

A background image showing three construction workers in the foreground, viewed from behind, looking at a set of blueprints. The worker on the left wears a grey hard hat and a high-visibility vest. The worker in the middle wears a yellow hard hat and a dark suit jacket. The worker on the right wears an orange hard hat and a black vest. In the background, a yellow excavator is visible on a dirt mound.

US commercial construction outlook

Key takeaways

The outlook for the US commercial construction sector remains positive, but growth has slowed materially since our 2025 assessment, and activity is becoming increasingly concentrated in a handful of high-growth segments.

- **The sector is transitioning from broad-based expansion to slower, more uneven growth.** Non-residential construction spending remains near historic highs in mid-2026, but spending growth has stalled and forward-looking indicators point to a weaker project pipeline.
- **AI is emerging as both the sector's largest growth opportunity and one of its largest sources of risk.** Sustained investment in data centers and other digital infrastructure is driving a disproportionate share of construction growth, but increasing dependence on AI-related spending leaves the sector more exposed to a slowdown in technology investment, power constraints and growing community opposition to new projects.
- **Labor shortages are becoming a workforce-quality and project-execution problem, while tariffs on key construction inputs, energy prices and other input pressures are keeping cost volatility elevated.** Skilled-worker shortages and heightened immigration enforcement are increasing project costs and complexity while contributing to greater risks around safety, project execution, claims severity and underwriting assumptions.
- **Capital remains available but is increasingly concentrated in structural growth areas.** Private equity consolidation has accelerated despite borrowing costs remaining above pre-pandemic levels, while AI infrastructure, power and grid modernization and domestic reshoring are attracting disproportionate investment. Large foreign investment commitments could provide an additional source of capital and construction demand, although their conversion into actual US projects remains uneven.
- **Public policy is broadly becoming more supportive of expanding construction capacity.** Federal and state policymakers are pursuing permitting reform, incentives and other measures to reduce barriers to construction. Environmental concerns, infrastructure constraints and local opposition will continue to limit data center development in some markets, but the strategic importance of AI infrastructure will make policymakers less willing to concede to opposition.

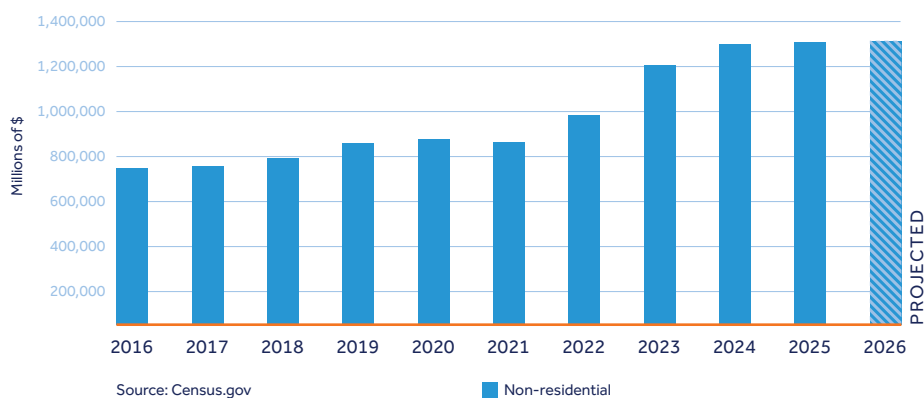


Sector overview

US construction spending in 2026 remains close to historical highs but growth has stalled and several forward-looking indicators point to a cooling market:

