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## CONSTRUCTION INDUSTRY ECONOMIC FORECAST FOR 2025

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As we head into Q4 of 2024 and begin to wrap up the year, we should be looking ahead to what 2025 may or may not bring in the construction industry. 2024 still felt the persistent and lingering effects of COVID-19 such as labor shortages and rising construction costs. The industry faced a number of additional challenges including supply chain disruptions, high interest rates, and inflation. On the other hand, significant investments in manufacturing, transportation, and clean energy infrastructure at both the state and federal levels provided needed relief to the industry.

The global residential construction output is expected to grow by an average of 3.4% each year until 2025, as reported by ResearchandMarkets.com. The US market is anticipated to experience comparable growth, driven by robust demand and positive economic conditions.

According to the Minnesota Department of Employment and Economic Development, jobs in the construction industry are expected to see the fastest employment growth of an expected 0.9% per year.

### **Residential Construction**

With inflation continuing to fall, now at a 3-year low, the Federal Reserve has recently reduced the lending rates by 50 basis points with another round of cuts expected before the end of 2024.

As interest rates fall, home buying and home construction are expected to rise as buyers and builders cautiously, but optimistically, invest in residential home building. With lower interest rates, the industry can expect to see a measurable increase in housing investment which will help to address and ease the ongoing supply and affordability issues.

### **Commercial Construction**

The commercial construction sector is expected to experience slower growth compared to residential construction. However, specific sub-sectors such as healthcare, education, and data centers are anticipated to see significant investment. The American Institute of Architects (AIA) projects that spending on nonresidential buildings will grow by just over 1% in 2025, reflecting cautious optimism in the market. Key drivers in commercial construction are expected to include healthcare, education, technology, and data centers, along with sustainability initiatives.

## Rising Demand for Sustainable and Green Construction

Sustainability has become a major theme in construction, driven by stricter environmental regulations, growing consumer demand for eco-friendly buildings, and significant federal investment under the Biden Administration. In 2025, the construction industry is expected to see a continued shift toward green construction practices, with federal and state government potentially introducing stricter regulations around energy efficiency, carbon emissions, and the use of sustainable materials.

This trend will likely spur growth in sectors like renewable energy infrastructure and green retrofitting of existing buildings. As governments push for carbon-neutral policies, the construction sector will be under pressure to adopt new technologies that reduce emissions and waste, creating opportunities for firms specializing in sustainable solutions. The growth of this sector is expected to outpace traditional construction.

## Conclusion: 2025 Outlook for Construction

Overall, the construction industry is poised for a complex but promising year in 2025. While the sector will benefit from global economic recovery, government investments, and technological advancements, it will also face significant challenges related to supply chain management, labor shortages, and geopolitical uncertainty. Firms that embrace sustainability, invest in digitalization, and remain agile in response to economic shifts will be best positioned to thrive in this dynamic environment.

## About the Authors



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