



# 2026 CONSTRUCTION MARKET OUTLOOK

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## INTRODUCTION

The U.S. construction industry in 2025 has entered a period of **sluggish growth** marked by **economic volatility, policy shifts, and supply chain disruptions**. According to the [American Institute of Architects \(AIA\) July 2025 Consensus Construction Forecast](#), **non-residential construction spending** is projected to grow by a modest **2.0%** in 2026.

Leading indicators, however, point to selective strength heading into 2026. The [Dodge Momentum Index](#) rose **7.5%** in August and **3.4%** in September, signaling robust planning activity in commercial and institutional segments. Complementing this, total [construction starts](#) improved by **3.1%** in September, and contractor pipelines remain stable. [Associated Builders and Contractors](#) (ABC) reported a backlog of 8.5 months in September and 8.4 months in October, with confidence indices for sales, profit margins, and staffing staying above 50. These trends suggest that while residential and manufacturing are softening, institutional, infrastructure, and data center projects will lead activity in 2026, favoring firms positioned in publicly funded and essential facilities.

The industry's deceleration in 2025 is largely attributed to a combination of **macroeconomic and policy-related pressures**:

- Stubbornly **high long-term interest rates** have dampened investor confidence, while **inflation** remains stalled.
- There have been **tariff escalations** on key construction inputs such as steel, aluminum, copper, and lumber.
- **Labor shortages**—exacerbated by restrictive immigration policies—have added to the uncertainty.
- **Federal spending cuts** have increased uncertainty around infrastructure.
- The [Skanska Summer 2025 Market Trends Report](#) highlights that tariffs on imported materials could raise direct construction costs by **5–10%**, depending on project specifics.

For example, copper prices surged over **40%** in 2025 due to tariff-related concerns, while copper wire price rose **15–18%** year-to-date.

These increases are already impacting budgets and procurement strategies.

Additionally, immigration enforcement policies could significantly affect the construction workforce, intensifying the existing labor shortfall. Recent legislative measures, such as the One Big Beautiful Bill Act (OBBA), aim to offset pressure by incentivizing capital investment and operational efficiency.

The OBBBA marks a significant legislative milestone aimed at stimulating economic growth and supporting large-scale development. For the construction industry, the bill introduces measures designed to enhance capital investment and improve financial flexibility. Key features include:

- Permanent 100% bonus depreciation for qualifying assets
- Increased Section 179 expensing limits
- Simplified accounting methods for contractors
- Workforce enablement through expanded training programs
- Incentives to offset rising operational costs

While these reforms create opportunities for improved cash flow and accelerated project timelines, their effectiveness will depend on how firms navigate labor shortages, regulatory compliance, and potential financing risks.

