AGC
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CONSTRUCTION INFLATION ALERT

The U.S. construction industry is once again coping with rapid increases in materials costs, supply-chain bottlenecks, and a tight labor market. To help project owners, government officials, and the public understand how these conditions are affecting contractors and their workers, the Associated General Contractors of America (AGC) has created a new edition of the *Construction Inflation Alert*.

Earlier versions of the *Alert* were posted in 2022 as the nation experienced extreme disruptions to supply chains in the wake of shutdowns and relocations caused by the COVID-19 pandemic in 2020 and 2021. Russia's attack on Ukraine in February 2022 aggravated supply problems. Once supply bottlenecks eased, prices for many materials retreated, though not to pre-pandemic levels.

The pressures on contractors in late 2026 have more diverse origins. Tariffs imposed in 2025 drove up the cost of metals and metal products. Immigration enforcement added to existing challenges in finding qualified workers. Conflict in the Middle East pushed up prices for petroleum products, especially diesel fuel. Soaring demand for data centers created competition for materials, skilled workers and equipment.

This document examines the contributions of these factors to the current situation, explores their likely near-term path and suggests policy steps to ease some of the pressures. The document will be revised as needed to keep it timely as conditions affecting demand for construction, labor supply, and materials costs and availability change. Each new version is posted here: https://www.agc.org/learn/construction-data/agc-construction-inflation-alert.

Readers are invited to send comments and feedback, along with "Dear Valued Customer" letters or other information about materials costs and supply-chain issues, to AGC of America's chief economist, Ken Simonson, at ken.simonson@agc.org

www.agc.org

Materials costs are rising at more than triple the rate of consumer prices

After the extreme runup in materials costs that began in 2020, prices for many items leveled off or declined from mid-2022 to late 2024. Prices started increasing again in early 2025 and have accelerated sharply since then.

The extent of these increases is documented by the Bureau of Labor Statistics (BLS). BLS posts producer price indexes (PPIs) around the middle of each month for thousands of products and services (at www.bls.gov/ppi). Most PPIs are based on the prices that U.S. sellers say they charged for a specific item on the Tuesday of the week that includes the 13th day of the preceding month. Producers include manufacturers and fabricators, intermediaries such as steel service centers and distributors and providers of services ranging from design to trucking.

The prices charged by foreign sellers are not collected directly but are reflected in selling prices by importers. To the extent importers pass along tariffs or other price changes by foreign vendors, PPIs are affected. Moreover, domestic sellers often adjust their selling prices in response to changes in the cost of imports that either compete with, or are used in, domestically produced goods.

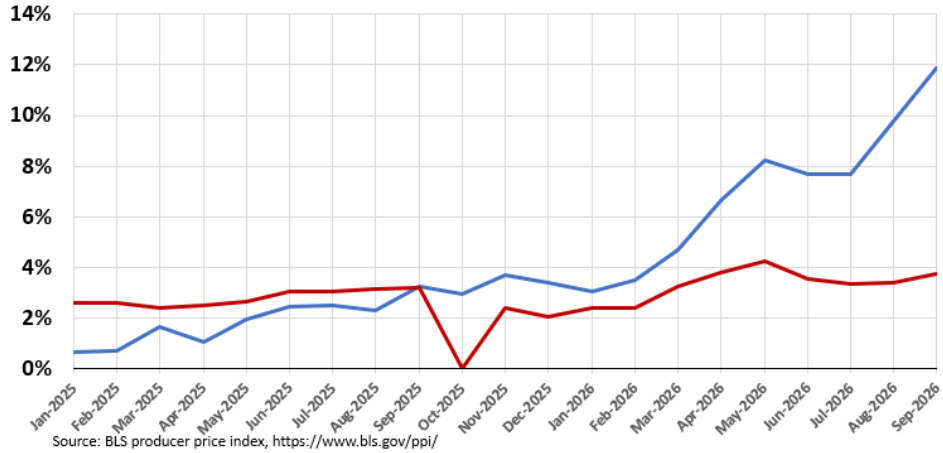
11.9%

Increase in the PPI to new nonresidential construction over the 12 months through September 2026

One broad measure of contractors' costs is the PPI for inputs to new nonresidential construction. This is a weighted average of selling prices for most materials and some services used in nonresidential projects. The index excludes contractors' direct labor costs, equipment purchases, and direct imports of materials. However, it does capture changes in prices of imported goods bought from U.S. distributors and retailers; most imported construction items are purchased through these channels.

