

Alternative U.S. Cement Economic Outlook: Fall/Winter 2025



Introduction

All forecasts contain risk. Risks can originate from the data used, the process of calculations, the assumptions, or a combination of each element. Indeed, an infinite number of alternative scenarios to the Baseline exist. Each materializes with even small changes in assumptions.

The risks surrounding [The Sullivan Report's Fall/Winter 2025 Forecast](#) remain high. They center on assessments regarding underlying strength of the economy and the headwinds that face the near-term economy. Key assessments include:

1. The impact of administration policies on the economic fundamentals.
2. Federal Reserve monetary policy actions.
3. The strength and resiliency of consumer spending.

Other risks ranging from global military conflicts to extraordinary weather events are not captured in either our Baseline or Alternative Scenarios.

Data risks are also particularly important in this report. With [the federal government shutdown](#), reporting delays in data have materialized. The latest [U.S. Geological Survey \(USGS\)](#) cement consumption report was June 2025. That is a considerable data lag and creates risk.

Monetary policy and forecast risks are projected to heighten in 2027. Our Baseline Forecast assumes more aggressive easing in monetary policy will unfold beginning in the second half of 2026, based on President Trump choosing a chair more aligned with his policy preferences. It raises the potential for monetary policy to tilt toward short-term, political objectives rather than long-term, price-stability goals.

If aggressive rate reductions unfold in the context of improving inflation, a strong, residential-led construction rebound is likely to take hold in 2027 - and thereafter (reflected in our Optimistic Scenario below). If instead, the cuts occur amid rising inflation, they risk fueling further price acceleration and could force the Fed into a renewed tightening cycle in 2027 (reflected in our Pessimistic Scenario below).

Significant macroeconomic risk also lies in the outyears of the forecast. Eventually, artificial intelligence (AI) could disrupt hiring practices. While some suggest AI could lead to a significant increase in unemployment, most experts suggest that possibility is years beyond the 2030 forecast horizon.

However, if such a prospect materializes, it will likely reveal itself first in a hiring slowdown. The Sullivan Report's Baseline Scenario offers slower job creation than is typically suggested in an economic recovery. This reflects AI slowing the pace of absorbing new labor market entrants. If AI's impact is less, labor markets run somewhat stronger in the out years compared to the Baseline Scenario. If AI's impact is greater, labor markets run somewhat slower.

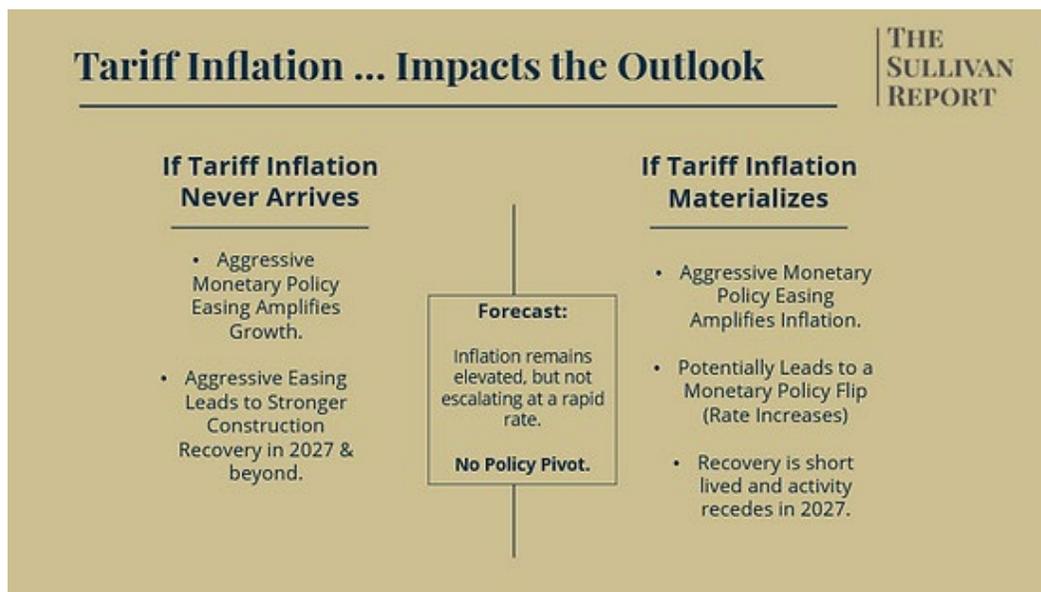
Finally, aggressive ICE enforcement has emerged as a constraint on U.S. construction activity. Unauthorized workers account for a substantial share of the labor force in concrete placement, framing, roofing, and other labor-intensive trades. Heightened ICE raids, workplace audits, and tighter verification rules reduce available crews, elevate wage pressures, and delay project timelines. Even when funding and demand are present, contractors face a hard ceiling on how much work can physically be executed. By the out years of the forecast, these labor bottlenecks could trim national construction volume and cement consumption by several percentage points. If that materializes, it could extend project backlogs and slow the construction sector's overall recovery.