- The US Census Bureau showed that non-residential construction spending grew nearly 1% in 2025, effectively stalling after years of growth, and is on track to decline in 2026 for the first time since 2010 (excluding a pandemic-related dip in 2021, see below).¹ Meanwhile, office spending – a non-residential subcategory in the Census data – grew 12% in 2025 and is up 5.9% in the first six months of 2026 relative to the same period one year earlier. This growth has been driven primarily by data center construction, which now accounts for more than half of spending in the Census office category.² Excluding data centers, total non-residential construction spending was essentially flat in 2025 and fell 4.6% in the first six months of 2026 from the same period one year earlier.
- Forward-looking indicators are similarly soft. The AIA/Deltek Architecture Billings Index (ABI), a diffusion index where readings below 50 indicate declining billings, indicated a reading of 46.7³ for commercial/industrial architecture firms in June 2026. AIA reported that commercial/industrial firms have remained under 50 since July 2022, implying a prolonged cooling in the pipeline for new commercial/industrial projects. However, project inquiries across all construction categories – housing, institutional and commercial/industrial – have remained generally positive, suggesting clients continue to explore new projects despite weaker billings. The ABI typically leads non-residential construction activity by about 9-12 months.

Total non-residential construction spending ¹



The above construction-specific indicators align with broader trends in the economy, which remains resilient but continues to slow:

- **GDP growth is slowing.** The Bureau of Economic Analysis (BEA) reported real GDP growth of 2.1% in 2025, down from 2.8% in 2024.⁴ The Federal Reserve projects GDP growth to remain in the low 2% range annually between 2026-28, broadly in line with other analyst forecasts.⁵ This would represent healthy but not exceptionally strong growth.

- **National unemployment remains low at 4.1%.⁶** Non-residential building construction employment dipped in summer 2025 but has since rebounded to its highest level since records began in 1990.⁷ However, the non-residential building construction employment growth rate has steadily declined each year since 2022 and was only 1.3% in 2025, compared with 3.5% in 2024.⁸ This suggests that softer construction demand is beginning to constrain hiring, although labor availability remains a constraint for contractors, particularly for specialized trades and in high-growth segments such as data centers (see Labor availability and quality section).
- **Inflation has remained elevated, both on the consumer and producer sides.** The July 2026 Producer Price Index (PPI) increased 4.7% year-on-year,⁹ while the Consumer Price Index increased 3.4% over the same period.¹⁰ Both have decreased from pandemic-era highs but remain elevated relative to the preceding decade (2010-2019). Consumer inflation is being driven by higher energy costs due to the war in Iran, while producer prices remain elevated amid higher input-cost pressures. Financing conditions have tightened modestly following the Federal Reserve's 25-basis-point rate increase in September, which brought the federal funds target range to 3.75-4.0%.¹¹

The non-residential construction sector has therefore experienced a meaningful change since we released our Commercial Construction Outlook in November of last year. Growth has stalled as weaker billings and slowing employment growth point to a softer pipeline. Headline spending also increasingly masks a K-shaped market: data centers and related digital infrastructure are generating substantial growth while most other segments remain flat or contract. Cost pressures also remain elevated, with tariffs, energy prices and persistent labor constraints contributing to continued input-cost volatility.



- https://www.census.gov/econ_timeseries/
- <https://www.census.gov/construction/c30/pdf/privsa.pdf> and <https://njbja.org/abc-july-nonresidential-construction-spending-growth-entirely-due-to-data-centers/>
- <https://www.aia.org/resource-center/abi-june-2026-billings-remain-weak-architecture-firms>
- <https://www.bea.gov/news/2026/gdp-second-estimate-4th-quarter-and-year-2025>
- <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260617.htm>
- <https://fred.stlouisfed.org/series/UNRATE>
- <https://fred.stlouisfed.org/series/CES2023620001>
- <https://fred.stlouisfed.org/data/IPUDN2362W201000000>
- <https://www.bls.gov/news.release/PDF/ppi.PDF>
- <https://www.bls.gov/news.release/pdf/cpi.pdf>
- <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260617.htm>

Risk landscape

Labor availability and quality

Labor availability remains a structural constraint even as overall construction demand softens. National construction industry trade association Associated Builders and Contractors (ABC) estimated in January 2026 that the industry would need to attract 349,000 net new workers in 2026 to meet demand, and 456,000 in 2027.¹² These estimates are slightly revised down from 2025, which the ABC traced to “extremely modest spending growth forecasts for 2026 and 2027.” The Associated General Contractors of America (AGC) in January also reported that large majorities of surveyed contractors are having a hard time filling hourly craft positions (82%) or salaried openings (80%).¹³