Costs for new nonresidential construction rising at 3 timews the rate of consumer price increases

Year-over-year change in PPI for nonresidential construction inputs & CPI, Jan. 2025-Sep. 2026, not seasonally adjusted



	12-month % change to: Sep. 2026	Jan. 2025
PPI new nonres inputs	11.9%	0.6%
CPI	3.7%	2.6%

Source: BLS producer price index, https://www.bls.gov/ppi/

The index rose at a record-high annual rate of 24% in June 2021. Year-over-year increases remained at or above 20% from May 2021 through April 2022, then decelerated steeply. The index dipped 0.3% on average from 2022 to 2023 and edged up just 0.6% in 2024.

The index increased at a still-mild rate of 2.2% on average from 2024 to 2025. But the index has risen at a much steeper rate throughout 2026: the year-over-year change in January 2026 was 3.0%, but accelerated to 8.9% in August and 11.9% in September.

By mid-2023, the CPI had cooled to a 3.1% rate of increase year-over-year. Since then, consumer inflation has stayed in a range of 2.3% to 4.2%--a sharp contrast to the steep runup in costs for construction.

The gap has widened steadily in 2026. The September 2026 reading of an 11.9% year-over-year increase in the nonresidential PPI was more than triple the 3.7% rise in the CPI. Thus, project owners or budgeters who base their estimates of inflation for construction on the CPI are likely to significantly underestimate actual construction cost increases.

Estimates based on changes in the CPI since the onset of the pandemic are even farther off the mark. From February 2020, the month before the pandemic caused widespread disruptions, through September 2026, the CPI climbed 30%. In contrast, the PPI for inputs to nonresidential construction soared 58%--nearly twice as much.



Tariff impacts

Two types of events account for most of the runup in input costs: tariffs and the Middle East conflict. The President imposed tariffs of 50% on most imported steel and aluminum in June 2025 and a 50% tariff on the copper content of many products in August of that year. Aside from limited exceptions and minor adjustments, those rates are still in effect. (A Supreme Court ruling in February 2026 that invalidated some tariffs did not affect the vast majority of items purchased by contractors.)

Although PPIs are based on domestic selling prices, those vendors react promptly to any increase in the price of competing imports. This impact can be seen clearly in the change in PPIs for these metals. Between September 2025 and September 2026 PPIs jumped 25.2% for aluminum mill shapes, 27.6% for steel mill products and 30% for copper and brass mill shapes. Certain types of metal products used exclusively in construction rose even more. For instance, the PPI for fabricated structural metal for non-industrial buildings, such as beams and joists, climbed 35% from September 2025 to September 2026.

The impact of rising steel prices also shows up in construction products that are largely sourced domestically. For example, in most regions of the country cement, which is a main ingredient in concrete, is produced domestically and does not face competition from imports. The PPI for cement declined 1.2% over the 12 months through September 2026. But the index for precast construction products, which have steel embedded in concrete, increased 10.5% over the same period.