The Baseline Scenario

The Baseline forecast suggests a significant slowing in economic growth during the fourth quarter of 2025 and extending through much of the first half of 2026. Given the robust state of recent growth, a recession is considered a remote possibility. The near-term environment is expected to be characterized by high, albeit modestly declining, interest rates and soft labor markets. During this three-quarter period, the [Gross Domestic Product \(GDP\)](#) is expected to average 1.4%.

As the economy weakens, prices are expected to ease accordingly. In addition to slowing global economic growth, oil prices are now expected to decline through 2026 according to the [US Government’s Energy Information Agency \(EIA\)](#). Finally, residential inflation is expected to cool until mortgage interest rates decline significantly. The residential component in the inflation calculation is large. While tariff-induced inflation is still anticipated, it is now expected to arrive later than expected and more diluted than projected in our Summer 2025 Forecast. The combined effects of less tariff-induced inflation, lower oil prices, a slowing economy, and softer residential inflation, are expected to slowly settle overall inflation.

By mid-2026, as inflationary spirits ease, aggressive monetary policy actions are expected to gain traction, and long-term interest rates are expected to decline. The Baseline forecast assumes one 25 basis point (BP)-cut in the federal funds rate between December 2025 and May 2026. From June 2026 to December 2026, two 50 BP cuts are assumed. This is followed by another 75 BP cuts in 2027 - and one 25 BP-cut in 2028.



These interest rate cuts are expected to take some time to trigger a significant increase in economic activity. The Baseline Forecast assumes a one-year lag between a federal funds interest rate cut and its full impact on the economy. This compares to 12-to-24-month lag estimated by monetary policy economists. The shorter lag was adopted due to the existence of large, interest rate sensitive pent-up demand, particularly in the housing market.

While modest increases in real GDP activity are expected during the second half of 2026, these gains will be balanced against first-half slowness, leaving GDP growth for 2026 likely below 2%. By 2027, further declines in both interest rates and inflation are anticipated. Labor market conditions are expected to be firm and lead to a retreatment in the unemployment rate. Beyond 2027, the economic environment is expected to support solid GDP growth and show continued progress toward the Fed's 2% inflation target.

Three key forces are expected to operate in the labor market including:

1. The continued retirement of baby-boomers.
2. A loss of 500,000 undocumented workers each year due to aggressive immigration policies.
3. Slower job growth typically accrued to an economic recovery due to AI.

As mortgage rates edge down, modest improvement in the residential market will initially materialize. It will take significant declines in mortgage rates to lead to significant improvement in the market. We estimate that a meaningful recovery will not materialize until mortgages rates retreat to a 5.0% to 5.5% level. This must also materialize in the context of relatively healthy labor markets. Both ingredients are required and expected to materialize by late 2026.

Baseline Scenario: 50%							
	2024	2025	2026	2027	2028	2029	2030
Economy							
GDP Growth, %	2.5%	1.4%	1.9%	2.4%	2.4%	2.5%	2.6%
Inflation Rate, %	3.0%	3.0%	3.2%	2.6%	2.7%	2.4%	2.2%
Federal Funds Rate	5.14	4.39	3.49	2.83	2.83	2.83	2.83
Unemployment Rate, %	4.1%	4.3%	4.4%	4.1%	3.9%	3.9%	4.1%
Oil Price, WTI	\$76.55	\$65.21	\$51.52	\$55.82	\$60.48	\$65.53	\$71.00
Total Construction							
Total Starts	1363	1315	1347	1428	1493	1546	1597
- Single Family Starts	1009	925	948	1021	1079	1124	1167
- Multifamily Starts	354	390	399	407	414	422	430
- Nonresidential, Real PIP % Change	5.4%	-1.6%	0.8%	2.1%	2.5%	2.5%	2.5%
- Public & Other, Real PIP % Change	0.9%	-1.4%	0.0%	1.3%	2.4%	2.3%	2.3%
Cement Consumption							
Total	103,187	98,543	99,058	102,264	105,689	109,063	112,387
- Growth Rate, %	-5.2%	-4.5%	0.5%	3.2%	3.3%	3.2%	3.0%