The industry consistently cites labor availability as a top operational challenge. The problem will be difficult to resolve because it is being driven by several converging macro-economic factors, including:

- **Insufficient replacement pipeline.** The construction industry has struggled to replace its retiring workers. Construction, like many blue-collar sectors of the US economy, has struggled to attract younger workers in recent decades as employment has shifted toward white-collar service industries. At the same time, the construction industry increasingly requires workers with specialized technical skills, while the cost and time required to develop those skills can discourage entry. The result is a particularly difficult replacement challenge: the industry must replenish a large cohort of experienced workers while competing with a much broader set of career options for younger workers.
- **Data center concentration.** The growth of data centers – where many skilled trades command higher wages than on other construction projects –¹⁴ is likely further concentrating demand among specialized workers already in short supply. This concentration could further increase competition for skilled workers and constrain labor availability for other construction sectors, particularly in markets experiencing rapid data-center expansion.
- **Heightened immigration enforcement.** Pew Research Center estimated that unauthorized immigrants accounted for roughly 15% of the US construction workforce in 2023, the highest share of any major industry.¹⁵ The share was even higher in construction and extraction occupations, at 19%, with unauthorized workers accounting for 25-40% of workers in some individual construction trades. A January 2026 AGC survey found that 33% of construction firms had been affected by immigration enforcement actions in the preceding six months, including 11% reporting that workers had left or failed to appear for work because of actual or rumored immigration actions, and 24% reporting that subcontractors had lost workers.¹⁶ Labor availability can translate into workforce quality issues, intensifying risks of project delays, cost overruns and workplace safety incidents.



Price increases and volatility

Non-residential construction costs have risen substantially faster than other price measures since 2019.¹⁷ The drivers behind this are multifaceted, and include pandemic supply chain shocks, high commodity prices, and demand rebounding faster than supply and high labor costs.

More recently, several drivers have kept costs high in the past year:

- **Increased wages due to the supply-demand imbalance.** Wages in construction continue to rise faster than the national average, with wages and salaries for private industry workers in construction increasing by 3.5% from June 2025 to June 2026 compared with 3.1% across all sectors.¹⁸ This growth likely reflects contractors boosting pay to attract and retain talent amid stiff competition for workers.
- **Energy prices remain elevated in 2026,** driven mainly by the ongoing impacts of the US/Israel-Iran war. As of August 20, AAA Fuel Prices listed average US gasoline prices as 31% higher than one year prior, with diesel – a major fuel input for heavy construction equipment – 50% higher. Energy prices impact pricing at every level of the supply chain, driving up costs. The conflict also illustrates the difficulty of forecasting commodity prices: geopolitical developments can generate large price movements with little warning.
- **Product tariffs** on copper, steel, aluminum and timber disproportionately impact the construction sector. Between July 2025 and July 2026, PPI for steel mill products increased 22.5%,¹⁹ 40.5% for aluminum mill shapes,²⁰ and 18.4% for copper and brass mill shapes.²¹

These drivers will continue to create cost pressure and volatility. Tariffs remain a central component of the Trump administration's trade policy, while mismatched labor supply and demand will continue to put upward pressure on wages. Higher energy and tariff prices are also likely to constrain the Federal Reserve's ability to cut rates further. The Fed's June 2026 projections already put the median federal funds rate at 3.8% at the end of 2026, declining only gradually to 3.6% in 2027 and 3.4% in 2028, well above its 3.1% longer-run estimate.²²

Higher prices and cost volatility are leading contractors to shift risk and costs to project owners. For insurers, higher construction costs are also creating challenges in accurately valuing projects and estimating potential claim severity. This creates potential for greater claims severity where insured values or replacement-cost assumptions fail to keep pace with actual construction costs, while increasing the importance of accurate project valuations, escalation assumptions and inflation protection in underwriting.