Impacts from Middle East conflict

115%

Increase in diesel fuel prices over the 12 months through September 2026

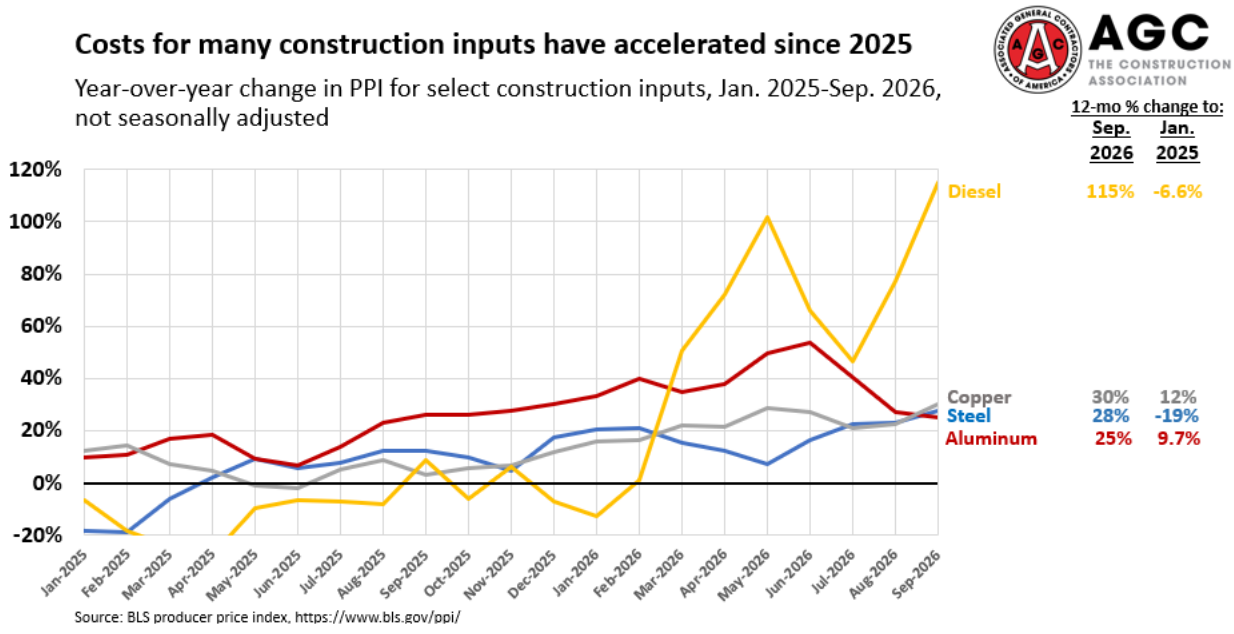
Attacks by Iran and its proxies and countermeasures by the United States and allies have cut off a huge percentage of global supplies of crude oil and some refined petroleum products. The impact on construction was felt as soon as the conflict began on February 28, 2026 and has continued since then.

The PPI for diesel fuel skyrocketed by 43% from February to March 2026. After a brief, partial retreat, the index has continued to climb, rising 115% over 12 months to September 2026.

Contractors and their workers use large quantities of diesel fuel for their own trucks and offroad equipment. The price of fuel is also reflected in fuel surcharges that shippers tack onto the price of the thousands of truckloads needed to deliver equipment and materials to jobsites and haul away dirt, debris and equipment. The PPI for truck transportation of freight climbed 19.3% from September 2025 to September 2026.

Liquid asphalt, a major component of paving and roofing materials, is another petroleum product that has been affected by the conflict. The PPI for asphalt, which declined in much of 2025 and early 2026, turned around and jumped 39% between February and August 2026.

In addition to petroleum products, the conflict has affected the cost of other materials sourced from the Middle East. For example, a portion of global aluminum supplies that previously came from the region has been cut off by damage to production and export facilities. The cost of shipping goods by sea from all parts of the world has climbed for several reasons: higher fuel costs, longer routes and a disruption of available capacity as ships travel farther or remain bottled up in the region.





Supply chain issues

A growing problem for many contractors has been lead times for certain materials, particularly structural steel. Specifically, wide-flange beams and hollow structural sections (HSS) that are used in large building construction now have unusually long and uncertain lead times.

Steel fabricators purchase steel from domestic mills or importers and their distributors, then turn out beams and other structural shapes. They schedule a certain number of days each month or quarter for different shapes. By late September, some fabricators were telling their contractor customers that all capacity had already been reserved through the first quarter of 2027 or even longer.