The nonresidential sector outlook is shaped by both the cyclical recovery and the structural investments brought about by onshoring and data centers. An improvement in net operating income (NOI) must materialize before an improvement in the cyclical component of the nonresidential sector recovers. An improvement in NOI is expected to materialize in the context of lower vacancy rates and stronger leasing rates brought about by a strengthening economy.

Once an improvement in economic conditions materializes, it is projected to take roughly one year of sustained economic improvement to bolster NOI among nonresidential properties. Taking this into consideration, the cyclical recovery in the nonresidential sector is anticipated to lag the recovery in residential by roughly one year.

In the near term, the adverse factors affecting the cyclical sectors of nonresidential construction activity (office, hotel, and retail) are expected to roughly offset the positives associated with the building of data centers and onshoring activities. Once the cyclical nonresidential sectors heal and begin to grow again, the prospect of continued support data centers and onshoring activities will strengthen the sector's recovery.

Elevated inflation rates, particularly in construction, are expected to rob strength from public construction spending at both the federal and state levels. In addition, weaker economic conditions typically translate into weaker state and local revenue collections. These factors suggest a modest near-term decline for public construction during 2025-2026.

Finally, our Baseline Scenario also assumes a seamless replacement of the [Infrastructure Investment and Jobs Act \(IIJA\)](#) when it expires in fiscal 2026. The replacement program is expected to provide sufficient funding to restore the purchasing power lost to inflation since 2021. This suggests a significant increase in nominal funding.

Pessimistic Scenario

Our Pessimistic Scenario reflects a greater adverse impact on the economy arising from tariffs and aggressive immigration policies. While little evidence of tariff-induced inflation has emerged so far, it could still eventually materialize. According to our Pessimistic Scenario, the lag between the imposition of the tariff and its impact on prices may be longer than many expect. This view suggests that pre-tariff strategies by importers (such as buy-in-advance of the tax) may delay inflation arrival. According to this scenario, once the inventories are drawn down, more significant inflation impacts could materialize – but not until the fourth quarter of 2025 at the earliest.

Pessimistic Scenario: 20%							
	2024	2025	2026	2027	2028	2029	2030
Economy							
GDP Growth, %	2.5%	1.8%	2.6%	0.7%	1.2%	2.6%	2.9%
Inflation Rate, %	3.0%	3.4%	3.8%	3.0%	2.9%	2.5%	2.3%
Federal Funds Rate	5.14	4.27	3.14	3.89	3.64	3.44	3.34
Unemployment Rate, %	4.1%	4.5%	4.3%	4.7%	4.6%	4.5%	4.4%
Oil Price, WTI	\$76.55	\$58.69	\$43.02	\$48.56	\$53.83	\$60.29	\$67.45
Total Construction							
Total Starts	1363	1295	1264	1283	1376	1450	1525
- Single Family Starts	1009	930	929	929	1003	1045	1091
- Multifamily Starts	354	365	335	354	373	405	434
- Nonresidential, Real PIP % Change	5.4%	-4.1%	-2.7%	-0.4%	1.6%	2.8%	2.7%
- Public & Other, Real PIP % Change	0.9%	-1.6%	-1.0%	0.9%	1.8%	1.8%	1.8%
Cement Consumption							
Total	103,187	98,069	96,149	94,999	96,169	99,483	103,052
- Growth Rate, %	-5.2%	-5.0%	-2.0%	-1.2%	1.2%	3.4%	3.6%

With Chairman Powell’s term ending, our Pessimistic Scenario assumes that the new chair and [Federal Open Market Committee \(FOMC\)](#) committee are expected to appease President Trump. Monetary policy is expected to ease [dramatically](#) - even in the face of clear inflationary pressures. These policies aggravate already serious inflationary pressures.