12 <https://www.abc.org/News-Media/News-Releases/abc-construction-industry-must-attract-349000-workers-in-2026-despite-macroeconomic-headwinds>

13 <https://news.agc.org/economics/2026-construction-industry-outlook/>

14 <https://gusto.com/resources/gusto-insights/ai-data-center-wage-growth> 15

15 <https://www.pewresearch.org/race-and-ethnicity/2025/08/21/u-s-unauthorized-immigrant-population-reached-a-record-14-million-in-2023/>

16 <https://news.agc.org/economics/2026-construction-industry-outlook/>

17 <https://www.mortenson.com/cost-index>; <https://www.bls.gov/ppi/latest-numbers.htm> and https://www.bls.gov/regions/mid-atlantic/data/consumerpriceindexhistorical_us_table.htm

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19 <https://fred.stlouisfed.org/series/WPU1017>

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21 <https://fred.stlouisfed.org/series/WPU102502>

22 <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260617.htm>

AI infrastructure demand

Data centers account for a significant portion of existing non-residential construction demand. Broadening beyond construction, AI-related investment has been one of the most important drivers of US growth over the past two years. The scale of this investment raises questions about the potential economic and construction-market consequences of a sharp correction in AI-related investment.

While a dot-com bubble is not perfectly analogous to AI, a downturn in AI-related infrastructure investments is an important risk to consider. For the construction sector, the impacts would likely be significant since data-center investment is itself a major source of current demand, while much of the broader AI investment cycle is directly tied to physical infrastructure. The effects would also be more geographically dispersed than during the dot-com downturn, with particular exposure in states with large data-center pipelines. Since much of the data-center construction pipeline is already supported by long-term commitments from large technology companies, the risk is likely a slowdown in new project starts and planned capacity additions, rather than the wholesale collapse of existing construction activity seen in some technology-heavy markets after the dot-com bubble.

Even if AI investment remains strong, power constraints and growing local opposition could slow the pace of data-center construction. In many of the largest data-center markets, limited electricity supply and grid interconnection capacity are already constraining the speed at which new facilities can be developed. Meanwhile, communities have increasingly raised concerns about power consumption, water use, noise and land use, with opposition to data centers emerging as an issue in many of the 2026 midterm races across the country. These constraints could delay or prevent projects from entering construction even where underlying demand for AI infrastructure remains strong.



Opportunities

AI and digital infrastructure ecosystem

Just as overreliance on AI-related infrastructure poses a threat to the construction sector in the coming two to three years, it also offers significant opportunity. The underlying demand case extends beyond the construction of data centers themselves: broader adoption of AI by consumers and businesses is likely to support continued investment in computing capacity, while the resulting electricity and water requirements will drive additional spending on power generation, transmission, grid infrastructure and water systems.

AI could also help alleviate some of the construction sector's persistent labor and productivity constraints. As discussed, construction firms face a structural shortage of skilled workers, while construction productivity has lagged other sectors for decades.²³ AI tools can increase the productivity of existing workers by automating or accelerating tasks such as estimating, scheduling, design coordination, document review and project management, potentially allowing firms to execute more projects without a proportional increase in headcount. AI-enabled robotics, prefabrication and other forms of automation could eventually extend these gains to more labor-intensive activities. The impact is unlikely to eliminate the industry's skilled-labor shortage, but even modest productivity improvements could increase the sector's capacity to meet rising demand for data centers, power and other infrastructure.

Public policy support

In recent years, the federal government has been increasingly supportive of expanding construction capacity and reducing barriers to building. Such efforts have frequently attracted bipartisan support in Congress, as with the 2021 Infrastructure Investment and Jobs Act and the 2026 21st Century ROAD to Housing Act. Both the Biden and Trump administrations also sought to ease permitting burdens for major projects, especially those deemed in the national interest. Even policies passed on largely partisan lines – such as the 2021 Inflation Reduction Act and the 2025 One Big Beautiful Bill Act – contained multiple provisions benefiting the construction sector, reinforcing broad support for policies benefiting a wide range of construction-related sectors.

Data centers will likely continue to attract local opposition and political scrutiny, but policymakers are more likely to demand concessions from developers than block projects outright, given the growing perception of data-center capacity as strategically important to US AI development.