Worse, some contractors reported that fabricators had warned them they would receive as little as one-fourth of the beams they had contracted for. Other fabricators were turning down new customers altogether. Without a source for the full allotment of structural steel, projects could be delayed indefinitely.

Other items that have been subject to long lead times include transformers, switchgear to control electrical flows and operations inside a structure, and generators. All of these categories of equipment are essential to timely completion of projects.

Labor supply and cost

Finding and retaining skilled workers continues to be a major challenge for contractors. Respondents to an annual workforce survey conducted by AGC and NCCER in July and August 2026 overwhelmingly reported difficulty in filling positions. Of the more than 1,000 respondents with openings, 88% each reported it was as hard or harder than a year earlier to fill hourly craft and salaried positions. The hardest craft positions to fill were electricians (listed by 81% of firms with openings), mechanics (79%) and HVAC technicians (77%). Several salaried positions were almost as difficult to fill: superintendents (75% of firms), project managers or supervisors (74%) and estimating personnel (72%).

The top reason listed by respondents as to why their firm was experiencing project delays was shortages of workers (their own or subcontractors' workers), cited by 42% of respondents. Immigration enforcement is contributing to the challenge: 29% of respondents reported it had affected their firm directly or indirectly in the previous six months. The total includes 6% that said they had been visited by enforcement personnel at a jobsite or other location, such as their offices. In addition, 12% said workers had disappeared or failed to show because of actual or rumored enforcement actions and 16% said their firm had not been affected directly but subcontractors had been. Any of these types of encounters can drive up costs by throwing off a schedule or shutting down a project completely.

Despite these challenges, contractors have been successful—so far—in adding to their headcount. BLS data show that employment at nonresidential firms (building and specialty trades contractors and heavy and civil engineering construction firms) increased by 2.9% from September 2025 to September 2026, compared with an increase of just 0.3% for total nonfarm payroll employment.

The increase in headcount has come at an accelerating price, though. Average hourly earnings for production and nonsupervisory employees, a term that covers most craft workers and office workers who are not supervisors, rose 4.3% from September 2025 to September 2026. That was an increase from a year earlier. In contrast, the same measure for the entire nonfarm private sector rose 3.3% in the latest 12 months, down from 3.8% in the previous 12 months. Wages for nonsupervisory construction employees averaged $39.20 per hour in September 2026, 20% more than in the overall private sector. This wage "premium" over the broader private sector increased from 19% a year earlier.

Another indicator of labor costs comes from the Construction Labor Research Council. CLRC tracks all local union settlements (wages and benefits) signed during a year. Through September, first-year increases in 2026 averaged 4.9%. While unions account for a minority of construction workers nationally, these settlements can affect labor costs for open-shop employees in markets where both types of firms operate.

These figures show that contractors have been successful at attracting and retaining workers at a greater rate than other sectors. However, they also suggest the industry will continue to experience elevated labor costs. That is especially likely as the pool of jobseekers with recent construction experience has been drying up. There were only 359,000 such individuals in September 2026, an 11% decline from a year earlier. The unemployment rate for construction was only 3.5% in September and has been consistently lower than the overall unemployment rate for the past two years—a significant reversal from the typical pattern.



$6.92

Record-high copper futures price per pound, up 40% from a year earlier.

The outlook

Unfortunately, most of the factors discussed above are likely to keep driving up construction costs. Tariffs are unlikely to be rolled back in the near future. In fact, the President recently imposed a tariff on Canadian cement before suspending it. He has also threatened to impose higher tariffs on other products used in construction, while the Commerce Department and the International Trade Commission are considering petitions from domestic producers of various steel products to impose steep duties on foreign competitors.

Most oil-market analysts expect fuel costs to remain elevated indefinitely, even if there is agreement to reopen shipping channels. Damage to production and export facilities will take time to repair, while diesel fuel production from Russia has also been reduced by attacks from Ukraine and sanctions by Western nations.