## SECTORAL ANALYSIS

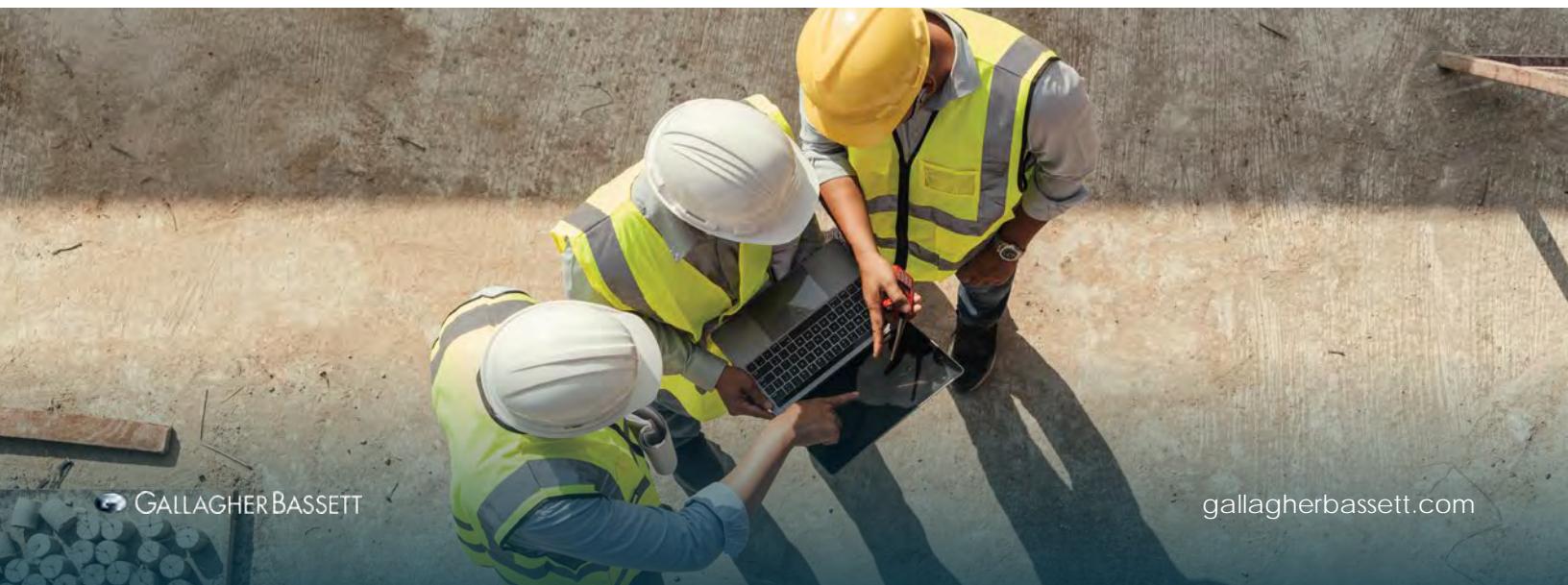
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### Commercial

The commercial construction sector is expected to experience a rebound of 3.9% in 2026 after modest growth in 2025. **Office construction**, excluding data centers, continues to struggle under the weight of high vacancy rates and the persistence of hybrid work models. **Spending** in this subcategory is projected to **decline by 3.6% in 2025**, with a further **2.0% drop anticipated in 2026**. **Retail construction** remains subdued, though a **modest 2.0% recovery is forecast for 2026**. On a more positive note, **hotel construction** is showing signs of revival, with **3.0% growth expected in 2025** and a **6.0% increase expected in 2026**, reflecting renewed activity in the travel and hospitality sectors.

### Manufacturing

Construction **spending** in this segment is forecast to **contract by 2.6% in 2026**. This pullback reflects a natural correction after the surge in investment driven by the CHIPS and Science Act and the Inflation Reduction Act.



## Institutional

Institutional construction remains the **brightest spot in 2025**, with spending projected to **increase by 3.8% in 2026**. This growth is led by the healthcare and education sectors. **Healthcare construction** is expected to expand by **4.3% in 2026**, driven by demographic trends, aging infrastructure, and continued demand for outpatient and specialty care facilities. **Educational construction** is also on the rise, with a **3.2% growth forecast in 2026**, supported by state and local government investments.

## Data Centers

Data center construction continues to outperform all other commercial subcategories. Major players such as Amazon, Meta, and OpenAI are driving large-scale investments across multiple states. However, the sector is beginning to face constraints, including electrical equipment shortages, grid capacity limitations, and community resistance to new developments, particularly in suburban and rural areas.

## EMPLOYMENT LANDSCAPE

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By August 2025, construction employment growth had slowed to 0.7%, indicating a cooling labor market. This slowdown is further reflected in the job opening rate, which dropped to 2.2% in August 2025, the lowest level in nearly a decade, down from 3.5% the month prior. The total number of open construction jobs fell to 188,000, a decline of 38% month-over-month and year-over-year, according to the Bureau of Labor Statistics. The most pressing challenge facing the U.S. construction industry in 2026 is the intensifying workforce shortage. According to ABC:

- The sector required approximately 439,000 additional workers in 2025.
- This figure is projected to rise to nearly 499,000 in 2026 to meet growing demand.
- Surveys indicate that 94% of contractors are struggling to fill roles across all levels.
- Nearly 40% of skilled workers are over the age of 45, with a significant portion of the workforce expected to retire by 2030.