Both Republican- and Democratic-led states have likewise moved to reduce barriers to construction in the last five years. These efforts include streamlining the permitting process and mandating time limits for regulatory approval; making environmental reviews more predictable and less burdensome; providing construction incentives and worker-training programs; and revising zoning and land-use regulations, among others. States are balancing these efforts against environmental concerns, infrastructure constraints and community opposition, but the broader political consensus is increasingly shifting toward the need to expand construction capacity.

Capital availability

Since our last report, private equity (PE) consolidation of construction services has continued to accelerate. Financial advisory Capstone Partners noted in a February 2026 update that construction mergers and acquisitions (M&A) rose for a third consecutive year in 2025,²⁴ reaching 562 transactions, while PE transactions increased 31% to 305 and accounted for 54% of all sector deals, overtaking strategic buyers for the first time. M&A activity has remained strong in 2026, although dealmaking is increasingly concentrated in larger transactions: a June 2026 PwC analysis found that average deal value in the first two quarters of 2026 was 63% higher than in the second half of 2025 despite a decline in transaction volumes.²⁵ Capital investments are increasingly targeting structural growth areas including AI-driven infrastructure, power and grid modernization, and domestic reshoring, while elevated financing costs, labor shortages and tariff uncertainty are pushing investors toward asset-light specialty contractors and services businesses. Although borrowing costs remain above pre-pandemic levels, further easing in rates would provide an additional tailwind to PE activity by lower acquisition financing costs.

Foreign capital commitments under the 2025 trade frameworks negotiated by the Trump administration are also adding to expectations of further construction demand, although the extent to which these commitments have translated into actual US capital deployment remains mixed. Japan has made the most visible progress so far under its \$550 billion investment framework, with up to \$110 billion announced in specific gas-fired generation, small modular reactors, oil export infrastructure and synthetic-diamond manufacturing projects.²⁶ Other investment commitments, such as South Korea's \$350 billion package, and the EU's expected \$600 billion in additional investment through 2028, have been slower to translate into specific projects. The administration is likely to treat both as pressure points and repeatedly push its trading partners to demonstrate progress.



²³ <https://www.federalreserve.gov/econres/feds/can-measurement-error-explain-slow-productivity-growth-in-construction.htm>

²⁴ <https://www.capstonepartners.com/insights/article-construction-ma-update/>

²⁵ <https://www.pwc.com/us/en/industries/industrial-products/library/engineering-construction-deals-outlook.html>

²⁶ <https://www.whitehouse.gov/fact-sheets/2026/03/fact-sheet-president-donald-j-trump-strengthens-u-s-japan-alliance-for-the-benefit-of-all-americans/>

Outlook and key risks

While there is some near-term uncertainty, the outlook for the US commercial construction sector remains positive. Overall growth has slowed and become more concentrated than in previous years. Non-residential construction spending remains near historic highs, but spending growth has effectively stalled, and forward-looking indicators point to a softer project pipeline. Capital remains available, supported by continued private equity activity, domestic reshoring initiatives and foreign investment commitments, although financing costs are expected to remain above pre-pandemic levels.

There are several risks that could affect project execution and profitability.

- **Labor availability and workforce quality:** Demand for skilled workers continues to exceed supply, particularly among specialized trades supporting data centers, power and advanced infrastructure projects.
- **AI infrastructure concentration:** AI infrastructure represents one of the sector's largest growth opportunities, but also one of its largest sources of risk.
- **Cost volatility:** Tariffs on key construction materials, elevated energy prices and persistent labor shortages are likely to keep construction costs volatile.

Construction firms must take proactive measures to manage these evolving risks.

Labor shortages and rising energy and material cost pressures are increasing both execution and financial risks across projects. Companies should focus on workforce development, project planning and cost controls while ensuring valuations and escalation assumptions remain current.

In a complex risk environment, risk management is essential. By working closely with insurance partners and other advisers, organizations can embed risk management into project planning from the outset, strengthen assumptions, improve decision making and enhance financial and operational resilience.

This report was produced by QBE North America and Control Risks

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