CONSTRUCTION COST IMPACTS

Oil and Labor: The Twin Pressures on Northern California Construction in 2026

Northern California's construction market is facing a perfect storm as oil prices approach $100/barrel following the Iran conflict and the state's chronic labor shortage intensifies. Construction input costs surged at a 12.6% annualized rate during the first two months of 2026, driven by energy costs even before the geopolitical escalation, with diesel-dependent materials like concrete, asphalt, and heavy equipment rentals seeing the most acute pressure.

For California specifically, this energy shock is compounded by the state's 439,000 construction worker shortage projected for 2025-2026, with particular vulnerability given that 40% of California's construction workforce is immigrant labor now facing heightened enforcement uncertainty.

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MATERIAL TRENDS - SUMMARY MATRIX

Material	Cost Trend in Q1	Lead Times	Material Shortage	Transport / Logistics
Reinforcement Bars	High - 3%	Stable	Moderate	Neutral
Concrete	High - 3%	Stable	Moderate	High - admixtures
Structural Steel	High - 2-3%	Stable	Moderate	High
Misc. Metals	High - 5-7%	Stable	Moderate	High
Carpentry	Moderate - 1%	Labor shortage	Yes	Neutral
Lumber	Stable	Stable	No	Neutral
Glulams and CLT	Stable	Stable	Moderate	Neutral
Plywood	Stable	Stable	No	Neutral
Melamine and Plam	High - 2-3%	Stable	Moderate	High
Insulation	Stable	Stable	No	Neutral
Drywall	Moderate - 2%	Stable	Moderate	High
Ceiling Tile	Stable	Stable	Moderate	Neutral
Carpet Flooring	Stable	Stable	No	Neutral
Imported Stone	High - 3-4%	Extended	Moderate	High
Domestic Tile	Stable	Stable	No	Neutral
Plumbing Fixtures	Moderate - 2%	Stable	No	Neutral
Steel Piping	High - 3%	Stable	Moderate	High
Copper Piping	High - 4%	Moderate	Yes	High
PVC Piping	Stable	Stable	No	Neutral
Mechanical Equip.	Moderate - 2%	52-80 weeks	Yes	High
Electrical Equip.	Moderate - 2-3%	80-210 weeks	Yes	High

PRIMARY CAUSES

The following are primary causes influencing the various construction material costs, lead times, shortages, and transport:

Tariffs

Construction tariffs range 27% of residential materials sourced from China (10–55% tariffs), 11% Mexico, 8% Canada. Steel/aluminum already up. Recommendation: Add 15–20% contingency on tariff-sensitive scopes + front-load procurement packages.

Labor Shortage

Construction unemployment is low and job openings remain high. The industry needs approximately 500,000 additional workers in 2026 to meet current and anticipated demand.

Labor Costs

Wage escalation >4% annually is baseline assumption. Northern California facing 439K worker shortage with particular pressure on skilled trades.

Conflict Surcharge

Assume 10-15% surcharge on all imported materials through Q3 2026 minimum. Monitor Iran situation for extension beyond Q3.

MARKET ANALYSIS

Sector	Spending Growth 2025	Spending Growth 2026	Key Drivers / Trends
Commercial	Down 3%	Slow Increase	Weak demand + continued rise in building costs due to pricing pressure
Multi-Family Residential	Slowed / Stalled	Slow/Stalled	High financing costs, oversupply in some markets; affordable housing goals unmet
Healthcare	6.00%	Up to 11.6%	Well-Capitalized Projects. Note Due to Medicaid and other federal cuts, Smaller regional projects may be canceled.
Education	Small Decrease	Slow Growth	Small dip in spending though many bonds have been approved.
Infrastructure & Data Centers	Strong growth	Continued Growth	Modernization needs, data center boom driving electrical grid upgrades; costs are still rising.
Renewable Energy & Infrastructure	Strong Growth	Continued Growth	Planning is significantly increasing, while many think there will be a substantial increase once the Iran conflict is over.

TARIFF EXPOSURE SUMMARY

Tariff Level	Material Affected
50%	Steel, Aluminum, Copper
25-30%	Kitchen cabinets, vanities, upholstered wood products, GLB derivatives
10-20%	Lumber, windows, doors, reciprocal tariffs on China/EU
Low/Indirect	Domestic products, PVC, some fixtures