The economic impact of this labor gap is substantial. A shortfall of 430,000 workers could cost the industry more than \$10.8 billion annually in lost productivity, missed deadlines, and budget overruns. These shortages are not only delaying individual projects but also slowing the pace of national infrastructure and commercial development.

## Strategic Responses to the Labor Crisis

Leading contractors are implementing proactive strategies to mitigate the workforce gap:

- **Competitive compensation:** Firms are benchmarking wages using tools such as salary surveys to attract and retain talent.
- **Apprenticeship and trade school partnerships:** Early outreach and vocational training programs are helping build long-term talent pipelines.
- **Retention initiatives:** Signing bonuses, flexible schedules, and career advancement pathways are being used to reduce turnover.
- **Digital solutions:** AI-driven scheduling, modular construction, and predictive analytics are improving productivity with fewer workers.

- **Mentorship and knowledge transfer:** Senior professionals are being paired with junior staff to preserve technical skills and leadership continuity.

As the industry moves into 2026, construction firms must prioritize workforce planning and talent acquisition. For hiring authorities, partnering with experienced construction recruiters is becoming essential. For candidates, aligning skills with high-growth sectors—such as infrastructure, renewable energy, and healthcare—offers significant career opportunities in a labor-constrained market.

## SAFETY AND PROTECTION FOR CONSTRUCTION FIRMS AND WORKERS

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Safety and protection will take center stage in 2026, driven by evolving regulations designed to mitigate risks, enhance compliance, and safeguard employee wellbeing. These changes reflect a growing emphasis on proactive measures to address workplace hazards, environmental challenges, and operational complexities. Contractors, insurers, and risk managers must stay ahead of these developments to create safer work environments, reduce liability exposure, and maintain regulatory compliance.



### Nine Critical Construction Regulations for 2026

#### 1. OSHA's PPE Fit Requirement

Effective January 13, 2025, the Occupational Safety and Health Administration (OSHA) has mandated that all personal protective equipment (PPE) provided to workers must properly fit each individual. This update addresses long-standing safety concerns where ill-fitting gear contributed to injuries and reduced compliance. Contractors will need to maintain a diverse inventory of PPE sizes, implement fit-check protocols, and train supervisors to verify compliance before work begins. Failure to comply could result in citations and increased liability exposure, making this a critical area for insurers and risk managers.

[Read more: The Rise of Smart Personal Protective Equipment](#)

## 2. Heat Illness Prevention Standard

The implementation of OSHA's proposed heat illness prevention rule will introduce stringent requirements for outdoor work environments. Employers will need to provide shaded rest areas, potable water, acclimatization programs, and heat-stress training. This regulation responds to rising heat-related incidents and climate-driven temperature extremes. Construction firms should begin integrating heat safety measures into site plans and documenting worker training to avoid penalties and ensure workforce health.

[Read more: Essential Strategies for Preventing Heat Stress](#)

## 3. Silica Exposure Enforcement

The OSHA will intensify enforcement of its silica standard in 2026, maintaining the permissible exposure limit at 50 µg/m<sup>3</sup> over an eight-hour TWA. The focus will be on dust control measures, medical surveillance, and recordkeeping. Contractors should invest in engineering controls such as water suppression and vacuum systems, while insurers may see increased claims related to respiratory illnesses if compliance lags.

[Read more: Unmasking the Threats of Silica Exposure in Construction](#)

## 4. Energy Code Updates

The 2024 International Energy Conservation Code requires state adoption reviews by the end of 2026, promising 7–8% efficiency gains over the 2021 code. Contractors will face higher insulation standards, tighter building envelopes, and more efficient HVAC and lighting systems. These changes will increase upfront costs but reduce long-term energy expenses, influencing project bids and insurance valuations.

