XL

CONSTRUCTION COST IMPACTS

Q2 2026: Energy Shock Eases But Tariffs Sustain Pressure on Northern California Construction

The construction market saw temporary relief in June as oil prices retreated from Q1 highs, with input costs dropping 1.1% MoM. However, underlying pressures remain severe: diesel hit $5.13/gallon (up 58% YoY), aluminum surged 48.8%, and copper wire climbed 24.2%. The Iran conflict's resumption threatens renewed volatility. Data center construction exceeded $50 billion annually—surpassing public transportation for the first time—while transformer lead times stretched to 160+ weeks.

CALIFORNIA SPOTLIGHT

California's 439,000-worker shortage is compounded by immigration enforcement affecting 43% of its construction workforce—the nation's highest share—while LA wildfire rebuilding (13,000+ homes destroyed, only 28 rebuilt after one year) competes for the same strained labor pool. Pacific region spending is projected at +1.7% (~$303B), led by healthcare, data centers, and power infrastructure, with Northern California positioned for data center and 2028 Olympics-related opportunities. Labor costs are up 21% since 2019; budget 4-6% annual wage escalation as baseline.

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MATERIAL TRENDS - SUMMARY MATRIX

Material	Cost Trend in Q1	Lead Times	Material Shortage	Transport / Logistics
Reinforcement Bars	High - 3-4%	Stable	Moderate	High - diesel
Concrete	High - 4-5%	Stable	Moderate	High - diesel +58%
Structural Steel	High - 3-4%	Stable	Moderate	High
Misc. Metals	Very High - 6-8%	Stable	Moderate	High
Carpentry	Moderate - 1-2%	Labor shortage	Yes	Neutral
Lumber	Low - down 1.7%	Stable	No	Neutral
Glulams and CLT	Stable	Stable	Moderate	Neutral
Plywood	Low - down 1.7%	Stable	No	Neutral
Melamine and Plam	High - 3-4%	Stable	Moderate	High
Insulation	Stable	Stable	No	Neutral
Drywall	Moderate - 2-3%	Stable	Moderate	High
Ceiling Tile	Stable	Stable	Moderate	Neutral
Carpet Flooring	Stable	Stable	No	Neutral
Imported Stone	High - 4-5%	Extended	Moderate	High
Domestic Tile	Stable	Stable	No	Neutral
Plumbing Fixtures	Moderate - 2-3%	Stable	No	Neutral
Steel Piping	High - 3-4%	Stable	Moderate	High
Copper Piping	Very High - 5-6%	Moderate	Yes	High
PVC Piping	Stable	Stable	No	Neutral
Mechanical Equip.	Moderate - 2-3%	52-80 weeks	Yes	High
Electrical Equip.	High - 3-4%	160+ weeks	Yes - Severe	High

MARKET ANALYSIS

Sector	Spending Growth 2025	Spending Growth 2026	Key Drivers / Trends
Commercial	Down 3%	Slow/Flat	Weak demand + costs remain 44% above 2020
Multi-Family Residential	Slowed/Stalled	Stalled	Employment down 2.5% YoY; high financing costs
Healthcare	6%	Up to 11.6%	Well-capitalized systems expanding; 15 new $1B+ projects
Education	Small Decrease	Slow Growth	Bond approvals helping; federal cuts impacting
Infrastructure & Data Centers	Strong Growth	Cont'd Growth	Data centers now 2.3% of construction; $50B+
Renewable Energy & Infrastructure	Strong Growth	Accelerating	Post-Iran conflict energy independence push

BRIGHT SPOTS & OPPORTUNITIES

» **Strong Backlogs**	Backlogs at 8-9 months for GCs, 10.9 months for data center contractors
» **Data Center Boom**	$49.5B YTD (vs $13.6B in 2025); growth exceeding 40%
» **Healthcare Surge**	Spending up to 11.6% in 2026; 15 new $1B+ hospital projects
» **Interest Rate Cuts**	Fed funds now 3.5-3.75%; further cuts expected
» **Lumber Price Relief**	Softwood lumber down 1.7% YoY; only declining material
» **Renewable Energy**	Post-Iran energy independence push; battery storage eligible
» **Modular/Prefab**	20-30% faster delivery; addresses labor shortage
» **Technology ROI**	15-25% reduction in rework with digital tools

Actions: Focus on operational efficiency; selective bidding on best-margin work; Pursue hyperscale opportunities; invest in MEP capabilities; Target Kaiser, Sutter, Stanford; ambulatory growing fastest; Monitor rate-sensitive projects for restart; Lock pricing on wood-frame projects; Evaluate prefab partnerships; Invest in BIM, AI estimating

RISK FACTORS

» **IIJA Expiration (Sept 30)**	Infrastructure funding cliff; no reauthorization bill introduced
» **Immigration Enforcement**	10-30% of contractors report workforce disruptions
» **Insurance Premiums**	GL +22%, Umbrella +28%, Auto +15%, Builders Risk +12%
» **Surety Tightening**	Underwriting tighter; sub default risk scrutiny increasing
» **Workforce Aging**	40% of skilled workers over 45; 1 in 5 electrical over 55

Recommended Actions: Accelerate infrastructure bid pursuit through Q3; Diversify labor; increase apprenticeship; wage escalation >4%; Start renewals 120 days early; safety programs for credits; Strengthen sub prequalification; consider SDI; Invest in apprenticeship; competitive retention