By 2027, inflation runs hot. Turmoil grips the Federal Reserve, and a second policy pivot materializes as it’s forced to raise rates in 2027. Altogether, the economic growth reversal lasts the better part of the year. The burgeoning economic recovery collapses. Credit conditions tighten for all borrowers including consumers, potential homeowners, and real estate investors.

It will take time for the effects of the monetary policy pivot to wear off. While lower mortgage rates eventually arrive, a softer labor market moderates the strength of the residential markets' recovery. Multifamily construction is characterized by rising vacancy rates, reduced leasing rates, and declining net operating income. Nonresidential construction retreats. Commercial real estate defaults materialize – deepening the nonresidential downturn and prolonging its recovery. Finally, higher inflation rates further dilute the real strength among highway and public programs that are funded in nominal dollars.

Political concern about mounting federal debt, our Pessimistic Scenario assumes the IJJA replacement will be less robust than in our Baseline Scenario. Potentially, the replacement program is expected to provide sufficient funding to restore half the purchasing power lost to inflation since 2021. While this still suggests a significant increase in nominal spending, it is a more modest scenario than our Baseline version.

Last, AI is expected to initially disrupt the labor markets before eventually contributing to job creation. The disruptive stage occurs within the forecast horizon. Within this perspective, AI efficiencies reduce the expected growth in the job market during the outyears of the forecast. This, combined with more aggressive immigration policies compared to our Baseline Scenario, leads to somewhat higher unemployment levels throughout the forecast horizon.

Optimistic Scenario

Unlike the other scenarios, our Optimistic Scenario notes tariff-induced inflation would remain muted – contrary to expectations of elevated levels of inflation. In addition, inflation is expected to continue on a clear path to the Federal Reserve target rate of 2%. While the economy initially slows during the first half of 2026, the slowdown is less severe compared to our Baseline Scenario. By the second half of 2026, consumer and business trust in US policy is eventually restored and sentiment swells.

Optimistic Scenario: 30%							
	2024	2025	2026	2027	2028	2029	2030
Economy							
GDP Growth, %	2.5%	2.1%	2.9%	2.5%	2.6%	2.6%	2.5%
Inflation Rate, %	3.0%	2.8%	2.5%	2.3%	2.5%	2.3%	2.0%
Federal Funds Rate	5.14	4.02	3.02	2.52	2.02	2.02	2.02
Unemployment Rate, %	4.1%	4.3%	3.8%	3.6%	3.4%	3.3%	3.3%
Oil Price, WTI	\$76.55	\$65.28	\$57.19	\$61.96	\$68.95	\$70.77	\$73.13
Total Construction							
Total Starts							
- Single Family Starts	1351	1369	1468	1587	1636	1688	1740
- Multifamily Starts	1009	962	1033	1135	1172	1215	1258
- Nonresidential, Real PIP % Change	342	407	435	452	464	473	482
- Public, Real PIP % Change	5.4%	-0.6%	1.7%	3.0%	3.7%	3.7%	3.6%
- Public, Real PIP % Change	0.9%	-0.7%	0.5%	1.8%	2.7%	2.6%	2.6%
Cement Consumption							
Total	103,187	99,097	101,146	104,464	108,084	111,865	116,132
- Growth Rate, %	-5.2%	-4.0%	2.1%	3.3%	3.5%	3.5%	3.8%

With the tariff's inflationary threat reduced, the Federal Reserve pursues more aggressive rate cuts during the remainder of Powell's tenure. This reflects an additional 50 BP-cut with the federal funds rate expected to lie significantly lower than our Baseline forecast's projections.

With larger and earlier rate cuts than referenced in our Baseline Scenario, economic growth is somewhat stronger and the slowdown in job creation is less severe. In the near term, this scenario reflects lower inflation, interest rates, and unemployment rates – which provides a better jumping off platform for the aggressive rate cutting expected from Powell’s replacement.

In the context of lower inflation and more aggressive monetary policy easing, mortgage rates are expected to decline faster and reach the threshold point that will unleash pent-up housing demand earlier than mentioned in our Baseline Scenario. Not only does that support stronger single and multifamily starts activity, but it accelerates residential improvement activity (prepping homes for market and nesting).