## 5. New York's All-Electric Building Mandate

Starting January 1, 2026, most new low-rise buildings in New York will be prohibited from installing fossil fuel systems. This transition to all-electric construction will accelerate demand for heat pumps, induction cooktops, and electric water heaters. Contractors must adapt quickly, and insurers should anticipate evolving risk profiles tied to electrical infrastructure.

## 6. Confined Space Regulations

California is expected to implement new confined space rules by January 1, 2026, requiring competent person surveys, immediate notifications for new permit spaces, and formal rescue training. These measures aim to reduce fatalities in hazardous environments, but they will add compliance complexity and training costs for contractors.

## 7. Davis-Bacon Act Updates

The major overhaul, effective October 23, 2023—with some provisions under injunction—expands coverage and clarifies subcontractor definitions for federally funded projects. Contractors must ensure payroll compliance and accurate wage classifications to avoid penalties and project delays.





## KEY INSURANCE, RISK MANAGEMENT, AND CLAIMS TRENDS

### Builder's Risk and Property Damage

Builder's risk insurance remains one of the most critical coverages in the U.S. construction industry, now applying to 89% of projects—a 4% increase from last year. Premiums surge is driven by inflationary pressures on materials and heightened exposure to climate-related risks. Claims under builder's risk policies are increasingly linked to catastrophic events, with natural disasters causing a 17% rise in claims. Theft and vandalism have also become significant contributors, increasing by 15%, largely due to equipment shortages and the high value of construction materials. Additionally, the growing adoption of modular construction has introduced new complexities in risk management and coverage requirements.

[Read more: Comprehensive Strategies for Mitigating Builder's Risk Claims in Construction Projects](#)

### Key Market Shift: Modular Construction Coverage

A notable trend reshaping builder's risk insurance is the rise of modular construction; 71% of modular projects in 2025 now require specialized builder's risk coverage, reflecting a fundamental shift in project delivery methods and risk allocation. This change signals that insurers and contractors must adapt policies to address unique exposures associated with off-site fabrication and transportation risks.

[Read more: Safety Challenges and Solutions in Modular and Prefabricated Construction](#)

### Workers' Compensation

Workers' compensation remains one of the most critical insurance lines for the U.S. construction industry, given the sector's high-risk environment. **In 2025, construction workers represented 18.5% of all U.S. workplace fatalities**, reinforcing the need for robust coverage. **Nonfatal injuries account for 68.2% of the industry's total injury costs, while fatal injuries make up the remaining 31.8%, highlighting the financial impact of workplace safety failures.** Claims related to musculoskeletal disorders rose by 9.1%, driven by the physical intensity of manual labor and an aging workforce.

**Mental health claims have surged by 15%, reflecting the psychological strain of high-stress and demanding work environments.** The average indemnity claim reached \$51,500, up from previous years due to medical inflation and extended recovery times.



### Market Insight: Technology-Driven Safety

Firms investing in AI-driven safety training and automated hazard detection tools saw a 4.2% decrease in injury claims, while those adopting wearable safety technology experienced a 14% drop in serious on-site injuries. These figures underscore the growing role of real-time monitoring and predictive analytics in reducing workplace accidents and controlling insurance costs.

### Professional Liability

In 2025, professional liability claims rose by 10.6%, largely due to design flaws, timeline disputes, and budget overruns. Design errors remain the leading cause, accounting for 64% of all professional liability claims filed by construction firms. Contract disputes also increased by 6.8%, often escalating to litigation and triggering insurance coverage. The average defense cost per claim reached \$128,500, driven by complex litigation and rising expert consultation fees.



### Market Insight: Sustainability and Green Building Risks

Green building compliance is emerging as a major liability driver. Claims tied to sustainability standards and performance rose 8.4% in 2025, reflecting disputes over energy efficiency, environmental certifications, and evolving regulatory requirements. This trend underscores the growing intersection of design liability and environmental accountability, making proactive compliance and documentation essential for firms aiming to mitigate exposure.

