owners and contractors from environmental, construction, and claim-related exposures through:

- **Loss Prevention:** Safety training, safety planning, and onsite site safety programs designed to reduce incidents before they occur
- **Loss Resolution:** Experienced claims handling and management, coupled with tailored investigation services to ensure fair and efficient outcomes
- **Loss Remediation:** Environmental planning, testing, and emergency responses to address and resolve environmental issues quickly and effectively
- **Loss Mitigation:** Managed care specialists to help reduce workers' compensation costs while prioritizing employee well-being



Contact us today to discuss your next project.

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4. Construct Connect: June 2025 Construction Economy Snapshot
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