Global demand for copper has been outstripping production. As a result, the futures price of copper recently hit a record of $6.92 per pound, a 40% increase from a year earlier.

Demand for steel beams and electrical gear is unlikely to abate, unless data-center construction suddenly drops off. While manufacturers are adding capacity, it may be years before they can satisfy demand.

Construction labor costs also appear to be headed higher. The tightening of the southern border has choked off the supply of potential craft workers to replace those who retire or leave for other jobs. Meanwhile, a steady decline in births since a peak in 2007 means fewer individuals will be entering the workforce in in the coming years.



What can contractors and owners do?

Contractors can provide project owners with timely and credible third-party information about changes in relevant material costs and supply-chain snarls that may impact the cost and completion time for a project that is underway or for which a bid has already been submitted.

Owners can authorize appropriate adjustments to design, completion date, and payments to accommodate or work around these impediments. Nobody welcomes a higher bill, but the alternative of having a contractor go out of business because of impossible costs or timing is likely to be worse for many owners.

For projects that have not been awarded or started, owners should start with realistic expectations about current costs and the likelihood of increases. They should provide potential bidders with accurate and complete design information to enable bidders to prepare bids that minimize the likelihood of unpleasant surprises for either party.

Owners and bidders may want to consider price-adjustment clauses that would protect both parties from unanticipated swings in materials prices. Such contract terms can enable the contractor to include a smaller contingency in its bid, while providing the owner an opportunity to share in any savings from downward price movements (as has occurred at various times in recent years with lumber, diesel fuel, and metals prices). The ConsensusDocs set of contract documents (www.consensusdocs.org) is one source of industry-standard model language for such terms. The ConsensusDocs website includes a price escalation resource center (https://www.consensusdocs.org/price-escalation-clause/).

The parties may also want to discuss the best timing for ordering materials and components. Buying items earlier than usual can provide protection against cost increases. But purchasing materials before use entails paying sooner for the items; potentially paying for storage, security against theft and damage, and insurance; and the possibility of design changes that may make early purchase unwise.

Conclusion

The construction industry faces considerable uncertainty heading into 2027. One of the most immediate risks is the continued disruption to global oil supplies stemming from the conflict in the Middle East. Higher petroleum prices affect contractors not only through the cost of diesel fuel used in trucks and construction equipment, but also through increased transportation costs and the prices of petroleum-based products such as asphalt and roofing materials. Even if the conflict subsides, damage to production and transportation infrastructure could keep prices elevated for some time.

These pressures come as contractors are already contending with sharply higher prices for metals and other construction materials. In many cases, contractors have limited ability to pass along cost increases on projects already under contract. Further price increases could squeeze profit margins, force contractors to absorb unexpected costs, and make new projects more expensive or economically infeasible for owners.

A further concern is the possibility that rising materials and energy prices will contribute to more persistent inflation throughout the economy. If inflation remains elevated, the Federal Reserve may be reluctant to lower interest rates or may need to raise them further. Higher borrowing costs would make it more expensive for owners to finance construction projects, potentially leading to additional postponements, cancellations or reductions in scope. The risk is compounded if businesses and consumers begin to expect prices to continue rising and adjust their pricing and wage decisions accordingly. Together, these pressures threaten to raise the cost of construction while reducing the number of projects that owners are willing or able to undertake.

AGC resources

This document will be updated here if market conditions warrant.

The AGC website has a variety of resources available to contractors, owners, and others wanting to know more about the construction industry.

AGC posts tables showing changes in PPIs and national, state, and metro construction employment each month here.

AGC's Data DIGest is a weekly one-page summary of economic news relevant to construction. Subscribe here or email chief economist Ken Simonson at ken.simonson@agc.org.

Construction documents are available for viewing and purchase from ConsensusDocs at www.consensusdocs.org, including the price escalation resource center, www.consensusdocs.org/price-escalation-clause/