### Fatal Construction Injuries by Business Size

In 2025, small businesses with 1–10 employees accounted for 57% of all fatal construction injuries, underscoring the vulnerability of smaller firms with limited safety resources. Mid-sized businesses (20–99 employees) followed, comprising 20% of total fatal injuries, while large firms with 100 or more employees represented 13.3% of incidents. Interestingly, companies with 11–19 employees reported the lowest share at 9.7%, suggesting that firms in this range may have more structured safety programs compared to very small businesses.



### Market Insight: Safety Gaps in Small Firms

The disproportionate share of fatalities among small businesses highlights a critical trend: Smaller contractors often lack formal safety protocols and advanced risk management tools, making them more susceptible to severe incidents. This gap is driving insurers to reassess underwriting strategies for small firms and encouraging the adoption of affordable safety technologies to reduce exposure.

### Excess Liability

The excess liability market for construction saw notable shifts in 2025, driven by competitive dynamics and evolving risk profiles. Retention levels increased by 17%, with firms absorbing more self-insured losses due to claim volume pressure. Deductibles climbed by 7.5%, reflecting insurers' efforts to reduce front-end exposure. At the same time, 24% of construction firms opted for higher aggregate excess limits, often securing coverage up to \$60 million, signaling a trend toward greater financial protection for large-scale projects.



### Market Insight: Expanding Coverage and Emerging Risks

Environmental liability coverage surged by 21%, driven by strict regulatory enforcement and pollution risk mitigation. Additionally, cyber risk is becoming a core consideration—36% of excess liability policies now include cyber endorsements, reflecting growing concern over digital threats as construction firms adopt advanced technologies and connected systems.

### Directors & Officers (D&O) Liability and Employment Practices Liability

In 2025, D&O liability claims increased by 11.4%, fueled by environmental disputes and project oversight failures. The average D&O settlement reached \$118,500, reflecting higher legal defense and dispute resolution costs. Environmental lawsuits targeting construction leaders rose by 8.6%, prompting demand for D&O policies with green liability add-ons.

On the employment side, wrongful termination remains the leading cause, accounting for 30% of employment practices liability insurance claims in 2025. Whistleblower claims surged by 14%, often tied to OSHA violations and poor compliance reporting, further pushing D&O uptake.



### Market Insight: Governance and Workforce Accountability

The sharp rise in whistleblower claims and wrongful termination disputes underscores a structural shift toward greater accountability for leadership and HR practices.

Environmental compliance failures and evolving labor regulations are driving insurers to expand coverage options, while construction firms increasingly view management liability as a core component of risk strategy.

### Liability Insurance Coverages in Construction

Liability insurance remains a cornerstone of risk management for construction firms, offering protection against third-party injury, property damage, and contractual exposures. In 2025, general liability insurance covered 77% of claims, underscoring its role as the primary safeguard for site-related risks. Pollution liability coverage saw an 11.2% increase, driven by stricter environmental regulations and the need for protection on high-exposure projects. Umbrella liability adoption is also on the rise—55% of U.S. construction firms now carry umbrella policies, adding broader coverage limits beyond base policies.

Subcontractor-related risks continue to dominate liability claims, with 41% of all liability claims stemming from subcontractor work, prompting tighter requirements for subcontractor-held insurance. Completed operations insurance grew by 6.5%, reflecting heightened concern over post-project defects and latent damage claims. Premises liability claims rose 8.3%, emphasizing the need for robust coverage against site accidents and hazards.