The nonresidential construction recovery also accelerates under the Optimistic Scenario. With job and income gains, commerce increases and leads to stronger business earnings. Net operating conditions for commercial real estate are stronger. Access to credit is easier under this scenario compared to our Baseline Scenario, and the commercial credit crisis is avoided in the context of stronger economic conditions.

Job market strength under this scenario translates into increased state revenue collections. States’ fiscal conditions improve, and state construction spending increases. In addition, the fiscal strength reduces the likelihood of state sterilization. Under this scenario, state sterilization of IIJA programs is reduced from 20% to 15%. A new robust replacement of IIJA materializes – and prompts more support for public construction.

The Baseline Scenario: Probability 50%

Macroeconomic Summary:

- Near-term inflation remains elevated and well above the Federal Reserve’s target rate of 2%. Tariff-induced inflation shows up later than expected, but at a much-reduced level than previously expected.
- Bifurcated spending materializes. High-income households and large businesses weather heightened inflation. These groups continue to consume, invest, and hire. Lower-income households and small businesses struggle to make ends meet in the context of elevated prices.

- The economy's growth rate softens through the first half of 2026. Real GDP growth rates reach a low point - below 1% in early 2026. Consumer and business uncertainty remains in place and restrains growth. The near-term outlook suggests a growth slowdown, not a recession.
- Lacking significant threats from inflation or unemployment, the Fed initially adopts a relatively neutral monetary policy. By mid-2026, only one additional 25 BP-cut in the Federal Funds rate is expected after December's 25 BP-cut.
- With the end of Federal Reserve Chairman Powell's term, a new Trump-appointed Fed Chair will be put in place. Other changes in Fed Presidents and Governors are expected. These developments are expected to result in a much more aggressive monetary policy stance beginning in the second half of 2026 and extending through early 2028.
- With the rate cuts, the economic growth improves and tops a 2% growth rate throughout 2027. The job market strengthens along with the improvement in economic growth. Inflation and interest rates are expected to decline. Combined, strong growth conditions embrace the economy by mid-2027. These healthy conditions are generally expected to characterize the remainder of the forecast horizon.
- The out years of the forecast hold risk associated with artificial intelligence (AI). While AI may eventually hold the prospect of strong economic growth, the transition to that period of time will likely contain some economic disruption. As a reflection of this disruption, job creation generally associated with an economic recovery is expected to be more subdued and characterized by slightly higher unemployment rates.

Residential Summary

- Mortgage rates remain above 6% through mid-2026. Home price appreciation moderates. Affordability does not materially change through first half of 2026. Single-family starts remain at a saddle point – neither rising nor falling significantly. Slowing rent growth, modest increases in vacancy rates, and rising maintenance costs reduce multifamily NOI. This is expected to be accompanied by tighter credit standards.

- As mortgage rates fall below 5.5%, it will unleash substantial pent-up residential demand that is expected to re-enter the market, sparking a gradual recovery beginning in late 2026 and accelerating in subsequent years.

Nonresidential Summary

- The nonresidential business cycle slowly recovers. Initially, NOI remains depressed - sparking a gradual recovery beginning in late 2026 and accelerating in subsequent years. In addition, credit tightens modestly and restricts lending for new construction. This dampens the nonresidential recovery. Existing technology trends that were accelerated by Covid reduce the amplitude of recovery in 2024 and beyond.
- Made in America investments in semiconductor chips and electric batteries add strength to industrial construction throughout the forecast horizon. This strength masks the slow cyclical recovery that materializes in other sectors of nonresidential construction.

Public Summary

- Economic weakness implies weakening in revenue collections by state and local governments as well as a worsening in the Highway Trust Fund. In addition, inflation erodes potency of IIJA construction. A new real dollar replacement of IIJA is expected to smoothly materialize in late 2026.

The Pessimistic Scenario: Probability 20%

Macroeconomic Summary:

- Significant tariff-induced inflation eventually materializes. The Federal Reserve considers the risks of higher inflation to be balanced with the prospects of softer labor markets. The Fed sits. No rate cuts materialize through the remainder of Powell's term (June 2026).
- Trump appoints a Fed Chair successor to Powell that complements Trump's viewpoints. Aggressive rate cuts materialize beginning in June 2026 and are sustained throughout the year. The aggressive rate cuts occur even in the face of rising inflation.
- Initially, the aggressive rate cuts stimulate growth in 2026. Unfortunately, easy monetary policy and even higher inflation materializes.
- This drains consumer spending and is supplemented by a reduction in private sector investment activity. Labor markets weaken considerably. Stagflation/recession materializes.
- The damaging effects of stagflation force the Fed to flip policy again – this time raising rates. Another round of economic weakness materializes in 2027.
- Lending standards tighten more than baseline. Bank failures materialize. A significant adverse impact on nonresidential construction lending and refinancing occurs.
- A sustained economic recovery is delayed and does not materialize until late 2027. Thereafter, relatively strong economic growth materializes.

Residential Summary

- Initially, the aggressive Fed moves stimulate residential construction. The second half of 2026 recovery is short lived. Higher unemployment and inflation are compounded by the Fed policy pivot that raises rates. Similar short-term, seesaw conditions grip multifamily and home improvement sectors of the residential market.

Nonresidential Summary

- Nonresidential construction does not benefit from the initial Fed easing. As the business cycle erodes, nonresidential construction may experience a setback. With a weaker economy, NOI conditions worsen. Credit tightens significantly and restricts lending for new construction. Credit defaults materialize.

Public Summary

- Job losses weaken state and local government fiscal strength. Sterilization increases to 25% and weakens net impact of IIJA. Higher inflation significantly erodes IIJA impacts. The recession increases the Federal deficit. Concerned about debt, the replacement of IIJA is more modest than the baseline.

Optimistic Scenario: Probability 30%

Macroeconomic Summary:

- The threat of significantly higher tariff-induced inflation never materializes. With the threat of higher inflation eased, the Federal Reserve begins to ease more aggressively than our Baseline Scenario. Long-term interest rates begin to decline in early 2026. Given lags, much of the benefits of the rate declines materialize in the second half of 2026.
- With the improvement in inflation and interest rates, consumer and business uncertainty is restored. Hesitation by business and consumers that currently prevails is replaced by a robust return to investment and spending.
- President Trump appoints a Fed Chair successor to Powell that complements Trump's viewpoints. Aggressive rate cuts materialize beginning in June 2026 and are sustained throughout the year. The aggressive rate cuts and subdued inflation prompt a strengthening in consumer and business spending. These are supplemented by depreciation tax policy benefits.
- Strong economic growth materializes in second half of 2026 and beyond. Lending standards ease modestly. Monthly job gains accelerate in second half of 2026. The unemployment rate retreats. Personal income growth runs stronger than baseline.

Residential Summary

- Mortgage rates (30-year conventional) begin a sustained decline in early 2026. This supports an improvement in homebuyer affordability. With this, strong single-family sales and construction are unleashed. This new momentum is sustained through the end of the forecast horizon.
- Stronger employment growth results in lower vacancy rate and stronger rent outlooks versus our Baseline projections. Multifamily NOI is stronger. Recession fears are muted. Tighter credit standards remain modest.
- Lower home equity interest rates, stronger income, and home price conditions strengthen outlook for residential improvements compared to baseline.

Nonresidential Summary,

- The nonresidential business cycle recovers more quickly than the baseline. Credit access eases modestly. The cyclical recovery in nonresidential construction occurs earlier and is stronger than the Baseline Scenario. In addition, the adverse impact of existing technology trends that were accelerated by Covid are smaller than estimated in the baseline. Onshoring and data center efforts by US industry run stronger than our Baseline scenario - with the nonresidential sector's recovery occurring earlier and stronger than projected.

Public Summary

- A stronger employment outlook strengthens state and local governments' fiscal health compared to the baseline. With lower inflation, the erosion in IJJA spending is somewhat more muted. In addition, state sterilization is less likely and assumed at roughly 15% given strength of state fiscal condition. Compared to our Baseline forecast, a more robust IJJA replacement materializes in 2026.

About The Sullivan Report

The Sullivan Report delivers subscription-based economic forecasts, news, and market updates tailored to the cement, concrete, construction, and building materials industries. Its flagship publication, the Cement Outlook, is released three times a year and features 5-year forecast projections, expert analysis, and actionable insights to support informed decision-making and long-term strategic planning amid an evolving economic landscape.

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