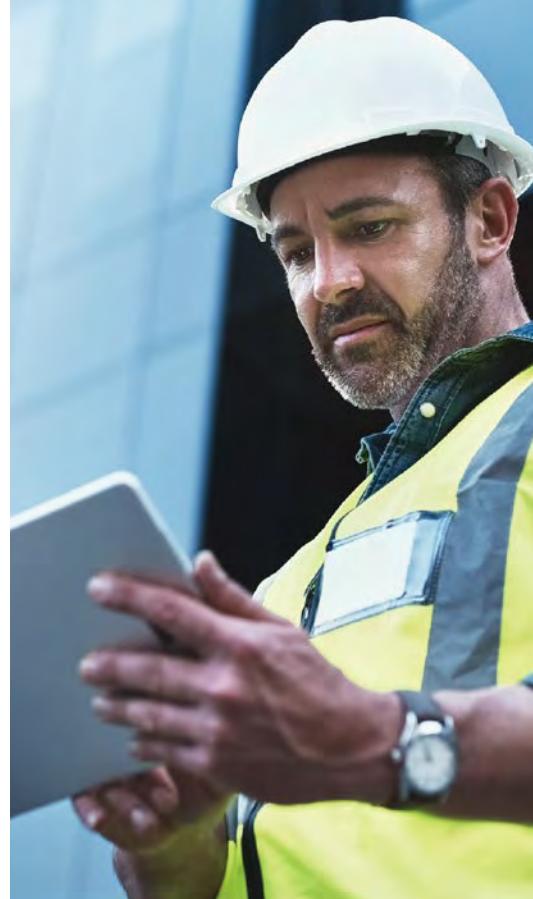
### Key Market Shift: Expanding Liability Layers

The growing complexity of construction projects is driving firms to layer liability coverage through umbrella policies and specialized endorsements. Rising subcontractor-related claims and environmental exposures are reshaping underwriting priorities, while completed operations and product liability trends highlight the importance of post-completion risk management.

## STRATEGIC RECOMMENDATIONS FOR 2026

To navigate these multifaceted challenges, industry leaders recommend a strategic focus on:

- **Workforce Development:** Expanding apprenticeships, partnering with educational institutions, and promoting diversity to address labor shortages.
- **Smart Procurement:** Leveraging analytics, diversifying supplier networks, and negotiating flexible terms to manage material risks.
- **Financial Agility:** Maintaining strong banking relationships and exploring alternative financing options in an uncertain economic environment.
- **Sustainability Commitment:** Investing in certifications and green technologies to meet regulatory requirements and client expectations.
- **Technology Integration:** Implementing digital tools and automation to reduce costs, improve safety, and enhance project delivery.



## 2026 SUMMARY

The U.S. construction industry is projected to remain strong through 2026, with global construction output projected to grow by about 3.3% and U.S. spending forecast to surpass \$2.24 trillion. This growth is fueled by infrastructure modernization, renewable energy projects, and the rapid expansion of data centers to support AI and cloud computing. Public infrastructure investments under programs such as the Infrastructure Investment and Jobs Act will continue to boost demand for civil and transportation projects. However, the sector faces a severe labor shortage, with nearly 499,000 additional workers needed in 2026, driving wages up by 8–12%, far above the national average. Companies are responding with hybrid pay structures, sign-on bonuses, and aggressive recruitment strategies.

Technology adoption is accelerating in the U.S., with AI-driven project management, robotics, and modular construction becoming mainstream. These innovations have reduced build times by up to 30% and improved safety and efficiency. The U.S. market for construction management software is expected to grow from \$10.64 billion in 2025 to \$16.62 billion by 2030, reflecting the shift toward digital platforms. Sustainability is also a major focus, as construction generates 11% of global greenhouse gas emissions, prompting U.S. firms to adopt green materials, energy-efficient designs, and lifecycle transparency.

Looking beyond 2026, U.S. construction will be shaped by smart city initiatives, renewable energy infrastructure, and hyperscale data centers, signaling a permanent departure from traditional delivery models. Companies that embrace AI-powered predictive analytics, integrated digital ecosystems, and sustainable practices will lead the next decade. Adaptability and innovation will be critical for navigating workforce shortages and meeting rising demand for tech-enabled, environmentally responsible projects.